UOBKayHian

Company – Results | Greater China

Tuesday, 25 August 2026

PDD Holdings (PDD US)

2Q26: Mixed Results; Focus On Overseas Profitability

Highlights

- PDD reported mixed 2Q26 results. Total revenue increased 8%, 2-4% below our and consensus estimates. Adjusted net profit declined 12% yoy to Rmb28b, supported by higher interest/investment income of Rmb13.5b, largely in line with our expectation. Gross margin expanded 1.4ppt yoy to 57.3%. Non-GAAP net margin dropped 6ppt yoy to 25.4%, due to higher G&A expenses.
- Upgrade to BUY with a higher target price of US$115.00.

2Q26 Results

Year to 31 Dec (Rmbm)	1Q25	4Q25	1Q26	QoQ	YoY	UOBKH	Var	Cons	Var
TOTAL REVENUE	103,985	106,229	112,358	6%	8%	117,047	(4.0%)	115,196	(2.5%)
Online marketing	55,703	49,936	57,637	15%	3%	56,434	2.1%		
Commission fee	48,282	56,293	54,721	(3%)	13%	60,614	(9.7%)		
Cost of services	(45,859)	(46,893)	(48,017)	(2%)	5%	(51,914)	(7.5%)		
Gross profit	58,126	59,336	64,341	8%	11%	65,134	(1.2%)	63,922	0.7%
Operating expenses	(32,333)	(39,770)	(36,577)	8%	13%	(39,633)	(7.7%)		
Non-GAAP OP	27,748	21,090	29,071	38%	5%	28,427	2.3%		
Non-GAAP OPM	27%	20%	26%	6.0 ppt	(0.8 ppt)	24%	1.6 ppt		
Net profit	30,753	17,558	27,182	55%	(12%)	26,634	2.1%		
Non-GAAP net profit	32,708	19,082	28,489	49%	(13%)	29,561	(3.6%)	28,023	1.7%
Non-GAAP diluted EPS (RMB)	22.07	12.89	19.33	50%	(12%)	19.85	(2.6%)		
GPM	55.9%	55.9%	57.3%	1.4 ppt	1.4 ppt	55.6%	1.6 ppt	55.5%	1.8 ppt
Non-GAAP NPM	31.5%	18.0%	25.4%	7.4 ppt	(6.1 ppt)	25.3%	0.1 ppt	24.3%	1.0 ppt

Source: PDD, UOB Kay Hian

Analysis

- **Online marketing revenue grew 3.5% yoy (vs 2.4% in 1Q26), better than street expectations.** This implied a better-than-expected domestic GMV growth despite tighter VAT regulations, e-commerce competition and weak consumption (compared with Taobao-Tmall's +1% yoy and JD retail's -4.7% yoy). Transaction services revenue grew 13% yoy, below our forecast of 17% yoy and slowing from 20% yoy in 1Q26, due to softer Temu monetisation amid regulatory changes in the EU and ASEAN, partly offset by resilient Duo Duo Grocery and recovering US operations.
- **Operating profit better than expectations.** Gross margin expanded 1.4ppt yoy to 57.3%, due to slower growth of Temu with high fulfilment cost. Non-GAAP operating profit increased 5% yoy, vs 16%/5% yoy in 1Q26/4Q25, while operating margin dipped 1ppt yoy to 26%, mainly related to the new Xiongan subsidiary launched in May 26 with 4,000 employees, equivalent to 16% of PDD Holdings' (PDD) 2025 workforce. Non-GAAP net profit declined 12% yoy, supported by higher interest/investment income of Rmb13.5b, versus a Rmb0.6b loss in 1Q26, but partly offset by Rmb7.4b in other losses, potentially related to one-off provisions related to domestic/EU regulatory penalties and subsidiary tax payments.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	393,836	431,846	473,331	532,458	591,875
EBITDA	226,714	257,700	251,147	297,078	333,931
Operating profit	225,998	257,091	249,658	295,955	332,581
Net profit (rep./act.)	230,017	238,486	235,720	280,936	311,178
Net profit (adj.)	122,344	107,501	112,212	130,217	154,893
EPS	8,270.7	7,238.9	7,526.6	8,700.1	10,308.3
PE	7.2	8.2	7.9	6.8	5.8
P/B	10.5	8.0	7.4	5.8	4.6
EV/EBITDA	2.8	2.5	2.6	2.2	1.9
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	58.4	55.2	49.8	52.8	52.6
Net debt/(cash) to equity	(39.3)	(43.3)	(45.5)	(74.8)	(81.2)
ROE	91.9	65.5	54.6	54.8	47.6
Consensus net profit	-	-	103,592.4	125,834.0	148,893.9
UOBKH/Consensus (x)	-	-	1.08	1.03	1.04

