

# Pinduoduo Inc. (NASDAQ: PDD)

## Industry Overview

PDD is an internet agriculture company that incorporates both global online retail and Chinese agriculture industries. The crossover between these industries gives PDD significant growth opportunities and stability.

Global Online Retail	Chinese Agriculture
<b>Past 5 Years:</b> \$2.98T in 2018 to \$5.72T in 2022, + 91.95%	<b>Past 5 Years:</b> \$1.01T in 2018 to \$1.28T in 2022, + 26.73%
<b>Next 5 Years:</b> + 56% to \$8.1T with CAGR of 11.34%	<b>Next 5 Years:</b> +14.2% to \$1.46T with CAGR of 2.7%
<b>Demand Drivers:</b> smartphones, digital payment systems, rising live-commerce platforms	<b>Demand Drivers:</b> consumer preferences, stimulants for consumer spending
<b>Key trends:</b>	<b>Key trends:</b>
E-comm bubble burst led to mass bankruptcy	Tech innovations driving productivity
Long-term slowing spending despite China reopening	Shrinking arable land & deteriorating ecological status
Easy monetary policy supports tech and e-commerce	High costs & low profitability limited farmer's incomes

## Company Overview

PDD is a contrarian, margin-expansion investment proposition that is perfect for investors seeking to regionally diversify their portfolios ahead of earnings.

**Business Model:** PDD offers a **social-media backed, feed-based, consumer-to-manufacturer (C2M)** marketing platform for “team buying” of merchandise ranging from clothing and home goods to agricultural products. Collaboration with social media like WeChat and Kuaishou allows consumers to share team orders and slash prices. Live-Commerce integrates popular Chinese live streaming into merchandise sales, boosting competitive advantage. Finally, the C2M approach eliminates transaction costs and minimizes prices down to wholesale levels.

### Revenue Drivers:

**69.2% - Online marketing Services:** ad revenue and prices that sellers pay to bid for keywords in product searches to appear on top of the merchandise feed.

**17.1% - Transaction Services:** fees that sellers and providers pay to sell on the PDD platform.

**13.7% - Merchandise Sales:** revenue from PDD-owned services like Duo Duo Grocery, a fresh produce marketplace.



**Stock Price:** \$94.35

**Market Cap:** \$110.92B

**Shares Outstanding:** 1.26B

**52w Range:** \$23.21 - \$106.38

**12 Mo Price Target:** \$117.63

**Upside:** 34%

## Competitive Moats

- Sheer **number of active users** & immense customer loyalty from targeting low-income consumers.
- Voluntary keyword **bidding system** retains sellers, intensifies supply competition, and keep prices down.
- Significant defensive investments in **agriculture** is a safety net for performance during a recession.
- Insulation from **macro changes** due to reliance on stable online marketing services & transaction services.
- Insulation from **geopolitical & regulatory risk** due to company structure and favor with the Chinese government.
- Lack of investments in volatile markets like tech and cloud computing reduces macro risk.

## Growth Catalysts

### Temu

The launch of Temu rides on U.S. import tailwinds of the appreciation of USD against RMB.

While most are doubtful of legitimacy and profitability of Temu, it has been showing strong performance with 24 million downloads and consistent active users.

PDD masters the live-commerce leverage and will expand the business model to the U.S. to become major revenue driver for Temu.

### AgriTech

Long-term investments in agriculture technology made in 2021 haven't started producing returns. These investments will boost agricultural opportunity, productivity, and sustainability in the long run, which will drive revenues in PDD's fresh produce sector.

## Investment Thesis

### Growth - Undervaluation of PDD Holdings Inc.

- PDD has established a strong consumer base and now sees per buyer spending as a growth opportunity. The higher-end market is an under-emphasized potential business model extension to strategically capitalize on the opportunity.
- Persistently high interest rate and shrinking labor force eats into consumer saving and disposable income, driving American consumers to seek cheaper alternatives and platforms.
- Temu shows promising revenue growth potential with a tailwind of foreign exchange fluctuation and projected above-expectation earnings report.
- PBoC implements an easing monetary policy, providing floor for stock price and support to high-growth company stocks.

