

November 28, 2023 10:32 PM GMT

PDD Holdings Inc | Asia Pacific

The Pride of China e-Commerce

WHAT'S CHANGED

| PDD Holdings Inc (PDD.O) | From | To |
|--------------------------|------------|-------------------|
| Top Pick | - | PDD.O |
| Price Target | US\$140.00 | US\$170.00 |

PDD's strong 3Q23 results imply both sustainable market share expansion of its domestic e-Commerce business and strong growth momentum of its cross-border e-Commerce business, Temu. These advantages will sustain into 4Q23 and 2024. Top Pick our China e-Commerce coverage.

3Q23 results: In 3Q23, PDD's total revenue rose 94% yoy to Rmb68.8bn (26% above consensus). PDD's **OMS** revenue was up 39% yoy in 3Q23. Management noted seeing clear consumption upgrade trend among users on PDD's platform; hence, PDD is committed to its high-quality development strategy (high-quality consumption, supply, ecosystem) that balances quality and price. PDD also stepped up investment in user subsidies through various promotion festivals in 3Q23 and applied direct price reduction on top of its Rmb10bn subsidy program during Double 11 for the first time. We expect PDD's 3Q23 domestic GMV (including Duo Duo Grocery) rose 25% yoy (vs. NBS online retail sales of goods was up 5% yoy). PDD's **transaction service** revenue was up 315% yoy, which we believe was driven by strong growth in Temu. We estimate Temu's GMV reached US\$6.3bn in 3Q23 with take rate of 38.5%. PDD's non-GAAP net profit of Rmb17.0bn (30% above consensus at Rmb13.1bn) implies a non-GAAP net margin of 24.7% (vs. 35.1% in 3Q22).

4Q23 and 2023 outlook: We believe PDD's solid **OMS** growth in 3Q23 indicates PDD's continued market share gains and improvement in monetization capability, which will continue into 4Q23. With NBS online retail sales of goods up 4.9% yoy in October and potentially higher in November-December given lower bases, and JD and BABA's total GMV at low-single-digits yoy, we model PDD's domestic GMV (including Duo Duo Grocery) to significantly outperform the industry at 26% yoy. Thus, we forecast PDD's OMS revenue to rise 51% yoy in 4Q23. According to Sensortower, **Temu's** global accumulated downloads rose 40% in October vs. the monthly run rate in 3Q23, to 263mn; its global MAU increased 21% in October vs. the monthly run-rate in 3Q23, to 138mn. We model Temu's GMV to reach US\$8.6bn in 4Q23 with take rate reaching 38.5%. Thus, we forecast PDD's transaction service revenue to climb 321% yoy, and total revenue to be up 111% yoy in 4Q23. We also forecast non-GAAP net margin at 20.8%, factoring in higher S&M spending in domestic/overseas shopping festivals. For full-year 2023, we model total GMV to rise 30% yoy and non-GAAP net profit to reach Rmb60bn, implying a non-GAAP net margin of 24.7% (vs. 30.3% in 2022).

Raise PT to US\$170; stay OW: We raise our earnings estimates by 21%, 16% and 12% for 2023-25, respectively. This increases our PT to US\$170 from US\$140, implying 26.4x 2024e non-GAAP P/E and 0.9x PEG on a 28% EPS CAGR over 2024-27e.

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PDD Holdings Inc (PDD.O, PDD US)

Top Pick

China Internet and Other Services | China

| Stock Rating | Overweight |
|---------------------------------|------------------|
| Industry View | In-Line |
| Price target | US\$170.00 |
| Up/downside to price target (%) | 44 |
| Shr price, close (Nov 27, 2023) | US\$117.72 |
| 52-Week Range | US\$120.31-59.67 |
| Sh out, dil, curr (mn) | 1,365 |
| Mkt cap, curr (mn) | US\$160,704 |
| EV, curr (mn) | US\$139,612 |
| Avg daily trading value (mn) | US\$803 |

| Fiscal Year Ending | 12/22 | 12/23e | 12/24e | 12/25e |
|----------------------------|---------|---------|---------|---------|
| ModelWare EPS (Rmb) | 22.08 | 35.55 | 41.94 | 52.55 |
| Prior ModelWare EPS (Rmb) | - | 26.97 | 33.08 | 43.07 |
| EPS (Rmb)§ | 27.45 | 36.09 | 44.91 | 58.28 |
| Revenue, net (Rmb mn) | 130,558 | 242,619 | 326,264 | 421,209 |
| ModelWare net inc (Rmb mn) | 31,538 | 52,307 | 62,015 | 78,094 |
| P/E | 25.5 | 23.7 | 20.1 | 16.0 |
| ROE (%) | 42.0 | 44.4 | 35.1 | 31.7 |
| P/BV | 6.5 | 6.1 | 4.4 | 3.2 |
| EV/EBITDA | 19.0 | 16.9 | 11.9 | 7.9 |
| FCF yld ratio (%) | 5.2 | 4.0 | 4.1 | 5.2 |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

e = Morgan Stanley Research estimates

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Share Gainer in Both Domestic and Overseas Markets

1) Domestic market – Strong low-price mindshare

We see consumers' household income and spending outlook remaining lukewarm, with spending cuts across categories. Thus, with uncertainties in the job condition and income outlook hindering consumer propensity to spend, we believe rational consumption and price sensitiveness could be the trend at least for the current economic cycle.

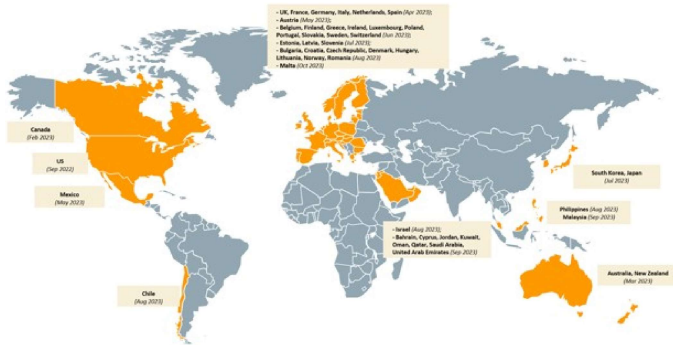
"More – Diverse selection", "Faster – Speedy delivery", "Better – High-quality product/service", "Cheaper – Cost savings" are the four key factors that have driven consumer choice of shopping platform. In the history of China e-commerce, consumers weigh some factors over others, leading to the rise and fall of e-commerce platforms – "More" and "Better" benefited Taobao and Tmall, "Faster" and "Better" favored JD. With price sensitivity potentially lingering for the next two to three years and PDD leading in the "Cheaper" mindshare among consumers, we believe its attractiveness to consumers amid the current macroenvironment is significantly higher compared to other e-commerce platforms, which enables PDD to be a share gainer in the domestic market.