Source: PDD, Bloomberg, UOB Kay Hian

Analyst(s)

Julia Pan

juliapan@uobkh.com

+86 21 5404 7225 ext 808

BUY (Upgraded)

Share Price	US$88.38
Target Price	US$115.00
Upside	30.1%
Previous TP	US$94.00

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	PDD US
Shares issued (m)	1,423.4
Market cap (US$m)	125,799.8
Market cap (US$m)	125,799.8
3-mth avg daily t'over (US$m)	713.6

Price Performance (%)

52-week high/low				US$139.41/US$71.94
1mth	3mth	6mth	1yr	YTD
6.9	(6.5)	(15.8)	(30.5)	(22.1)

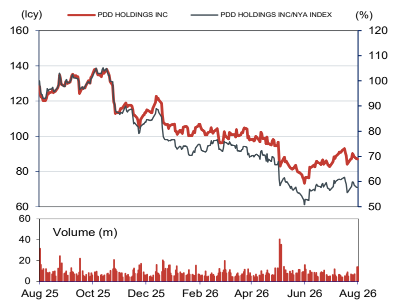
Major Shareholders (%)

Vanguard Group Inc	2.80
BlackRock Inc	2.25

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	79.78
FY26 Net Debt/Share (Rmb$)	36.31

Price Chart



Source: Bloomberg

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. PDD serves customers worldwide.

- **Temu growth slowed down.** Temu's growth slowed materially in 2Q26, with transaction services revenue up only 13.3% yoy despite a relatively easy base following the removal of the US de minimis exemption in 2Q25; excluding Duo Duo Grocery commissions, underlying Temu growth was likely even weaker. However, we see the slowdown as largely expected. Sensor Tower data showed Temu's global MAU/DAU declined 11%/13% yoy in July, suggesting user growth is approaching saturation. Meanwhile, regulatory headwinds remain elevated across the US, Europe and other markets.
- **Focus shifts to overseas profitability.** We believe the priority should shift from overseas growth to rapid loss reduction and sustainable profitability, with a 2-3% overseas operating margin already representing a reasonable outcome. Temu has meaningfully reduced customer acquisition spending. This cost discipline appears to be supporting group profitability, with 2Q26 adjusted operating profit up 5% yoy.
- **Outlook.** The company had a net cash position of US$18b as of 2Q26, providing ample capacity to support its long-term investment strategy. Management reiterated stepped-up ecosystem investment amid evolving global trade and regulatory dynamics, with continued focus on merchant support, compliance and long-term ecosystem development.
- **We turn cautiously positive on PDD.** Management restated that it does not intend to follow Alibaba/JD into an expensive quick-commerce subsidy battle, while Temu's strategy is shifting from pure cross-border expansion toward local supply/local fulfilment and compliance. The key medium-term debate is therefore less about Temu GMV growth and more about whether Temu can improve profitability as growth and marketing intensity moderate, while domestic PDD preserves share without materially increasing competitive spending.

Valuation/Recommendation

- **Upgrade to BUY with a higher target price of US$115.00,** seeing recovering core commerce advertising growth. Our target price implies 9.5x 2027F PE based on 2027 SOTP valuation with 12x PE on the core business and 1x EV/sales on Temu. PDD is now trading at 7.5x 2027F PE against a 17% EPS three-year CAGR over 2027-30F.

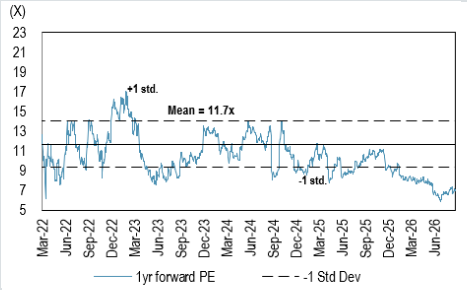
Earnings Revision/Risk

- We lower our 2026/2027 revenue and earnings estimates by 1%/1% due to the lower-than-expected transaction revenue growth. We forecast 2027F revenue and earnings to increase 12%/16% respectively.
- **Risks:** a) Potential heavy investment may weigh on margins, and b) policy risks like a potential ban of Temu by the US/EU and Southeast Asian countries, and c) intensifying competition.

Share Price Catalyst

- a) New initiatives in domestic commerce, b) continued gain in consumer mindshare on higher purchase frequency and value-for-money products, c) easing geopolitical tensions, and d) improved monetisation rates.

