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## KEY HIGHLIGHTS

### Results

**Meituan (3690 HK/BUY/HK\$103.00/Target: HK\$171.00)** Page 2

3Q23: Solid results; Stabilising in-store market share gain rival competitors.

**PDD Holdings (PDD US/BUY/US\$117.72/Target: US\$150.00)** Page 5

3Q23: Revenue beat; overseas expansion a core growth pillar.

**TRADERS' CORNER** Page 8

**Bosideng International (3998 HK):** Trading Buy range: HK\$3.30-3.40

**Skyworth Group Limited (751 HK):** Trading Buy range: HK\$3.05-3.10

## CORPORATE AND MACRO CALENDAR

Date	Country/Region	Economic Indicator
30 Nov	China	Nov NBS PMI
01 Dec	China	Caixin Nov Manufacturing PMI
07 Dec	China	Nov Trade
09 Dec	China	Nov Inflation
09-15 Dec	China	Nov Money Supply And Credit
15 Dec	China	Nov Economic Activities
20 Dec	China	Dec Loan Prime Rate
27 Dec	China	Nov Industrial Profits
30 Dec	China	Dec NBS PMI

## KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	35417.0	0.2	0.8	9.3	6.8
S&P 500	4554.9	0.1	0.2	10.6	18.6
FTSE 100	7455.2	(0.1)	(0.4)	2.2	0.0
AS30	7223.1	0.4	(0.9)	3.0	0.0
CSI 300	3518.5	0.2	(1.7)	(1.2)	(9.1)
FSSTI	3065.9	(0.7)	(1.0)	0.1	(5.7)
HSCEI	5957.1	(1.1)	(2.0)	(0.4)	(11.2)
HSI	17354.1	(1.0)	(2.1)	(0.3)	(12.3)
JCI	7041.1	0.4	1.1	4.2	2.8
KLCI	1448.0	(0.0)	(1.1)	0.4	(3.2)
KOSPI	2521.8	1.0	0.5	9.5	12.8
Nikkei 225	33408.4	(0.1)	0.1	7.8	28.0
SET	1401.4	0.6	(1.6)	1.0	(16.0)
TWSE	17341.3	1.2	(0.4)	7.5	22.7
BDI	2391	5.8	33.1	53.0	57.8
CPO (RM/mt)	3739	(1.4)	(1.0)	2.8	(7.6)
Brent Crude (US\$/bbl)	82	2.1	(1.0)	(9.7)	(4.9)

Source: Bloomberg

## TOP TRADING TURNOVER

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
XIAOMI CORP-W	15.52	2.5	2,182.7
BIDU-SW	120.00	0.2	1,315.1
KUAISHOU-W	56.30	(3.9)	1,112.5
LI AUTO INC-A	157.90	(0.3)	981.6
XPENG INC-A SHRS	69.65	(1.6)	967.3

## TOP GAINERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
HANSOH PHARMACEU	15.62	6.4	51.4
SUNNY OPTICAL	75.05	4.7	480.0
CSPC PHARMACEUTI	7.11	3.3	223.8
TRAD CHI MED	3.91	2.6	65.1
XIAOMI CORP-W	15.52	2.5	2,182.7

## TOP LOSERS

Company	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
SENSETIME-W	1.37	(4.9)	164.0
KUAISHOU-W	56.30	(3.9)	1,112.5
BILIBILI INC-Z	104.30	(3.8)	221.7
BUDWEISER BREWIN	14.14	(3.5)	87.8
GDS HOLDING-CL A	10.34	(2.8)	21.9

\*ADT: Average daily turnover

## KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

## COMPANY RESULTS

### Meituan (3690 HK)

3Q23: Solid Results; Stabilising In-store Market Share Gain Rival Competitors

Meituan delivered solid 3Q23 results. Total revenue grew 22% yoy to Rmb76.2b, in line with consensus estimates. Non-IFRS net profit was Rmb5.7b, translating to a non-GAAP net profit margin of 7%. For 4Q23, Meituan expects growth in food delivery volume to moderate due to a tempered macro recovery and seasonality. We expect ISHT to maintain its solid recovery trajectory in 4Q23. Maintain BUY with a lower target price of HK\$171.00.