While PDD has successfully established an "every-day low price" (EDLP) user mindshare over the years, since the beginning of 2023, major e-commerce platforms like Alibaba and JD have been trying to build up their low-price capabilities to address a market that is increasingly price-sensitive. However, we argue that while low pricing is simple – as lower-price products can be subsidized – it is not easy given that sustainable "real" low prices can only be achieved through systematic efforts that underlie the company's business model/logic. We identify four factors that drive PDD's ability to achieve sustainable "real" low price: 1) an extensive low price but high-quality supply chain; 2) a traffic allocation algorithm and underlying business logic that place a high weighting on high-quality, low-price products; 3) years of heavy subsidy to establish the low-price mindshare; and 4) optimized efficiency internally and efficiency upgrades for its suppliers.

2) Overseas market – Proven fully entrusted model

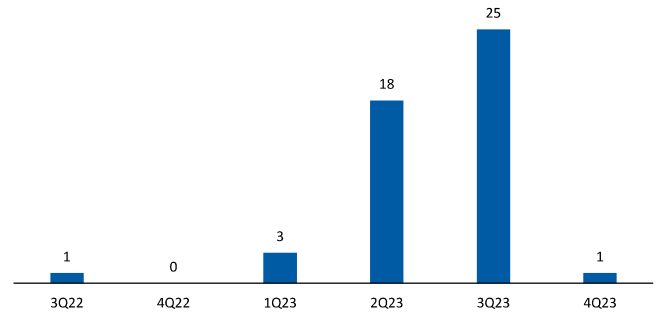
After Temu's debut in the US in September 2022, it has aggressively expanded to 48 countries ([Exhibit 1](#)) to three countries in 1Q23, 18 countries in 2Q23, 25 countries in 3Q23 and one country in 4Q23 ([Exhibit 2](#)). According to Sensortower, as of October 2023, the Temu app has been downloaded 263mn times globally ([Exhibit 3](#)) and its MAU reached 138mn globally (40% of Amazon's global MAU, [Exhibit 4](#)), with 52mn in the US (79% of Amazon's US MAU, [Exhibit 5](#)). The monthly average time spent per user was in the 12-15 minute range, which has consistently outperformed AliExpress's seven to nine minutes and Amazon's six to seven minutes ([Exhibit 6](#)).

Exhibit 1: The Temu map



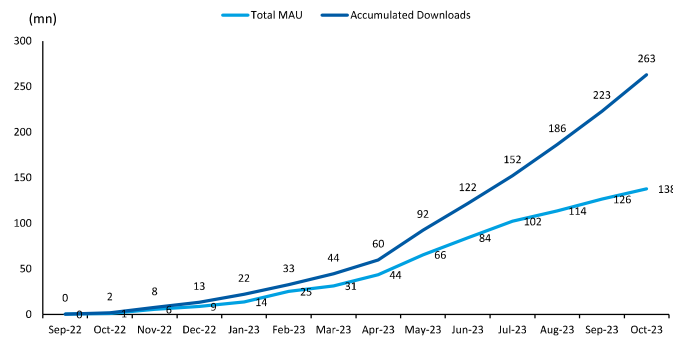
Source: Temu website. Data as of November 28, 2023.

Exhibit 2: The number of countries Temu has entered



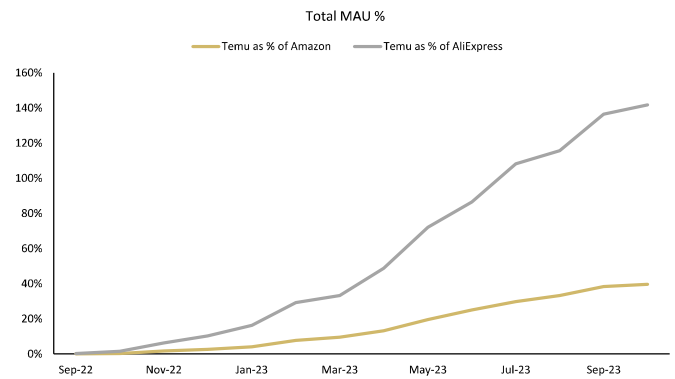
Source: Temu website. Data as of November 28, 2023.

Exhibit 3: Temu app's accumulated downloads and MAU (Global)



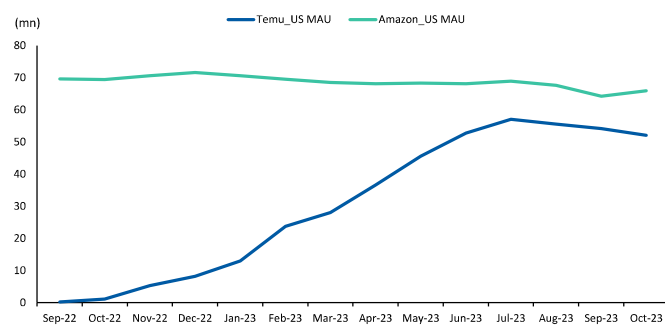
Source: Sensortower, Morgan Stanley Research Note: data as of Oct-23

Exhibit 4: Temu app's MAU as % of Amazon/AliExpress (Global)