### Stability

- PDD's unique standing in the agritech industry and marketing centered revenue structure complements its business model and insulates it from industry and macroeconomic fluctuation, protecting it from recessionary conditions.

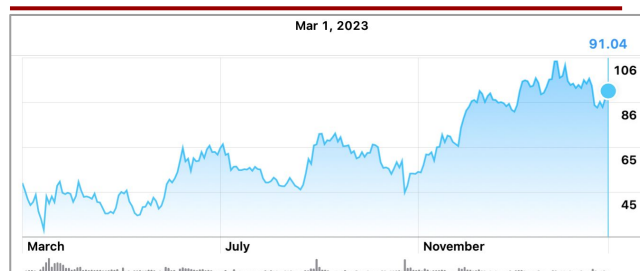
## Company's Financials

\$MM					
Year	Revenue	EBIT	EBITDA	Net Profit	Return on Investment
2018	1,985.0	-1,633.9	-1,558.7	-522.9	inf%
2019	4,364.2	-1,236.2	-1,130.1	-617.6	-56.81%
2020	8,631.1	-1,360.9	-1,240.6	-430.2	-22.80%
2021	15,342.5	1,069.4	1,361.0	2,144.3	8.81%
2022	18,785.0*	4,304.3*	5,007.6*	5,323.5*	30.00%*

**EV/EBITDA**  
20.40\* (2022)  
44.24 (2021)

**EV/EBIT**  
21.81\* (2022)  
56.02 (2021)

## Historical Performance (1Y)



**EV/Revenue**  
5.42\* (2022)  
3.92 (2021)

**P/E Ratio**  
24.40\* (2022)  
67.56 (2021)

## Major Competitors

Company	Market Cap	Revenue (2022)	EV/EBITDA	P/E	Geography	Customers
Alibaba Group Holding Inc (BABA)	Very Large, \$241.35B (+130.43B)	Very large, \$134.567B (+94.14B)	11.67	8.6	China & Overseas	Versatile e-commerce site for all levels of income.
JD.Com Inc (JD)	Large, \$70.65B (-40.27B)	Very large, \$157.057B	13.18*	20.00*	China & Overseas	E-commerce site allows local and international produce and retail brands to tap into China's low-end market.
eBay Inc (EBAY)	Relatively Small, \$24.85B (-86.07B)	Optimally large, \$9.79B	9.00	13.61	US & Overseas	Offers customer bargaining to lower-end market.
Roadget Business Pte Ltd (Brand: Shein)	Large, \$64B Valuation (-46.92B)	Optimally large, \$30.0B	-	-	China & Overseas	Fashion retailer for low-income, low-end buyers.

## Risks and Mitigations

### Chinese Housing Bubble Risk

The Chinese housing bubble burst is a major projected risk for the overall Chinese economy in the 5 year span.

#### Mitigations

1. PDD is extremely risk-averse facing a recession. Its affordable pricing and mid- and low-income-targeting segmentation will drive the company to outperform the market during a recession.
2. PDD leverages its cash flow to expand in the agritech industry, providing C2M service to agricultural vendors and consumers. This complies with the Chinese promotion of agricultural digitalization and diversifies its portfolio to a more defensive mix.
3. The People's Bank of China (PBoC) easy monetary policy includes rate cuts and infusion of cash. This provides a floor for stock price and enrich PDD's cash flows counter to the recession.

### Foreign Exchange Risk

The value of stock owners' investment in ADSs will be affected by the exchange rate between USD and RMB.

**Mitigation:** Overseas expansion will generate revenue in USD.

### Geopolitical Risk

China-Taiwan tensions cause economic uncertainties. Next National Congress of the Chinese Communist Party in 2027 might increase said uncertainties.

**Mitigation:** PDD granted complete auditing access

### Inflation Risk

Higher inflation rates might negatively impact cash flow.

**Mitigation:** PBoC easy monetary policy cash infusion