#### 3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2Q23	3Q23	qoq %	yoy %	UOB	Var	Cons	Var
TOTAL REVENUE	62,619	67,965	76,467	13%	22%	76,238	0.3%	76,009	1%
Core local commerce	46,328	51,200	57,691	13%	25%	51,928	11.1%		
New initiatives & others	16,291	16,765	18,776	12%	15%	24,311	(22.8%)		
Cost of revenue	(44,114)	(42,567)	(49,485)	16%	12%	(47,647)	3.9%		
Gross profit	18,505	25,398	26,982	6%	46%	28,591	(5.6%)	25,438	6%
OPEX	(18,806)	(22,099)	(24,764)	12%	32%	(28,683)	(13.7%)		
S&M	(10,886)	(14,553)	(16,905)	16%	55%	(18,772)	(9.9%)		
R&D	(5,414)	(5,407)	(5,321)	(2%)	(2%)	(6,099)	(12.8%)		
G&A	(2,505)	(2,139)	(2,538)	19%	1%	(3,812)	(33.4%)		
Non-IFRS OP	2,300	5,748	4,178	(27%)	82%	4,126	1.3%		
Non-IFRS OPM	4%	8%	5%	(3 ppt)	2 ppt	5%	0 ppt		
Net profit	1,217	4,689	3,593	(23%)	195%	1,094	228.5%		
Non-IFRS net profit	3,527	7,660	5,727	(25%)	62%	3,906	46.6%	5,289	8%
GPM	30%	37%	35%	(2 ppt)	6 ppt	38%	(2 ppt)	33%	2 ppt
Non-IFRS NPM	6%	11%	7%	(4 ppt)	2 ppt	5%	2 ppt	7%	1 ppt

Source: Meituan, UOB Kay Hian

#### RESULTS

- Solid performance from core local commerce.** In 3Q23, Meituan's core local commerce segment recorded revenue of Rmb57.7b, up 25% yoy (2Q23: +39% yoy), higher than management's previously guided 22-23% yoy. Core local commerce commission delivered an accelerated growth of 31% yoy in 3Q23 (2Q23: 47%; 3Q22: 22%). This is primarily attributable to growth in on-demand delivery transactions coupled with a 90% yoy surge in gross transaction volume (GTV) of the in-store business, partially offset by increased incentives and lower ARPU for food delivery. Meituan's Instashopping maintained robust growth trajectory, with daily order volume peaking at 13m in August while annual active merchants increasing by over 30% yoy. Online marketing revenue ramped up 32% yoy. Meituan is positive on its market leadership with its food delivery (FD) market share back to 3:1 vs Douyin, given the stronger mindshare in higher-tier cities with more merchant supplies.
- NIO segment.** The new initiatives and others (NIO) segment's revenue grew 15% yoy to Rmb18.8b in 3Q23, on absence of 1P car hailing business. Operating loss narrowed by 24.5% yoy to Rmb5b, while operating margin improved sequentially to -27%, primarily attributable to optimised pricing and product management capabilities. The operating loss margin delivered by Meituan Select further narrowed on a yoy and sequential basis. By end-Sep 23, Meituan Select had accumulated 490m transacting users.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	179,128	219,955	275,052	339,097	407,453
EBITDA	(14,695)	3,438	23,982	35,366	52,112
Operating profit	(23,127)	(5,820)	16,421	26,916	42,736
Net profit (rep./act.)	(23,535)	(6,685)	15,421	22,925	36,948
Net profit (adj.)	(15,572)	2,827	26,101	34,786	51,109
EPS (Fen)	(257.9)	45.9	423.1	562.8	825.2
PE (x)	n.m.	205.8	22.3	16.8	11.5
P/B (x)	4.5	4.5	4.0	3.5	2.9
EV/EBITDA (x)	n.m.	164.8	23.6	16.0	10.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.1)	(3.0)	5.6	6.8	9.1
Net debt/(cash) to equity (%)	(6.9)	(0.8)	(16.1)	(31.8)	(46.6)
Interest cover (x)	(25.1)	3.5	32.8	n.a.	n.a.
ROE (%)	n.a.	n.a.	11.3	14.7	19.9
Consensus net profit	-	-	22,128	33,335	50,015
UOBKH/Consensus (x)	-	-	1.18	1.04	1.02