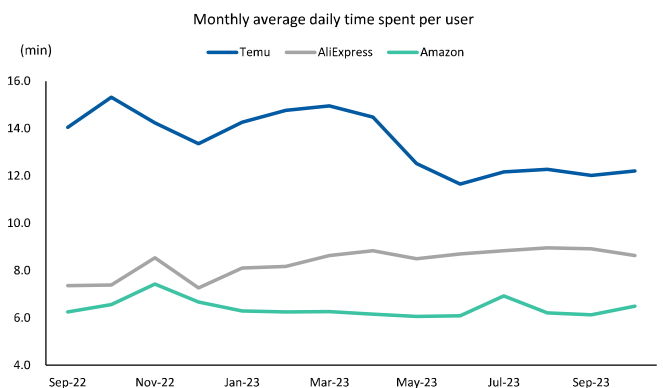
Source: Sensortower, Morgan Stanley Research Note: data as of Oct-23

Exhibit 5: Temu app's MAU reached 79% of Amazon's (US)



Source: Sensortower, Morgan Stanley Research Note: data as of Oct-23

Exhibit 6: Temu/AliExpress/Amazon app's monthly average daily time spent per user (Global)



Source: Sensortower, Morgan Stanley Research Note: data as of Oct-23

In **3Q23**, we believe the strong beat on transaction service revenue (+315% yoy to Rmb29bn) to be contributed mainly from Temu (we model Rmb17.6bn revenue from Temu). We expect Temu's GMV reached US\$6.3bn, with AOV at US\$39 and order volume at 160mn, and we assume Temu's take rate was 39%. We believe strong top-line growth

brings operating leverage in both logistics and warehousing costs (COGS) as well as operating expenses, narrowing the per order operating loss from US\$13.2 in 2Q23 to US\$6.3 in 3Q23.

For **2023**, our base-case scenario models Temu's GMV at US\$18bn with AOV at US\$40 and order volume at 464mn. Assuming 36% take rate, we expect Temu will contribute US\$6.6bn revenue (booked in transaction services revenue). We model US\$12.3 per order COGS (mainly logistics and warehousing costs) and US\$9.6 per order operating expenses (mainly sales and marketing costs), thus, we forecast Temu will incur a US\$3.6bn/Rmb26.0bn operating loss in 2023. We forecast that by 2030, revenue from Temu will reach Rmb414bn, close to PDD's domestic business revenue in 2030 (we estimate at Rmb522bn). By then, we estimate Temu's operating profit will reach US\$14.4bn, with an operating margin at 25.3%.

Earnings Changes

We raise our revenue estimates by 19% for 2023, 24% for 2024, and 28% for 2025, factoring in better-than-expected 3Q23 top-line growth, especially the strong beat in transaction service revenue. We raise our non-GAAP net profit estimates by 21% for 2023, 16% for 2024, and 12% for 2025. Our non-GAAP net margin estimates are down slightly for 2024 and 2025 from 23.1% and 23.3% to 21.5% and 20.5%, respectively, as we expect increased subsidies and coupons in both domestic and overseas business to lead to increased opex and thus lower margins. We also raise our outer-year earnings estimates by a similar magnitude to our 2023-25 earnings changes.

Exhibit 7: What's changed

| FY/ Dec | New | | | Old | | | Diff | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|------------|------------|------------|
| | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E |
| Income Statement (Rmb mn) | | | | | | | | | |
| Online marketing services | 151,654 | 187,135 | 224,872 | 143,039 | 176,663 | 212,471 | 6% | 6% | 6% |
| Commission fees | 90,965 | 139,130 | 196,337 | 60,796 | 86,152 | 117,710 | 50% | 61% | 67% |
| Total revenues | 242,619 | 326,264 | 421,209 | 203,834 | 262,814 | 330,181 | 19% | 24% | 28% |
| Costs of revenues (ex SBC) | (90,754) | (129,213) | (169,758) | (73,820) | (96,048) | (117,275) | 23% | 35% | 45% |
| Gross profit | 151,864 | 197,051 | 251,451 | 130,014 | 166,766 | 212,907 | 17% | 18% | 18% |
| Operating expenses | (91,694) | (120,794) | (153,511) | (84,259) | (106,499) | (131,816) | 9% | 13% | 16% |
| S&M (ex SBC) | (81,281) | (107,118) | (136,907) | (72,836) | (92,033) | (114,468) | 12% | 16% | 20% |
| G&A (ex SBC) | (1,615) | (2,172) | (2,593) | (1,620) | (2,089) | (2,459) | 0% | 4% | 5% |
| R&D (ex SBC) | (8,798) | (11,505) | (14,010) | (9,803) | (12,377) | (14,889) | -10% | -7% | -6% |
| SBC | (6,759) | (7,458) | (7,522) | (8,919) | (10,787) | (11,901) | -24% | -31% | -37% |
| Operating profit | 53,411 | 68,799 | 90,419 | 36,835 | 49,480 | 69,189 | 45% | 39% | 31% |
| Pre-tax profit | 64,228 | 76,866 | 99,304 | 47,588 | 58,025 | 77,802 | 35% | 32% | 28% |
| Net profit | 52,307 | 62,015 | 78,094 | 39,456 | 48,627 | 63,633 | 33% | 28% | 23% |
| Net profit attributable to ordinary shareholders | 52,307 | 62,015 | 78,094 | 39,456 | 48,627 | 63,633 | 33% | 28% | 23% |
| GAAP EPS | | | | | | | | | |
| Basic | 9.49 | 11.19 | 14.02 | 7.22 | 8.86 | 11.53 | 31% | 26% | 22% |
| Diluted | 8.89 | 10.49 | 13.14 | 6.74 | 8.27 | 10.77 | 32% | 27% | 22% |
| GAAP EPADS | | | | | | | | | |
| Basic | 37.95 | 44.76 | 56.09 | 28.89 | 35.42 | 46.12 | 31% | 26% | 22% |
| Diluted | 35.55 | 41.94 | 52.55 | 26.97 | 33.08 | 43.07 | 32% | 27% | 22% |
| Non-GAAP: | | | | | | | | | |
| Gross profit | 151,864 | 197,051 | 251,451 | 130,014 | 166,766 | 212,907 | 17% | 18% | 18% |
| Operating profit | 60,170 | 76,257 | 97,941 | 45,754 | 60,267 | 81,090 | 32% | 27% | 21% |
| Net profit attributable to ordinary shareholders | 59,869 | 70,276 | 86,419 | 49,680 | 60,718 | 76,838 | 21% | 16% | 12% |
| Non-GAAP EPADS - Basic | 43.43 | 50.73 | 62.07 | 36.37 | 44.23 | 55.69 | 19% | 15% | 11% |
| Non-GAAP EPADS - Diluted | 40.69 | 47.53 | 58.15 | 33.96 | 41.30 | 52.01 | 20% | 15% | 12% |
| Margin (%) | | | | | | | | | |
| Non-GAAP gross margin | 62.6% | 60.4% | 59.7% | 63.8% | 63.5% | 64.5% | -1% | -3% | -5% |
| Non-GAAP operating margin | 24.8% | 23.4% | 23.3% | 22.4% | 22.9% | 24.6% | 2% | 0% | -1% |
| Non-GAAP net margin | 24.7% | 21.5% | 20.5% | 24.4% | 23.1% | 23.3% | 0% | -2% | -3% |
| Operating metrics (%) | | | | | | | | | |
| GMV (Rmb mn) | 3,631,661 | 4,376,515 | 5,138,904 | 3,557,273 | 4,286,870 | 5,033,642 | 2% | 2% | 2% |
| Annual active buyer (mn) | 1,003 | 1,033 | 1,064 | 993 | 1,023 | 1,054 | 1% | 1% | 1% |
| Annual spending per active buyer (Rmb) | 3,620 | 4,236 | 4,829 | 3,581 | 4,190 | 4,777 | 1% | 1% | 1% |

