PDD Holdings (PDD US)

3Q26: Better-than-expected Marketing Revenue Growth; Earnings Beat On Lower Marketing Spend On Temu

Highlights

- PDD delivered a solid 3Q26 profit beat. Revenue was flat yoy at Rmb108.3b, around 6% below our and consensus estimates, as resilient domestic e-commerce monetisation offset Temu's slowing growth. Lower sales and marketing expenses lifted non-GAAP operating profit by 20.5% yoy to Rmb32.6b, while non-GAAP net profit dropped 1.2% yoy to Rmb31.0b, 14-15% above our and consensus estimates.
- Maintain BUY with an unchanged target price of US$115.00.

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q25	3Q26	QoQ	YoY	UOBKH	Var	Cons	Var
TOTAL REVENUE	108,277	112,358	108,341	(4%)	0%	115,822	(6.5%)	115,209	(6.0%)
Online marketing	53,348	57,637	59,819	4%	12%	54,982	8.8%		
Commission fee	54,929	54,721	48,522	(11%)	(12%)	60,840	(20.2%)		
Cost of services	(46,840)	(48,017)	(45,243)	6%	(3%)	(52,175)	(13.3%)		
Gross profit	61,436	64,341	63,098	(2%)	3%	63,647	(0.9%)	64,932	(2.8%)
Operating expenses	(36,410)	(36,577)	(31,934)	13%	(12%)	(41,464)	(23.0%)		
Non-GAAP OP	27,079	29,071	32,643	12%	21%	25,079	30.2%		
Non-GAAP OPM	25%	26%	30%	4.3 ppt	5.1 ppt	22%	8.5 ppt		
Net profit	29,328	27,182	29,541	9%	1%	24,164	22.3%		
Non-GAAP net profit	31,382	28,489	31,020	9%	(1%)	27,059	14.6%	27,287	13.7%
Non-GAAP diluted EPS (RMB)	21.08	19.33	21.04	9%	(0%)	18.25	15.3%		
GPM	56.7%	57.3%	58.2%	1.0 ppt	1.5 ppt	55.0%	3.3 ppt	56.4%	1.9 ppt
Non-GAAP NPM	29.0%	25.4%	28.6%	3.3 ppt	(0.4 ppt)	23.4%	5.3 ppt	23.7%	4.9 ppt

Source: PDD, UOB Kay Hian

Analysis

- **Online marketing revenue beat our estimate, while transaction services revenue fell short.** Online marketing services and other revenue grew 12.1% yoy to Rmb59.8b in 3Q26, accelerating from 3.5% yoy in 2Q26 and coming in 8.8% above our estimate, suggesting stronger-than-expected domestic monetisation. Transaction services revenue fell 11.7% yoy to Rmb48.5b, reversing from the 13.3% yoy growth in 2Q26 and coming in 20.2% below our estimate. The shortfall more than offset the online marketing beat, leaving group revenue broadly flat yoy and 6.5% below our estimate. Management said its global business continues to adapt to evolving trade and regulatory conditions while deepening supply chain investment.
- **Strong profit beat on cost discipline.** Gross margin expanded 1.5ppt yoy to 58.2% as cost of revenue fell 3.4% yoy while revenue was broadly flat. Non-GAAP operating profit rose 20.5% yoy to Rmb32.6b (vs 5% growth in 2Q26), 30.2% above our estimate, while non-GAAP operating margin expanded 5.1ppt yoy to 30.1%. The margin improvement was supported by a 16.6% yoy decline in sales and marketing expenses to Rmb25.3b. Non-GAAP net profit fell 1.2% yoy to Rmb31.0b as lower interest and investment income (Rmb5.4b vs Rmb8.6b in 3Q25) and higher income tax expenses (Rmb6.6b vs Rmb4.0b in 3Q25) offset the operating profit gains.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	393,836	431,846	457,575	511,115	558,263
EBITDA	226,712	257,698	242,007	298,213	330,364
Operating profit	225,997	257,089	240,518	297,109	329,053
Net profit (rep./act.)	230,015	264,068	239,890	291,109	321,497
Net profit (adj.)	126,501	120,359	119,205	133,742	155,570
EPS	8,551.8	8,104.8	7,995.6	8,935.6	10,353.3
PE	6.0	6.4	6.5	5.8	5.0
P/B	9.1	7.0	6.5	5.0	4.0
EV/EBITDA	2.3	2.1	2.2	1.8	1.6
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	58.4	61.1	52.4	57.0	57.6
Net debt/(cash) to equity	(39.3)	(43.3)	(45.5)	(79.1)	(84.4)
ROE	91.9	72.5	55.6	56.6	48.8
Consensus net profit	-	-	101,324.6	123,247.6	142,547.4
UOBKH/Consensus (x)	-	-	1.18	1.09	1.09