12-Month Forward PE Band



Source: Bloomberg

SOTP-Based Valuation

SOTP Valuation	2027F Rev (US$m)	2027F NOPAT (US$m)	Implied EV/Rev.	P/E	Valuation to PDD 2027F (US$m)	2027F Per share (US$)
Main business	34,784	10,644	4x	12x	127,729	92
Temu	29,766		1x		19,573	14
Duoduo Grocery	8,389	716	2x	16x	11,463	8
Net cash					17,905	13
NAV					176,670	128
Less: holdco discount				10%	17,667	10
TP					159,003	115

Source: PDD, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	431,845.7	473,330.5	532,457.5	591,875.5
EBITDA	257,700.2	251,147.3	297,077.9	333,931.1
Deprec. & amort.	609.5	1,489.0	1,122.6	1,350.3
EBIT	257,090.7	249,658.3	295,955.3	332,580.8
Total other non-operating income	3,119.8	3,119.8	3,119.8	3,119.8
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	260,210.6	252,778.1	299,075.2	335,700.6
Tax	(21,732.8)	(17,066.7)	(18,148.2)	(24,531.6)
Minorities	8.0	9.0	9.0	9.0
Net profit	238,485.8	235,720.5	280,936.0	311,178.0
Net profit (adj.)	107,500.8	112,212.1	130,216.7	154,893.3

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,306.0	4,752.0	2,588.7	3,024.1
Other LT assets	109,758.4	101,875.0	101,865.9	101,864.8
Cash/ST investment	182,731.4	206,192.0	433,895.0	596,277.8
Other current assets	336,248.5	350,588.0	242,738.3	244,333.6
Total assets	630,044.3	663,407.0	781,087.9	945,500.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	212,215.2	212,714.0	222,394.6	231,913.8
LT debt	2,880.2	2,389.0	2,389.0	2,389.0
Other LT liabilities	41.9	517.0	517.0	517.0
Shareholders' equity	414,907.1	447,786.0	576,914.6	731,807.9
Minority interest	0.0	1.0	1.0	1.0
Total liabilities & equity	630,044.3	663,407.0	802,216.3	966,628.7

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	106,018.5	107,591.4	147,336.9	164,158.5
Profit fo the year	260,210.6	252,778.1	299,075.2	335,700.6
Tax	(21,732.8)	(17,066.7)	(18,148.2)	(24,531.6)
Deprec. & amort.	609.5	1,489.0	1,122.6	1,350.3
Working capital charges	0.0	0.0	0.0	0.0
Other operating cashflows	7,367.1	(6,100.7)	1,290.0	(6,792.8)
Investing	0.0	0.0	0.0	0.0
Capex (growth)	(140,435.9)	(123,508.4)	(136,002.7)	(141,568.0)
Investments	(43,423.2)	(1,246.9)	(1,597.4)	(1,775.6)
Proceeds from sale of assets	(1,145.1)	(1,246.9)	(1,597.4)	(1,775.6)
Others	0.0	0.0	0.0	0.0
Financing	(42,278.2)	(1.0)	(1.0)	(1.0)
Dividend payments	(5,227.4)	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	7.0	8.0	8.0	8.0
Others/interest paid	(5,234.4)	(8.0)	(8.0)	(8.0)
Net cash inflow (outflow)	57,367.9	106,344.4	145,739.5	162,382.8
Beginning cash & cash equivalent	126,194.3	181,811.0	288,155.4	433,895.0
Changes due to forex impact	(1,751.1)	0.0	0.0	0.0
Ending cash & cash equivalent	181,811.0	288,155.4	433,895.0	596,277.8

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	59.7	53.1	55.8	56.4
Pre-tax margin	60.3	53.4	56.2	56.7
Net margin	55.2	49.8	52.8	52.6
ROA	42.0	36.4	38.9	36.0
ROE	65.5	54.6	54.8	47.6
Growth				
Turnover	9.7	9.6	12.5	11.2
EBITDA	13.7	(2.5)	18.3	12.4
Pre-tax profit	4.0	(2.9)	18.3	12.2
Net profit	3.7	(1.2)	19.2	10.8
Net profit (adj.)	(12.1)	4.4	16.0	19.0
EPS	(12.5)	4.0	15.6	18.5
Leverage				
Debt to total capital	0.7	0.5	0.4	0.3
Debt to equity	0.7	0.5	0.4	0.3
Net debt/(cash) to equity	(43.3)	(45.5)	(74.8)	(81.2)