Source: Company data, Morgan Stanley Research Estimates (E)

Valuation

We continue to use DCF as our valuation methodology. We maintain our 14% WACC and 3% terminal growth rate assumptions. As discussed before, we lift our non-GAAP net profit estimates for 2023-25 and for the outer years. These changes result in an increase in our price target.

Our higher price target of US\$170 implies 26.1x 2024e non-GAAP P/E and 0.9x PEG on a 28% EPS CAGR over 2024-27. We believe PDD is the only e-commerce player that delivers alpha, which justifies its higher valuation vs. BABA's trading at 7-8x and JD's trading at 9-10x.

Our bull- and bear-case values are raised to US\$249 and US\$92, respectively, similar to the change in the base-case value.

Exhibit 8: DCF valuation

| DCF table (Rmb mn) | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---------------------------------|------------------|---------------|---------------|----------------|----------------|----------------|----------------|------------------|
| Non-GAAP EBIT | 60,170 | 76,257 | 97,941 | 131,462 | 179,905 | 229,115 | 282,233 | 337,548 |
| Income tax expenses | (11,826) | (14,850) | (21,210) | (28,551) | (39,352) | (50,758) | (63,895) | (78,064) |
| SBC | (6,759) | (7,458) | (7,522) | (7,901) | (7,932) | (8,166) | (7,972) | (7,829) |
| D&A | 889 | 955 | 1,181 | 1,421 | 1,669 | 1,449 | 1,579 | 1,589 |
| Changes in working capital | 23,614 | 18,228 | 19,708 | 21,060 | 19,797 | 22,529 | 20,055 | 18,614 |
| Capex | (1,169) | (1,409) | (1,609) | (1,765) | (1,809) | (1,744) | (1,550) | (1,236) |
| Unlevered FCF | 64,918 | 71,722 | 88,488 | 115,726 | 152,279 | 192,424 | 230,451 | 270,622 |
| Exit value | - | - | - | - | - | - | - | 2,534,004 |
| <i>Year from valuation base</i> | - | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| PV of FCF | - | 62,914 | 68,089 | 78,112 | 90,161 | 99,939 | 104,990 | 1,120,833 |
| Valuation | | | | | | | | |
| Enterprise value | 1,625,038 | | | | | | | |
| + net cash @ 30% discount | 211,993 | | | | | | | |
| Equity value | 1,837,031 | | | | | | | |
| # of Diluted ADS (mn shr) | 1,479 | | | | | | | |
| DCF value per share (Rmb) | 1,242 | | | | | | | |
| MS Price target (US\$) | \$170.0 | | | | | | | |
| <i>Implied 2024E P/E (x)</i> | 26.1x | | | | | | | |
| <i>Implied 2024E PEG (x)</i> | 0.93x | | | | | | | |
| DCF assumptions | | | | | | | | |
| Discount rate | 14% | | | | | | | |
| Terminal growth rate | 3% | | | | | | | |

Source: Company data, Morgan Stanley Research Estimates (E)