Source: Meituan, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	HK\$103.00
Target Price	HK\$171.00
Upside	+66.0%
(Previous TP)	HK\$210.00)

#### COMPANY DESCRIPTION

Meituan-Dianping is a Chinese group buying website for locally found food delivery services, consumer products and retail services.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	3690 HK
Shares issued (m):	5,639.7
Market cap (HK\$m):	643,150.6
Market cap (US\$m):	82,494.3
3-mth avg daily t'over (US\$m):	347.5

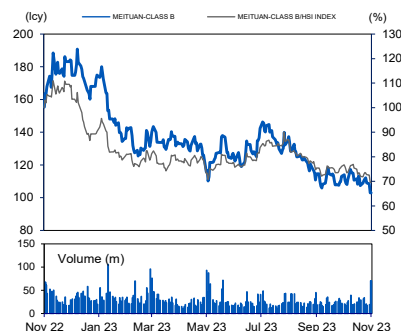
#### Price Performance (%)

52-week high/low		HK\$190.80/HK\$103.00		
1mth	3mth	1mth	3mth	1mth
(8.8)	(23.5)	(18.3)	(26.1)	(41.0)

#### Major Shareholders

	%
Crown Holdings Asia	8.7
BlackRock Inc	5.9
Baillie Gifford & Co	4.8
FY23 NAV/Share (Rmb)	23.36
FY23 Net Cash/Share (Rmb)	3.77

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

### • Takeaways from post-earnings call with management:

- **4Q23 core local commerce revenue is estimated to rise about 25% yoy to Rmb54.3b**, while operating profit of its core local commerce segment will grow marginally yoy to Rmb7.5b, primarily attributable to a decline in delivery costs.
- **Meituan expects 4Q23 FD revenue growth to decelerate slightly from 3Q23**, pressured by increased subsidies and a yoy decline in average order value (AOV). Two-year CAGR of FD order volume in 4Q23 is forecasted to remain stable at 16%. FD AOV is estimated to remain flattish sequentially, but decrease yoy due to full recovery of SME merchants and significant decline in long-distance and family orders. However, the adverse impact is partially offset by yoy increase in online marketing revenue and ARPU. FD operating profit per transaction is guided to grow at high-single digit yoy in 4Q23. FD operating profit yoy growth will decelerate marginally from 3Q23.
- **Meituan's Instashopping revenue and order volume growth is guided to remain flattish yoy in 4Q23**. Two-year CAGR is forecasted at 45% in 4Q23, moderated marginally from 50% due to decline in order volume and AOV, partially offset by heightened ad monetisation rate. Meanwhile, operating loss is expected to broaden yoy due to increased investment in the distribution channel to capture demand which translates to a sequential decline in in-store, hotel & travel (ISHT) OPM.
- **ISHT revenue in 4Q23 is expected to surge 60% yoy**, supported by solid tourism demand. ISHT's lower revenue growth vs GTV growth is attributed to moderated ad recovery and a lower monetisation rate led by the implementation of various strategies. ISHT GTV in 4Q23 is expected to surge 50% yoy, moderated from 90% yoy in 3Q23. ISHT operating profit is estimated to grow by high single-digit yoy. Operating margin of the ISHT segment is forecasted to decline sequentially during 4Q23, mainly pressured by increased investment to seize market share.
- **Meituan expects NIO revenue to grow 8-10% yoy in 4Q23**, mainly dragged by the removal of the 1P model of the car-hailing business, while its adverse impact is expected to sustain into 1H24. Meanwhile, operating loss should be maintained at Rmb5b, mainly attributed to Meituan Select. However, Meituan Select's operating loss is expected to contract sequentially to 1Q23 levels.

## EARNINGS REVISION/RISK

- **We lower our 4Q23/2023 revenue forecasts by 4%/1% respectively**. We expect Meituan to deliver adjusted net profit of Rmb26.1b/34.7b in 2023/24, with 9.5%/10.3% net margin.
- **Risks:** a) Challenging macro environment, b) increased competition with Douyin and Ele.me, and c) achieving profitability at a slower-than-expected rate in new business initiatives.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$171.00**, in view of the moderate recovery in core local commerce. Our target price implies 2.8x 2024F forward EV/sales, below its three-year historical mean of 4.6x. We remain cautiously optimistic for Meituan given robust recovery trajectory in the ISHT segment coupled with intensified business competition in the FD business with its major competitive rival, Douyin.