Source: PDD, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	US$77.45
Target Price	US$115.00
Upside	48.5%

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	PDD US
Shares issued (m)	1,423.4
Market cap (US$m)	110,242.1
Market cap (US$m)	110,242.1
3-mth avg daily t'over (US$m)	491.8

Price Performance (%)

52-week high/low				US$125.35/US$71.94
1mth	3mth	6mth	1yr	YTD
(4.8)	(14.1)	(20.4)	(35.2)	(31.7)

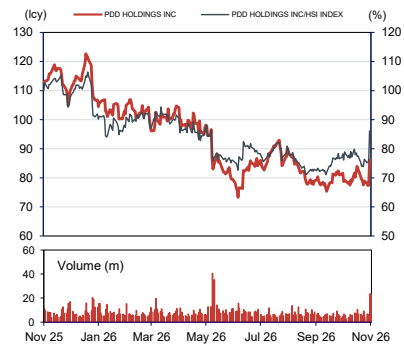
Major Shareholders (%)

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.

- **Transaction services revenue contracted.** Revenue fell 11.7% yoy to Rmb48.5b, reversing from the 13.3% growth in 2Q26 and coming in 20.2% below our estimate. This suggests pressure on Temu's monetisation, although PDD did not quantify Temu's contribution to the decline. Management said evolving trade and tax rules have made inventory planning and fulfilment more difficult for smaller merchants. In response, PDD is upgrading local fulfilment infrastructure and working with logistics partners to offer shared warehousing, shipping and returns services in major markets. This allows merchants to hold inventory closer to customers without having to build their own warehouses in each market.
- **Lower marketing spend supported group profitability.** Sales and marketing expenses fell 16.6% yoy to Rmb25.3b, contributing to a 5.1ppt yoy expansion in non-GAAP operating margin to 30.1%. Meanwhile, non-GAAP R&D expenses rose 24% yoy to Rmb4.6b, reflecting a shift in the expense mix. Management cautioned against extrapolating 3Q26 expense ratios, as quarterly spending varies with the rollout and payback of individual projects. PDD remains in a strategic investment phase and will assess whether proven fulfilment initiatives can be expanded to more regions reliably and at a reasonable cost.
- **Outlook.** Cash, cash equivalents and short-term investments rose to Rmb455.4b at end-Sep 26 from Rmb422.3b at end-25, providing capacity to fund continued investment. PDD is extending its Rmb100b merchant support programme into product development, manufacturing and fulfilment. Through first-party brand partnerships, PDD is taking a more active role in product design and quality control and helping manufacturers develop their own brands. In rural logistics, management said many agricultural and forestry tool merchants in areas covered by its free-shipping-to-villages programme saw order volumes rise by more than 30%.
- **We remain cautiously positive on PDD**. Online marketing revenue growth accelerated to 12.1% yoy from 3.5% in 3Q26, suggesting firmer domestic monetisation. Management said domestic competition remains intense as consumers can readily switch platforms based on price, quality and service. We will monitor whether PDD is able to sustain domestic advertising growth while funding its supply chain investments, and whether Temu's local fulfilment efforts are able to translate into more reliable delivery and better unit economics.

Valuation/Recommendation

- Maintain BUY with an unchanged target price of US$115.00, on the back of recovering core commerce advertising growth. Our target price implies 9x 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 6.2x 2027F PE against a 14% EPS three-year CAGR over 2027-30F.