Financial Summary

Exhibit 9: Financial Summary

| 2020 Financial Summary FY Dec. (Rmb m) | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
| Income Statement (Adjusted) | | | | | | |
| Online marketplace services | 53,741 | 86,704 | 130,348 | 242,619 | 326,264 | 421,209 |
| - Online marketing services | 47,964 | 72,663 | 102,722 | 174,654 | 237,135 | 224,872 |
| - Transaction services | 5,787 | 14,140 | 27,626 | 90,965 | 139,130 | 196,337 |
| Merchandise sales | 5,751 | 7,246 | 209 | - | - | - |
| Revenue | 59,492 | 91,956 | 130,558 | 242,619 | 326,264 | 421,209 |
| Cost of revenue (ex SBC) | (18,246) | (31,691) | (34,259) | (90,754) | (129,213) | (169,758) |
| Gross profit | 41,246 | 60,265 | 96,299 | 151,864 | 197,051 | 251,451 |
| Operating expenses (ex SBC) | (46,013) | (50,587) | (61,009) | (91,694) | (120,794) | (153,511) |
| Sales & marketing (ex SBC) | (40,101) | (43,190) | (52,185) | (81,281) | (107,118) | (136,907) |
| General & administrative (ex SBC) | (1,540) | (1,748) | (1,803) | (2,613) | (3,725) | (5,983) |
| Research & Development (ex SBC) | (3,371) | (6,649) | (7,863) | (16,788) | (11,505) | (14,010) |
| Non-GAAP Operating Income | (5,767) | 11,677 | 35,130 | 60,170 | 76,257 | 97,941 |
| Non-GAAP EBITDA | (5,168) | 13,167 | 40,344 | 61,059 | 77,211 | 99,321 |
| Non-GAAP Net profit to ordinary shareholders | (2,965) | 13,830 | 35,530 | 59,869 | 70,276 | 86,419 |
| % Growth Y/Y | | | | | | |
| Online marketplace services | 79% | 61% | 50% | 80% | 34% | 39% |
| - Online marketing services | 79% | 51% | 42% | 48% | 23% | 20% |
| - Transaction services | 74% | 144% | 93% | 225% | 53% | 41% |
| Revenue | 97% | 58% | 39% | 86% | 34% | 29% |
| Cost of revenue (ex SBC) | 200% | 60% | 1% | 39% | 4% | 1% |
| Gross profit | 69% | 55% | 59% | 53% | 50% | 28% |
| Operating expenses (ex SBC) | 54% | 10% | 21% | 5% | 3% | 3% |
| Non-GAAP Operating Income | -4% | n.a. | 227% | 58% | 27% | 28% |
| Non-GAAP Net profit to ordinary shareholders | -30% | n.a. | 186% | 51% | 17% | 23% |
| Margin as % of Revenue | | | | | | |
| Gross profit | 68% | 66% | 76% | 63% | 60% | 60% |
| Operating expenses (ex SBC) | -77% | -54% | -47% | -38% | -37% | -36% |
| Profit & development (ex SBC) | -7% | -6% | -6% | -4% | -3% | -3% |
| Sales & marketing (ex SBC) | -1% | -2% | -2% | -2% | -2% | -2% |
| General & administrative (ex SBC) | -9% | -7% | -6% | -4% | -4% | -3% |
| Non-GAAP Operating Income | -10% | 12% | 29% | 25% | 23% | 23% |
| Non-GAAP EBITDA | -9% | 14% | 31% | 25% | 24% | 24% |
| Non-GAAP Net profit to ordinary shareholders | -5% | 15% | 30% | 25% | 22% | 21% |
| Balance Sheet | | | | | | |
| Cash and cash equivalents | 22,421 | 6,427 | 34,326 | 115,968 | 204,161 | 307,386 |
| Restricted cash | 52,427 | 59,637 | 53,974 | 44,297 | 212,556 | 143,056 |
| Total current assets | 149,524 | 160,909 | 216,618 | 327,402 | 443,873 | 580,288 |
| Property and equipment | 203 | 2,209 | 1,095 | 1,459 | 1,014 | 2,342 |
| Total assets | 150,909 | 163,216 | 217,713 | 330,088 | 445,887 | 582,630 |
| Total current liabilities | 81,882 | 91,732 | 114,889 | 164,745 | 216,147 | 269,048 |
| Non-current liabilities | - | - | - | - | - | - |
| Total liabilities | 81,882 | 91,732 | 114,889 | 164,745 | 216,147 | 269,048 |
| Total shareholder equity | 69,177 | 71,515 | 112,777 | 175,877 | 246,310 | 313,592 |
| Key Ratios (Adjusted) | | | | | | |
| Cash flow from operating activities | 3,152 | 21,348 | 48,508 | 81,712 | 84,704 | 106,552 |
| Cash flow from investing activities | (18,158) | (15,362) | (22,362) | (11,969) | (1,609) | (1,609) |
| Cash flow from financing activities | 53,799 | (1,875) | 10 | 89 | 0 | (1,700) |

Source: Company data, Morgan Stanley Research estimates (E)

Exhibit 10: Financial Summary – GAAP

| | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|----------------|----------------|----------------|
| (Rmb mm) | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23E | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E |
| I. GAAP | | | | | | | | | | | | | | |
| Total revenues | 23,794 | 31,440 | 35,504 | 39,820 | 37,637 | 52,281 | 66,840 | 83,861 | 59,492 | 93,956 | 130,558 | 242,619 | 326,264 | 421,209 |
| Costs of revenues | (7,160) | (7,962) | (7,414) | (8,927) | (8,927) | (18,690) | (26,830) | (34,215) | (19,279) | (31,716) | (31,462) | (90,861) | (129,350) | (169,942) |
| Gross profit | 16,634 | 23,478 | 28,090 | 30,893 | 26,512 | 33,591 | 40,210 | 49,646 | 40,213 | 62,232 | 99,096 | 151,758 | 196,908 | 251,267 |
| Operating expenses | (14,480) | (14,781) | (17,654) | (21,780) | (19,583) | (20,827) | (25,354) | (32,538) | (49,584) | (53,353) | (68,693) | (98,347) | (128,109) | (160,848) |
| S&M | (11,219) | (11,343) | (14,049) | (17,732) | (16,260) | (17,542) | (21,748) | (28,261) | (41,195) | (44,802) | (54,344) | (83,811) | (109,868) | (139,615) |
| G&A | (592) | (826) | (1,641) | (1,641) | (816) | (596) | (1,758) | (922) | (1,507) | (1,541) | (3,965) | (3,093) | (3,831) | (4,371) |
| R&D | (2,669) | (2,611) | (2,698) | (2,407) | (2,507) | (2,734) | (2,847) | (3,354) | (6,892) | (8,999) | (10,385) | (11,442) | (14,408) | (16,917) |
| Impairment of a long-term investment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Operating profit | 2,154 | 8,697 | 10,437 | 9,114 | 6,929 | 12,719 | 16,656 | 17,107 | (9,380) | 6,887 | 30,402 | 53,411 | 68,799 | 90,419 |
| Non-operating profit / (loss) | 1,043 | 1,811 | 1,678 | 1,484 | 2,663 | 3,538 | 2,500 | 2,115 | 2,117 | 2,559 | 6,017 | 10,817 | 8,067 | 8,885 |
| Pre-tax profit | 3,198 | 10,508 | 12,115 | 10,598 | 9,592 | 16,257 | 19,156 | 19,222 | (7,263) | 9,445 | 36,419 | 64,228 | 76,866 | 99,304 |
| Net profit attributable to ordinary shareholders | 2,599 | 8,896 | 10,589 | 9,454 | 8,101 | 13,108 | 15,537 | 15,561 | (7,180) | 7,769 | 31,538 | 52,307 | 62,015 | 78,094 |
| EPS | | | | | | | | | | | | | | |
| - Basic | 0.52 | 1.76 | 2.10 | 1.85 | 1.53 | 2.41 | 2.84 | 1.89 | (6.0) | 6.2 | 25.2 | 37.9 | 44.8 | 56.1 |
| - Diluted | 0.46 | 1.56 | 1.83 | 1.63 | 1.38 | 2.25 | 2.65 | 1.66 | (6.0) | 5.4 | 22.1 | 35.6 | 41.9 | 52.6 |
| Margins | | | | | | | | | | | | | | |
| Gross margin | 69.9% | 74.7% | 79.1% | 77.6% | 70.4% | 64.3% | 61.0% | 59.2% | 67.6% | 66.2% | 75.9% | 62.6% | 60.4% | 59.7% |
| Operating margin | 9.1% | 27.7% | 29.4% | 22.9% | 18.4% | 24.3% | 24.2% | 20.4% | -15.8% | 7.3% | 23.3% | 22.0% | 21.1% | 21.5% |
| Net margin | 10.9% | 28.3% | 29.8% | 23.7% | 21.5% | 25.1% | 22.6% | 18.6% | -12.1% | 8.3% | 24.2% | 21.6% | 19.0% | 18.5% |
| QoQ Growth | | | | | | | | | | | | | | |
| Sales | -13% | 32% | 13% | 12% | -5% | 39% | 32% | 22% | - | - | - | - | - | - |
| Gross profits | -20% | 41% | 20% | 10% | -14% | 27% | 25% | 18% | - | - | - | - | - | - |
| Operating profits | -69% | 304% | 20% | -13% | -24% | 84% | 11% | 3% | - | - | - | - | - | - |
| Net profits | -61% | 242% | 19% | -11% | -14% | 62% | 19% | 0% | - | - | - | - | - | - |
| YoY Growth | | | | | | | | | | | | | | |
| Sales | 7% | 36% | 65% | 46% | 58% | 66% | 94% | 111% | 97% | 58% | 39% | 86% | 34% | 29% |
| Gross profits | 46% | 55% | 88% | 49% | 59% | 43% | 50% | 61% | 69% | 55% | 59% | 53% | 30% | 28% |
| Operating profits | turn profit | 335% | 388% | 32% | 222% | 46% | 60% | 88% | N/M | turn profit | 341% | 76% | 29% | 31% |
| Net profits | turn profit | 268% | 546% | 43% | 212% | 47% | 47% | 65% | N/M | turn profit | 306% | 66% | 19% | 26% |