## SHARE PRICE CATALYST

- a) Continued market share expansion in the FD segment and increase in penetration rate in the fresh groceries segment, and b) increase in synergies with core businesses and new initiatives.

## SOTP-BASED VALUATION (BASED ON 12-MONTH FORWARD)

SOTP Valuation	2024F average Rev. (US\$m)	2024F average NOPAT (US\$m)	Implied EV / Rev.	PE	Valuation to Meituan 2024F average (US\$m)	2024F average Val. (HK\$m)	2024F average Val. Per share (HK\$)	Value split
1. Core Commerce	35,606	6,551	3x	17x	108,309	841,564	137	64%
1.1 Food Delivery	24,781	3,574	2x	16x	57,184	444,316	72	34%
1.2 Meituan Instashopping	3,058	630	3x	15x	9,451	73,434	12	6%
1.3 In-store, hotel & travel	7,767	2,347	5x	18x	41,675	323,813	53	25%
2. New initiatives	12,525	1,252	2x	24x	29,715	230,889	38	18%
3. Associates/investments affiliates					12,482	96,986	16	7%
4. Net cash					18,534	144,007	23	11%
NAV					169,041	1,313,446	213	
Less: holdco discount			20%		33,808	262,689	43	
				135,233	1,050,757	171		

Source: UOB Kay Hian

## FORWARD EV/SALES BAND



Source: UOB Kay Hian, Bloomberg

# PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	219,955	275,052	339,097	407,453
EBITDA	3,438	23,982	35,366	52,112
Deprec. & amort.	9,259	7,560	8,450	9,376
EBIT	(5,820)	16,421	26,916	42,736
Total other non-operating income	0	0	0	0
Associate contributions	36	(200)	(200)	(200)
Net interest income/(expense)	(971)	(732)	255	932
Pre-tax profit	(6,756)	15,490	26,971	43,468
Tax	70	(68)	(4,046)	(6,520)
Minorities	0	0	0	0
Net profit	(6,685)	15,421	22,925	36,948
Net profit (adj.)	2,827	26,101	34,786	51,109

# CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	11,411	32,174	41,912	56,018
Pre-tax profit	(6,756)	15,490	26,971	43,468
Tax	70	(68)	(4,046)	(6,520)
Deprec. & amort.	9,259	7,560	8,450	9,376
Working capital changes	(813)	8,348	9,697	9,230
Other operating cashflows	9,651	845	840	465
Investing	(14,714)	(10,334)	(12,044)	(14,143)
Capex (growth)	(5,731)	(8,624)	(10,139)	(12,039)
Investments	(187,401)	0	0	0
Proceeds from sale of assets	176,788	0	0	0
Others	1,631	(1,710)	(1,905)	(2,104)
Financing	(9,990)	0	0	0
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	25,845	0	0	0
Loan repayment	(32,704)	0	0	0
Others/interest paid	(3,131)	0	0	0
Net cash inflow (outflow)	(13,292)	21,840	29,868	41,875
Beginning cash & cash equivalent	32,516	20,161	42,368	72,236
Changes due to forex impact	938	367	0	0
Ending cash & cash equivalent	20,159	42,368	72,236	114,111

# BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	22,201	23,330	25,083	28,195
Other LT assets	79,134	81,785	86,481	91,248
Cash/ST investment	20,159	42,368	72,236	114,111
Other current assets	122,987	124,022	126,116	129,534
Total assets	244,481	271,505	309,916	363,089
ST debt	17,562	17,562	17,562	17,562
Other current liabilities	58,868	70,470	85,956	102,181
LT debt	1,549	1,549	1,549	1,549
Other LT liabilities	37,796	37,796	37,796	37,796
Shareholders' equity	128,762	144,183	167,108	204,056
Minority interest	(56)	(56)	(56)	(56)
Total liabilities & equity	244,481	271,505	309,916	363,089

# KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	1.6	8.7	10.4	12.8
Pre-tax margin	(3.1)	5.6	8.0	10.7
Net margin	(3.0)	5.6	6.8	9.1
ROA	n.a.	6.0	7.9	11.0
ROE	n.a.	11.3	14.7	19.9
Growth				
Turnover	22.8	25.0	23.3	20.2
EBITDA	n.a.	597.4	47.5	47.4
Pre-tax profit	n.a.	n.a.	74.1	61.2
Net profit	n.a.	n.a.	48.7	61.2
Net profit (adj.)	n.a.	823.2	33.3	46.9
EPS	n.a.	821.3	33.0	46.6
Leverage				
Debt to total capital	12.9	11.7	10.3	8.6
Debt to equity	14.8	13.3	11.4	9.4
Net debt/(cash) to equity	(0.8)	(16.1)	(31.8)	(46.6)
Interest cover (x)	3.5	32.8	n.a.	n.a.

## COMPANY RESULTS

### PDD Holdings (PDD US)

3Q23: Revenue Beat; Overseas Expansion A Core Growth Pillar

**PDD's 3Q23 results beat expectations. Revenue surged 94% yoy to Rmb68.8b, 25.5% above consensus estimate, driven by strong advertising revenue growth and robust commission revenue generated from Temu. Gross profit margin contracted 18ppt yoy to 61%, due to higher costs from Temu. Non-GAAP net profit came in at Rmb17b, 30.4% above the street's estimate which translated to a non-GAAP net profit margin of 24.7%. Maintain BUY with a higher target price of US\$150.00.**

#### 3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2023	3Q23	qoq	yoy	UOB	Var	Cons	Var
TOTAL REVENUE	35,504	52,281	68,840	32%	94%	51,404	33.9%	54,872	25.5%
Online marketing	28,482	37,933	39,688	5%	39%	37,587	5.6%		
Commission fee	7,022	14,348	29,153	103%	315%	13,765	111.8%		
Cost of services	-7,414	-18,690	-26,830	(44%)	262%	-11,568	131.9%		
Gross profit	28,090	33,591	42,010	25%	50%	39,835	5.5%	35,240	19.2%
Operating expenses	-17,654	-20,872	-25,354	(21%)	44%	-26,705	(5.1%)		
S&M	-14,049	-17,542	-21,748	(24%)	55%	-21,690	0.3%		
G&A	-907	-596	-758	(27%)	(16%)	-1,139	(33.4%)		
R&D	-2,698	-2,734	-2,847	(4%)	6%	-3,875	(26.5%)		
Non GAAP OP	12,301	14,609	18,126	24%	47%	15,906	14.0%		
Non-GAAP OPM	35%	28%	26%	(2 ppt)	(8 ppt)	31%	(4.6 ppt)		
Net profit	10,589	13,108	15,537	19%	47%	12,166	27.7%		
Non-GAAP net profit	12,447	15,269	17,027	12%	37%	14,942	14.0%	13,061	30.4%
GPM	79.1%	64.3%	61.0%	(3 ppt)	(18 ppt)	77.5%	(16.5 ppt)	64.2%	(3.2 ppt)
Non-GAAP NPM	35.1%	29.2%	24.7%	(4 ppt)	(10 ppt)	29.1%	(4.3 ppt)	23.8%	0.9 ppt