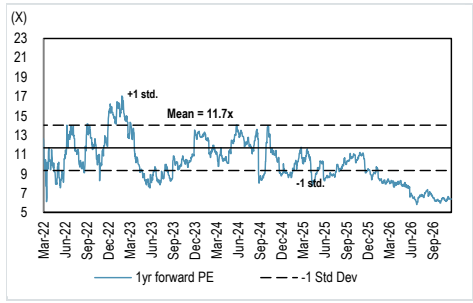
Earnings Revision/Risk

- We lower our 2026/2027 revenue estimates by 1.5%/1.1% respectively to reflect weaker-than-expected transaction services revenue, and raise our earnings estimates by 8%/10% to reflect stronger-than-expected operating profitability, driven by lower sales and marketing expenses.
- **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. 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	36,721	11,236	4x	12x	134,838	97
Temu	24,984		1x		14,679	11
Duoduo Grocery	8,311	710	1x	13x	9,228	7
Net cash					17,905	13
NAV					176,651	128
Less: holdco discount				10%		17,665
TP					158,986	115

Source: PDD, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	431,845.7	457,575.3	511,115.3	558,263.1
EBITDA	257,698.5	242,006.7	298,213.1	330,364.0
Deprec. & amort.	609.5	1,489.0	1,104.2	1,311.3
EBIT	257,089.0	240,517.7	297,108.9	329,052.7
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)	25,583.8	18,262.0	13,113.7	16,698.0
Pre-tax profit	285,792.7	261,899.5	313,342.4	348,870.5
Tax	(21,732.8)	(22,018.5)	(22,242.4)	(27,382.9)
Minorities	8.0	9.0	9.0	9.0
Net profit	264,067.9	239,890.0	291,109.0	321,496.7
Net profit (adj.)	120,359.3	119,204.8	133,742.1	155,569.9

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,306.0	4,752.0	2,506.7	2,880.3
Other LT assets	109,758.4	101,875.0	101,865.9	101,864.8
Cash/ST investment	182,731.4	206,192.0	461,794.6	623,831.1
Other current assets	336,248.5	350,588.0	243,524.3	245,122.3
Total assets	630,044.3	663,407.0	809,691.5	973,698.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	212,215.2	212,714.0	223,458.6	231,895.6
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	580,440.0	736,010.0
Minority interest	0.0	1.0	1.0	1.0
Total liabilities & equity	630,044.3	663,407.0	806,805.6	970,812.6

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	118,877.0	114,584.0	151,121.8	163,711.3
Profit fo the year	285,792.7	261,899.5	313,342.4	348,870.5
Tax	(21,732.8)	(22,018.5)	(22,242.4)	(27,382.9)
Deprec. & amort.	609.5	1,489.0	1,104.2	1,311.3
Working capital charges	0.0	0.0	0.0	0.0
Other operating cashflows	7,367.1	(6,100.7)	1,567.9	(7,877.6)
Investing	0.0	0.0	0.0	0.0
Capex (growth)	(153,159.5)	(120,685.3)	(142,650.2)	(151,210.1)
Investments	(43,423.2)	(1,205.4)	(1,533.3)	(1,674.8)
Proceeds from sale of assets	(1,145.1)	(1,205.4)	(1,533.3)	(1,674.8)
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)	70,226.4	113,378.6	149,588.5	162,036.5
Beginning cash & cash equivalent	130,352.2	198,827.5	312,206.1	461,794.6
Changes due to forex impact	(1,751.1)	0.0	0.0	0.0
Ending cash & cash equivalent	198,827.5	312,206.1	461,794.6	623,831.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	59.7	52.9	58.3	59.2
Pre-tax margin	66.2	57.2	61.3	62.5
Net margin	61.1	52.4	57.0	57.6
ROA	46.5	37.1	39.5	36.1
ROE	72.5	55.6	56.6	48.8
Growth				
Turnover	9.7	6.0	11.7	9.2
EBITDA	13.7	(6.1)	23.2	10.8
Pre-tax profit	14.2	(8.4)	19.6	11.3
Net profit	14.8	(9.2)	21.4	10.4
Net profit (adj.)	(4.9)	(1.0)	12.2	16.3
EPS	(5.2)	(1.3)	11.8	15.9
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)	(79.1)	(84.4)

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