Source: Company data, Morgan Stanley Research Estimates (E)

Exhibit 11: Financial Summary – Non-GAAP

| Non-GAAP (in \$ mm) | Mar-22 1Q22 | Jun-22 2Q22 | Sep-22 3Q22 | Dec-22 4Q22 | Mar-23 1Q23 | Jun-23 2Q23 | Sep-23 3Q23 | Dec-23 4Q23 | Dec-20 2020 | Dec-21 2021 | Dec-22 2022 | Dec-23 2023 | Dec-24 2024 | Dec-25 2025 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| II. Non-GAAP | | | | | | | | | | | | | | |
| Total revenues | 23,794 | 31,440 | 35,504 | 39,820 | 37,637 | 52,281 | 68,840 | 83,861 | 59,492 | 93,950 | 130,558 | 242,619 | 326,264 | 421,209 |
| Costs of revenues | (7,150) | (7,955) | (7,408) | (8,915) | (11,088) | (18,662) | (26,810) | (34,195) | (19,246) | (31,691) | (31,478) | (90,754) | (129,213) | (169,758) |
| Gross profit | 16,643 | 23,485 | 28,096 | 30,905 | 26,549 | 33,619 | 42,031 | 49,665 | 40,246 | 62,258 | 99,129 | 151,864 | 197,051 | 251,451 |
| Opex | (12,966) | (12,943) | (15,795) | (19,305) | (18,087) | (19,010) | (23,905) | (30,693) | (46,013) | (50,587) | (61,009) | (91,694) | (120,794) | (153,511) |
| S&M | (10,718) | (10,830) | (13,440) | (17,197) | (15,771) | (16,553) | (21,283) | (27,674) | (40,101) | (43,190) | (52,185) | (81,281) | (107,118) | (136,907) |
| G&A | (209) | (165) | (228) | (181) | (339) | (370) | (403) | (503) | (540) | (748) | (961) | (1,615) | (2,172) | (2,599) |
| R&D | (2,039) | (1,949) | (2,128) | (1,747) | (1,977) | (2,087) | (2,218) | (2,516) | (5,371) | (6,549) | (7,863) | (8,798) | (11,505) | (14,010) |
| Impairment of a long-term investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating profit | 3,677 | 10,542 | 12,301 | 11,600 | 8,462 | 14,609 | 18,126 | 18,972 | (5,767) | 11,671 | 38,120 | 60,170 | 76,257 | 97,941 |
| Non-OP items | 445 | 159 | 152 | 340 | 1,172 | 389 | (1,119) | (1,547) | 2,201 | 872 | 1,136 | (1,104) | (6,783) | (12,325) |
| Net profit attributable to ordinary shareholders | 4,200 | 10,776 | 12,447 | 12,106 | 10,126 | 15,269 | 17,027 | 17,446 | (2,965) | 13,830 | 39,530 | 59,869 | 70,276 | 86,419 |
| Non-GAAP EPS - Basic | 8.34 | 8.55 | 9.86 | 9.50 | 7.67 | 11.23 | 12.47 | 12.77 | (2.49) | 11.04 | 31.54 | 48.48 | 50.78 | 62.07 |
| Non-GAAP EPS - Diluted | 2.95 | 7.54 | 8.62 | 8.34 | 6.92 | 10.47 | 11.61 | 11.90 | (2.49) | 9.68 | 27.67 | 40.69 | 47.53 | 58.15 |
| Margins | | | | | | | | | | | | | | |
| Gross margin | 70% | 75% | 79% | 78% | 71% | 64% | 61% | 59% | 68% | 66% | 76% | 63% | 60% | 60% |
| Operating margin | 15% | 34% | 35% | 29% | 22% | 28% | 26% | 23% | -10% | 12% | 29% | 25% | 23% | 23% |
| Net margin | 18% | 34% | 35% | 30% | 27% | 29% | 25% | 21% | -5% | 15% | 30% | 25% | 22% | 21% |
| QoQ Growth | | | | | | | | | | | | | | |
| Sales | -13% | 32% | 13% | 12% | -5% | 39% | 32% | 22% | | | | | | |
| Gross profits | 20% | 41% | 20% | 10% | -14% | 27% | 25% | 18% | | | | | | |
| Operating profits | -56% | 187% | 17% | -6% | -27% | 73% | 24% | 5% | | | | | | |
| Net profits | -50% | 157% | 16% | -3% | -16% | 51% | 12% | 2% | | | | | | |
| YoY Growth | | | | | | | | | | | | | | |
| Sales | 7% | 36% | 65% | 46% | 58% | 66% | 94% | 111% | 97% | 58% | 39% | 86% | 31% | 29% |
| Gross profits | 46% | 55% | 88% | 49% | 60% | 43% | 50% | 61% | 69% | 55% | 59% | 53% | 30% | 28% |
| Operating profits | turn profit | 231% | 277% | 38% | 130% | 39% | 47% | 64% | N/M | turn profit | 227% | 58% | 27% | 28% |
| Net profits | turn profit | 161% | 295% | 43% | 141% | 42% | 37% | 44% | N/M | turn profit | 186% | 51% | 17% | 23% |