Source: PDD, UOB Kay Hian

#### RESULTS

- **Swift top-line growth momentum continues to outperform peers'. PDD Holdings' (PDD) revenue grew by a strong 94% yoy in 3Q23 (accelerating from 66% in 2Q23) to Rmb68.8b, exceeding growth in NBS' physical goods/Alibaba's/JD's/Vipshop/Kuaishou's group e-commerce revenue growth of 7.0%/3.0%/1.7%/5.3%/37.0% yoy during the same period. This was mainly due to favourable consumption recovery during 3Q23 and positive results from the execution of high-quality development strategy. Online marketing services revenue grew rapidly by 39.3% yoy, which moderated slightly from 2Q23's 50.4% and 3Q22's 58.7%. Transaction commission revenue growth remained intact and soared 315% yoy to Rmb29.2b, likely due to strong revenue contribution from Temu.**
- **Margin overview.** Gross margin dropped 18ppt yoy to 61% in 3Q23, led by heightened investment to develop Temu's cross-border supply chain given its "Fully-Entrusted" e-commerce model. Sales & marketing (S&M) as a percentage of total revenue contracted to 31.6% in 3Q23 vs 39.6% in 3Q22, primarily due to optimised resource allocation efficiency. Non-GAAP operating margin dropped 8.3ppt yoy. Non-GAAP net profit came in at Rmb17b, vs Rmb12.4b in 3Q22. Non-GAAP net margin contracted 10.3ppt yoy to 25% in 3Q23 as the company stepped up investment in key strategic initiatives to enhance service quality and boost consumption sentiment.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	93,950.0	130,557.6	237,218.0	324,882.6	377,032.7
EBITDA	8,414.4	32,138.8	52,209.9	68,709.4	77,534.7
Operating profit	6,896.8	30,401.9	50,461.7	67,448.0	76,752.5
Net profit (rep./act.)	7,768.7	31,538.1	49,029.8	59,844.7	67,433.0
Net profit (adj.)	13,829.6	39,529.7	56,454.6	68,941.4	77,462.1
EPS (Fen)	10.8	30.0	41.6	49.3	53.8
PE (x)	76.8	27.7	19.9	16.8	15.4
P/B (x)	56.5	37.1	26.0	19.1	14.9
EV/EBITDA (x)	102.8	26.9	16.6	12.6	11.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	8.3	24.2	20.7	18.4	17.9
Net debt/(cash) to equity (%)	(87.9)	(78.4)	(115.1)	(130.8)	(132.4)
Consensus net profit	-	-	53,183	68,757	89,356
UOBKH/Consensus (x)	-	-	1.06	1.00	0.87

Source: Pinduoduo, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$117.72
Target Price	US\$150.00
Upside	+27.4%
(Previous TP)	US\$120.00)

#### COMPANY DESCRIPTION

PDD Holdings operates as an e-commerce platform. The Company offers a wide range of merchandise online including groceries, fashion, beauty, and electronics. Pinduoduo serves customers worldwide.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	PDD US
Shares issued (m):	1,264.4
Market cap (US\$m):	148,843.5
Market cap (US\$m):	148,843.5
3-mth avg daily t'over (US\$m):	898.0

#### Price Performance (%)

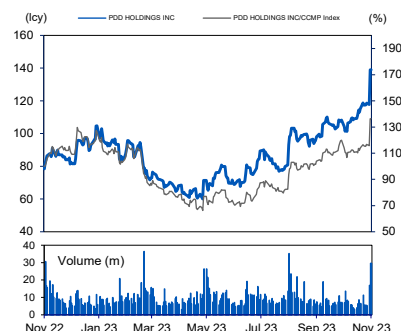
52-week high/low US\$118.78/US\$60.02

1mth	3mth	6mth	1yr	YTD
8.7	45.8	64.8	59.0	44.4

#### Major Shareholders

	%
Sequoia Capital Operations	3.8
Baillie Gifford & Co	2.8
BlackRock Inc	2.0
FY23 NAV/Share (RMB)	33.29
FY23 Net Cash/Share (RMB)	38.31

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- Paving the way for Temu's strong 2024 visibility and profitability.** It was reported that Temu's GMV for 1H23/3Q23 reached US\$3b/US\$5b respectively. With the robust growth trajectory, we opine Temu is well on track to achieve its 2023 annual GMV target of US\$15b, especially with Black Friday sales and Christmas in December. In addition, Temu has set an annual GMV target of US\$30b for 2024, on the back of rapid overseas expansion, double the US\$15b annual GMV target set for 2023. With PDD's strong cash flow generation from the main platform (2023F net profit of Rmb60b) and net cash of US\$23b in funding for Temu, Temu is able continue achieving rapid global expansion in 2024.
- Riding on the wave of adtech upgrades and LLM.** By leveraging on the ROI-based "blackbox" advertisement solutions, we expect PDD to achieve improvement in its ads take rate amid the current industry-wide adtech upgrade. In addition, PDD has established its large language model which will serve its e-commerce system, including applications in AI shopping guides and intelligent generation of product images. We believe this will optimise efficiency and productivity, leading to incremental revenue contribution in 2024.
- Leveraging on high-quality development strategy amid intense competition.** During Singles Day 2023, PDD continued its commitment to simplifying promotions. For the first time, PDD introduced direct price reductions in addition to the Rmb10b program. PDD's efforts translated into significant momentum during Singles Day, benefiting over 620m consumers through the Rmb10b program. On the supply side, PDD seeks to connect products globally, enabling producers to leverage digital benefits. Commitment to the real economy includes promoting digital inclusion in agriculture and manufacturing, facilitating direct sales and enhancing the digital economy's benefits for producers. This strategy also contributes to a wider merchandise selection on PDD's platform.