Source: Company data, Morgan Stanley Research Estimates (€)

Risk Reward – PDD Holdings Inc (PDD.O) Top Pick

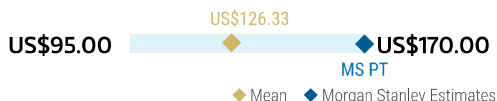
Long-term consumption trend in China favors PDD

PRICE TARGET US\$170.00

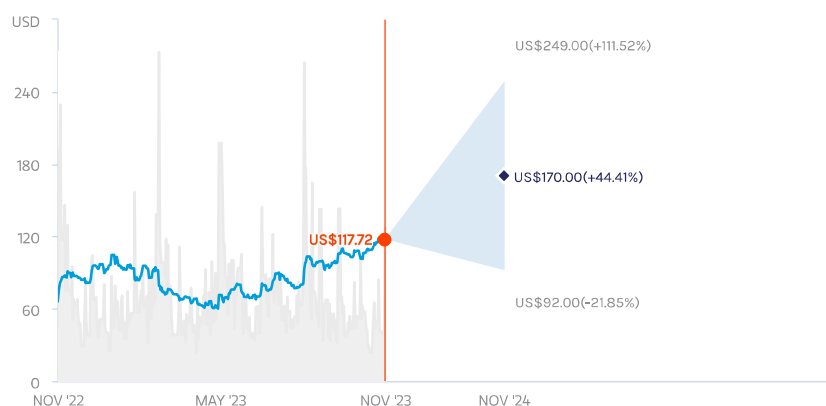
Base case, derived from our DCF model. Key assumptions include a WACC of 14%, in line with the average within our Chinese Internet coverage, and a terminal growth rate of 3%, also in line with those companies.

Consensus Price Target Distribution

Source: Refinitiv, Morgan Stanley Research



RISK REWARD CHART



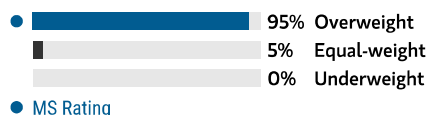
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- We believe PDD's value-for-money position may cater to the trend of consumers becoming more price sensitive, and its top-line growth will continue to outperform its peers.
- We see strong momentum in its overseas business (Temu) as it expands into more countries, categories and user cohorts.
- Our DCF-based price target is US\$170, implying 26x 2024e non-GAAP P/E.
- PDD is our Top Pick in China e-commerce space.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption: *Positive*

View descriptions of Risk Rewards Themes [here](#)

| BULL CASE | US\$249.00 | BASE CASE | US\$170.00 | BEAR CASE | US\$92.00 |
|--|------------|--|------------|--|-----------|
| 35x 2024e non-GAAP P/E | | 26x 2024e non-GAAP P/E | | 18x 2024e non-GAAP P/E | |
| Enhanced efficiency, driving better-than-expected top-line growth: | | Top-line growth and operating leverage intact: | | Intensified competition leads to higher-than-expected S&M and thus drags margin: | |
| - Revenue at 32% CAGR over 2024-27e. | | - Revenue at 25% CAGR over 2024-27e. | | - Revenue at 19% CAGR over 2024-27e. | |
| - Non-GAAP net profit at 35% CAGR over 2024-27e. | | - Non-GAAP net profit at 29% CAGR over 2024-27e. | | - Non-GAAP net profit at 22% CAGR over 2024-27e. | |

Risk Reward – PDD Holdings Inc (PDD.O)

KEY EARNINGS INPUTS

| Drivers | 2022 | 2023e | 2024e | 2025e |
|--|-------|---------|---------|---------|
| Active buyer (mn) | 935.9 | 1,003.1 | 1,033.2 | 1,064.2 |
| Annual spending per active buyer (Rmb) | 2,992 | 3,620 | 4,236 | 4,829 |
| S&M as % of GMV (%) | 1.9 | 2.2 | 2.4 | 2.7 |

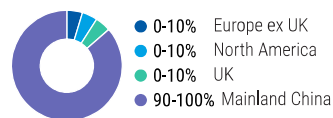
CATALYST CALENDAR

| Date | Event | Source: Refinitiv, Morgan Stanley |
|------------------------------|--|-----------------------------------|
| 08 Feb 2024 - 12 Feb 2024 | PDD Holdings Inc Annual Shareholders Meeting | |

INVESTMENT DRIVERS

- GMV growth driven by higher ARPU for domestic business, and ramp up for Temu
- Monetization rate
- Non-GAAP net margins

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

MS ALPHA MODELS

| | | | |
|-------------|---------------------|-------------|--------------------|
| 3/5 BEST | 24 Month Horizon | 4/5 MOST | 3 Month Horizon |
|-------------|---------------------|-------------|--------------------|

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- User growth is faster than expected, energized by the upcoming consumption downgrade.
- Temu growth is faster than expected, with better-than-expected unit economics.
- Less intense competition leads to lower opex.

RISKS TO DOWNSIDE

- Intensified competition weighs on margin improvement.
- User engagement level drops when subsidy level normalizes.
- Slower-than-expected ramp-up and overseas regulation on Temu

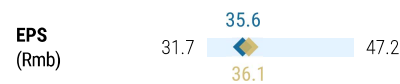
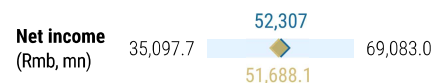
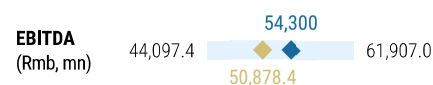
OWNERSHIP POSITIONING

| | | |
|----------------------------|-------|--|
| Inst. Owners, % Active | 70% | |
| HF Sector Long/Short Ratio | 1.6x | |
| HF Sector Net Exposure | 10.6% | |

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure - Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e



◆ Mean ◆ Morgan Stanley Estimates
Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [Microsoft PowerPoint - Exhibit Links.pptx](#)
4. View explanation of 'Indicator of Change' methodology - [ESG_Indicator_of_Change_External_Link.pdf](#)
5. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
6. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)

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Morgan Stanley & Co. LLC makes a market in the securities of Alibaba Group Holding, Autohome Inc, Baidu Inc, Bilibili Inc, DouYu International Holdings Limited, Hello Group Inc, JD.com, Inc., JOYY Inc., Kanzhun Ltd, NetEase, Inc, Sohu.Com Inc, Trip.com Group Ltd, Vipshop Holdings Ltd, Weibo Corp.

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Global Stock Ratings Distribution

(as of October 31, 2023)

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For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

| Stock Rating Category | Coverage Universe | | Investment Banking Clients (IBC) | | | Other Material Investment Services Clients (MISC) | |
|-----------------------|-------------------|------------|----------------------------------|----------------|----------------------|---|-----------------------|
| | Count | % of Total | Count | % of Total IBC | % of Rating Category | Count | % of Total Other MISC |
| Overweight/Buy | 1337 | 37% | 270 | 43% | 20% | 594 | 39% |
| Equal-weight/Hold | 1664 | 46% | 299 | 47% | 18% | 700 | 46% |
| Not-Rated/Hold | 3 | 0% | 0 | 0% | 0% | 1 | 0% |
| Underweight/Sell | 588 | 16% | 61 | 10% | 10% | 220 | 15% |
| Total | 3,592 | | 630 | | | 1515 | |

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below. Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

PDD Holdings Inc (PDD.O) - As of 11/27/23 in USD
Industry : China Internet and Other Services



Stock Rating History: 11/1/18 : /I; 1/15/19 : O/I; 12/2/19 : O/A; 9/20/21 : O/I; 7/12/22 : E/I; 3/2/23 : O/I

Price Target History: 1/15/19 : 29; 3/13/19 : 37; 4/26/19 : 33; 8/22/19 : 35; 12/2/19 : 40; 4/22/20 : 57; 5/25/20 : 80; 6/18/20 : 90; 7/8/20 : 101; 11/13/20 : 150; 8/20/21 : 130; 3/21/22 : 58; 6/17/22 : 70; 8/30/22 : 75; 10/28/22 : 65; 11/29/22 : 77; 3/2/23 : 113; 8/22/23 : 110; 8/30/23 : 120; 10/24/23 : 140

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: China Internet and Other Services

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (11/28/2023) |
|---|----------------|---------------------|
| Alex Poon | | |
| Bilibili Inc (BILI.O) | E (01/07/2022) | US\$13.69 |
| DouYu International Holdings Limited (DOYU.O) | U (10/13/2021) | US\$0.81 |
| Hello Group Inc (MOMO.O) | E (02/16/2023) | US\$6.69 |
| HUYA Inc (HUYA.N) | U (10/13/2021) | US\$3.37 |
| JOYY Inc. (YY.O) | E (06/02/2022) | US\$39.33 |
| Kuaishou Technology (1024.HK) | O (02/28/2022) | HK\$56.30 |
| NetEase, Inc (NTES.O) | O (12/06/2018) | US\$114.30 |
| Sohu.Com Inc (SOHU.O) | E (08/01/2020) | US\$8.56 |
| Tongcheng Travel Holdings (0780.HK) | O (01/04/2019) | HK\$14.44 |
| Trip.com Group Ltd (TCOM.O) | O (05/17/2021) | US\$35.52 |
| Weibo Corp (WB.O) | E (01/08/2019) | US\$11.98 |
| Eddy Wang, CFA | | |
| Autohome Inc (ATHM.N) | E (02/09/2023) | US\$26.37 |
| Dingdong Cayman Limited (DDL.N) | U (03/21/2022) | US\$2.32 |
| Full Truck Alliance Co. Ltd (YMM.N) | O (07/05/2023) | US\$7.45 |
| JD.com, Inc. (JD.O) | E (10/13/2023) | US\$28.34 |
| Kanzhun Ltd (BZ.O) | O (08/04/2021) | US\$17.33 |
| KE Holdings Inc (BEKE.N) | O (03/16/2022) | US\$15.96 |
| PDD Holdings Inc (PDD.O) | O (03/02/2023) | US\$117.72 |
| Vipshop Holdings Ltd (VIPS.N) | E (02/24/2022) | US\$16.43 |
| Gary Yu | | |
| Alibaba Group Holding (BABA.N) | O (11/21/2019) | US\$76.74 |
| Baidu Inc (BIDU.O) | O (06/20/2023) | US\$124.00 |
| Meituan (3690.HK) | O (03/31/2020) | HK\$103.00 |
| Tencent Holdings Ltd. (0700.HK) | O (03/19/2020) | HK\$319.60 |
| Rebecca Xu | | |
| IQIYI Inc (IQ.O) | E (01/19/2023) | US\$4.69 |

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* Historical prices are not split adjusted.