## EARNINGS REVISION/RISK

- We raise our 4Q23/2023 revenue forecasts by 39%/20%** as PDD saw strong performance in 3Q23 despite low seasonality. We estimate revenue to soar 82%/37% in 2023/24 respectively. We forecast non-GAAP net profit at Rm56.5b/Rmb68.9b in 2023/24, translating to net margin of 24%/21% respectively.
- Risks:** a) Potential heavy investment may weigh on margins, and b) policy risks like a potential ban of Temu by the US and Southeast Asian countries.

## VALUATION/RECOMMENDATION

- We maintain BUY with a higher 12-month DCF-based target price of US\$150.00.** Our target price implies a 4.3x EV sales ratio based on 2024 revenue, below its historical mean of 6.2x. Our target price also implies 22x 2024F PE against a 21% EPS CAGR over 2024-27. PDD is now trading at 17x 2024F PE and 3.4x EV/Sales based on 2024 revenue, 0.6SD below its historical mean of 6x.

## SHARE PRICE CATALYST

- a) New initiatives in the manufacturing sector and overseas expansion, b) continued gain in consumer mindshare on higher purchase frequency and value-for-money products, c) strong sales of agriculture products on a higher growth of online grocery categories, and d) improved monetisation rates.

## DCF VALUATION

DCF (Rmbm)	2024F	2025F	2026F	2027F	2028F	2029F
GMV	5,763,701	6,572,437	7,266,015	7,886,536	8,559,839	9,290,396
% yoy	31%	14%	11%	9%	9%	9%
Revenue	324,883	377,033	424,085	468,192	520,151	577,556
% yoy	37%	16%	12%	10%	11%	11%
EBIT, non-GAAP	76,545	86,782	115,586	151,310	187,918	234,584
% EBIT margin	23.6%	23.0%	27.3%	32.3%	36.1%	40.6%
FCF	135,682	129,388	154,780	191,501	236,519	270,181
Margin	41.8%	34.3%	36.5%	40.9%	45.5%	46.8%
% yoy	13%	-5%	20%	24%	24%	14%
Terminal value				1,450,762	1,791,807	2,046,822
TOTAL FCF	135,682	129,388	154,780	191,501	236,519	270,181
DCF summary						2024F
Risk-free rate	2.2%					
Equity market premium	14.0%					
Beta	1.2					
WACC	18.9%					
Long term growth	5.0%					
Terminal multiple	7.2					
						2024F
						EV
						Net Cash (2024F)
						NPV
						Per share (US\$)
						131,324
						66,489
						197,814
						150.0

Source: PDD, UOB Kay Hian

## FORWARD EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>130,558</b>	<b>237,218</b>	<b>324,883</b>	<b>377,033</b>
EBITDA	32,139	52,210	68,709	77,535
Deprec. & amort.	1,737	1,748	1,261	782
EBIT	30,402	50,462	67,448	76,752
Total other non-operating income	2,072	2,859	0	0
Associate contributions	(155)	10	0	0
Net interest income/(expense)	3,945	7,049	2,784	4,350
<b>Pre-tax profit</b>	<b>36,264</b>	<b>60,380</b>	<b>70,232</b>	<b>81,103</b>
Tax	(4,726)	(11,350)	(10,387)	(13,670)
Minorities	0	0	0	0
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>31,538</b>	<b>49,030</b>	<b>59,845</b>	<b>67,433</b>
Net profit (adj.)	39,530	56,455	68,941	77,462

### CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>48,508</b>	<b>107,484</b>	<b>117,694</b>	<b>106,673</b>
Pre-tax profit	36,264	60,380	70,232	81,103
Tax	(4,726)	(11,350)	(10,387)	(13,670)
Deprec. & amort.	1,737	1,748	1,261	782
Associates	(155)	10	0	0
Working capital changes	7,806	50,064	47,491	28,429
Non-cash items	0	0	0	0
Other operating cashflows	7,582	6,632	9,097	10,029
<b>Investing</b>	<b>(22,362)</b>	<b>(173)</b>	<b>(237)</b>	<b>(275)</b>
Capex (growth)	(99)	(173)	(237)	(275)
Capex (maintenance)	0	0	0	0
Investments	(28,596)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	6,334	0	0	0
<b>Financing</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	10	0	0	0
<b>Net cash inflow (outflow)</b>	<b>26,156</b>	<b>107,311</b>	<b>117,458</b>	<b>106,399</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>66,044</b>	<b>92,300</b>	<b>199,611</b>	<b>317,069</b>
Changes due to forex impact	100	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>92,300</b>	<b>199,611</b>	<b>317,069</b>	<b>423,468</b>

### BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	1,045	554	113	189
Other LT assets	19,457	18,805	18,222	17,639
Cash/ST investment	92,300	199,611	317,069	423,468
Other current assets	124,317	124,824	127,870	129,688
<b>Total assets</b>	<b>237,120</b>	<b>343,795</b>	<b>463,274</b>	<b>570,983</b>
ST debt	0	0	0	0
Other current liabilities	116,889	153,574	204,111	234,358
LT debt	0	0	0	0
Other LT liabilities	2,460	2,460	2,460	2,460
Shareholders' equity	117,771	173,438	242,379	319,841
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>237,120</b>	<b>343,795</b>	<b>463,274</b>	<b>570,983</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	24.6	22.0	21.1	20.6
Pre-tax margin	27.8	25.5	21.6	21.5
Net margin	24.2	20.7	18.4	17.9
<b>Growth</b>				
Turnover	39.0	81.7	37.0	16.1
EBITDA	282.0	62.5	31.6	12.8
Pre-tax profit	273.8	66.5	16.3	15.5
Net profit	306.0	55.5	22.1	12.7
Net profit (adj.)	185.8	42.8	22.1	12.4
EPS	30.0	41.6	49.3	53.8
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(78.4)	(115.1)	(130.8)	(132.4)

## TRADERS' CORNER



Chart by Bloomberg

### Bosideng International Holdings Limited (3998 HK)

Trading Buy range: HK\$3.30-3.40

Last price: HK\$3.24

Target price: HK\$3.50/HK\$3.87

Protective stop: Breaks below HK\$3.00

#### Stock Highlights:

The revenue for 1H23 increased 20.9% yoy. The net profit increased 25.1% yoy.

#### Technical View:

The share price has gradually stabilised at a lower level since mid-August, and subsequently started to rebound. Even though the share price consolidated, it still stayed above levels reached in August. It was at around HK\$3.00, forming a succession of higher lows. The 14-day Relative Strength Index (RSI) also rose above the midline level of 50, indicating momentum has strengthened. The share price has recently tested the resistance at the bearish trendline formed since reaching its peak in February this year. Investors may consider buying the stock after the share price has confirmed a breakout and has stabilised above HK\$3.30.

Average timeframe: Around two weeks.



Chart by Bloomberg

### Skyworth Group Limited (751)

Trading Buy range: HK\$3.05-3.10

Last price: HK\$2.99

Target price: HK\$3.17/HK\$3.45

Protective stop: Breaks below HK\$2.78

#### Stock Highlights:

In 1H23, the company's total revenue increased 33.0% yoy to Rmb3.23b.

#### Technical View:

The share price stabilised since reaching its low at the end of August. It has gradually rebounded, forming a succession of higher lows. The 14-day Relative Strength Index (RSI) also rose above the midline level of 50, indicating momentum has strengthened. The share price recently tested resistance at the bearish trendline formed since mid-May 23 and was supported by the bullish trendline formed since end-Aug 23. As a triangle pattern has been formed by the two trendlines, it is more appropriate for investors to wait for a breakout before buying the stock.

Average timeframe: Around two weeks.

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