

Pinduoduo Inc.

Expect domestic share gain and TEMU expansion to support solid growth in 2024

Reiterate Rating: BUY | PO: 182.00 USD | Price: 148.63 USD

FY23e to conclude with RMB60b non-GAAP net profit

We expect PDD to announce 4Q23 results in mid-late March. We expect total revs to grow 108% YoY to RMB82.7b, 5% ahead of consensus, considering a fast ramp-up of TEMU revs during the festival season and healthy parcel growth momentum in Dec (27% YoY indicating an accelerated 2-yr CAGR of 13.4% vs. 10.1%/9.7% in Oct/Nov). Domestic core marketplace revs are estimated to grow 71% YoY, driven by 29% growth in GMV and increased blended take-rate to 5.18% (vs. 3.91% one year ago). We forecast marketing revs to grow 46% YoY (or 14% QoQ) to RMB45.1b, assuming sequentially lower ad monetization as competition for merchants' budget was fiercer during the big promotion season. We forecast TEMU revs of RMB18b (22% of total revs), assuming its gross merchandise value (GMV) to exceed US\$7b in 4Q. On the margin side, we forecast gross margin of 57.3%, down from 61.0% in 3Q because of larger % of TEMU revs. Non-GAAP net profit is estimated to RMB17.6b, 6% higher than consensus while indicating a 21.2% margin. We expect TEMU related loss of RMB10-11b in 4Q, up from RMB8b in 3Q, assuming 50% QoQ growth in GMV partially offset by slightly improved UE (unit economics). FY23e non-GAAP net profit is estimated to RMB60b, vs. RMB40b of FY22e.

Strong momentum to continue fueled by dual-engines

Despite 2024's first week parcel volume only grew 4% YoY, slowing from double-digit in 4Q23, we expect PDD to maintain healthy domestic revs growth through further improvement in market share and monetization. We expect consumption downgrade to continue in 2024, benefiting PDD given its solid consumer mind share as a value for money platform and extensive supply of white label products. We also see a low YoY base of domestic marketplace monetization rate in 1H24, especially in 1Q, resulting in better visibility of domestic revs growth, vs. most eC peers' high uncertain outlook. We forecast TEMU to maintain robust growth in 2024, modeling its GMV and revs more than doubled to US\$38b and RMB98b respectively. TEMU related loss to total RMB31b, remaining in substantial loss while seeing steady improvement in UE. We forecast FY24e non-GAAP net profit up up 37% YoY to RMB82b (22.5% margin), 7% above consensus. With 7-17% increase in revs and 8-12% increase in non-GAAP net profit for FY24-25e, we raise PO to US\$182 (from US\$153). Reiterate Buy on co.'s continued domestic share gain, overseas expansion potential and better than peers 1H growth visibility.

| Estimates (Dec) (CNY) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|---------|--------|--------|--------|---------|
| Net Income (Adjusted - mn) | 12,543 | 39,256 | 59,042 | 81,585 | 129,121 |
| EPS | 8.78 | 27.26 | 40.30 | 54.68 | 84.83 |
| EPS Change (YoY) | NM | 210.4% | 47.8% | 35.7% | 55.1% |
| Dividend / Share | 0 | 0 | 0 | 0 | 0 |
| Free Cash Flow / Share | 20.35 | 37.86 | 57.55 | 76.38 | 91.17 |
| Valuation (Dec) | | | | | |
| P/E | 107.88x | 37.91x | 26.16x | 19.47x | 12.55x |
| EV / EBITDA* | 155.64x | 40.03x | 24.63x | 17.74x | 10.71x |
| Free Cash Flow Yield* | 1.80% | 3.38% | 5.51% | 7.50% | 9.14% |

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

12645716

Timestamp: 14 January 2024 03:10PM EST

14 January 2024

Equity

Key Changes

| (CNY) | Previous | Current |
|------------|------------|------------|
| Price Obj. | US\$153.00 | US\$182.00 |
| 2023E EPS | 40.63 | 40.30 |
| 2024E EPS | 50.49 | 54.68 |
| 2025E EPS | 75.63 | 84.83 |

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Stock Data

| | |
|-----------------------------|-----------------------|
| Price | 148.63 USD |
| Price Objective | 182.00 USD |
| Date Established | 14-Jan-2024 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 59.67 USD-152.99 USD |
| Mrkt Val / Shares Out (mn) | 197,468 USD / 1,328.6 |
| Average Daily Value (mn) | 1,047 USD |
| Free Float | 27.0% |
| BofA Ticker / Exchange | PDD / NAS |
| Bloomberg / Reuters | PDD US / PDD.OQ |
| ROE (2023E) | 40.1% |
| Net Dbt to Eqty (Dec-2022A) | -27.07% |

iQprofileSM Pinduoduo Inc.

| Key Income Statement Data (Dec) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|----------|----------|----------|-----------|-----------|
| (CNY Millions) | | | | | |
| Sales | 93,950 | 130,558 | 241,460 | 364,949 | 491,227 |
| Gross Profit | 62,232 | 99,095 | 149,521 | 207,540 | 283,086 |
| Sell General & Admin Expense | (46,342) | (58,309) | (85,783) | (119,232) | (141,619) |
| Operating Profit | 6,897 | 30,402 | 52,353 | 73,311 | 121,804 |
| Net Interest & Other Income | 2,559 | 6,017 | 9,351 | 10,598 | 14,409 |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 9,455 | 36,419 | 61,705 | 83,909 | 136,213 |
| Tax (expense) / Benefit | (1,934) | (4,726) | (11,114) | (14,293) | (23,203) |
| Net Income (Adjusted) | 12,543 | 39,256 | 59,042 | 81,585 | 129,121 |
| Average Fully Diluted Shares Outstanding | 1,428 | 1,440 | 1,465 | 1,492 | 1,522 |

Key Cash Flow Statement Data

| | | | | | |
|---|----------|----------|-----------|-----------|-----------|
| Net Income | 7,769 | 31,538 | 50,601 | 69,616 | 113,010 |
| Depreciation & Amortization | 1,495 | 2,224 | 684 | 323 | 193 |
| Change in Working Capital | 13,562 | 7,423 | 18,352 | 24,301 | 0 |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 5,957 | 7,322 | 8,441 | 11,969 | 16,111 |
| Cash Flow from Operations | 28,783 | 48,508 | 78,078 | 106,210 | 129,314 |
| Capital Expenditure | (3,287) | (636) | (123) | (63) | (63) |
| (Acquisition) / Disposal of Investments | (32,721) | (21,726) | 0 | 0 | 0 |
| Other Cash Inflow / (Outflow) | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Investing | (36,007) | (22,362) | (123) | (63) | (63) |
| Shares Issue / (Repurchase) | 0 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Financing | 0 | 0 | 0 | 0 | 0 |
| Free Cash Flow | 25,496 | 47,872 | 77,955 | 106,146 | 129,251 |
| Net Debt | 5,906 | (31,880) | (108,180) | (213,089) | (342,340) |
| Change in Net Debt | 7,370 | (26,246) | (77,955) | (106,146) | (129,251) |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|---------|---------|---------|---------|---------|
| Property, Plant & Equipment | 2,203 | 1,045 | 584 | 323 | 193 |
| Other Non-Current Assets | 18,097 | 19,457 | 19,357 | 19,357 | 19,357 |
| Trade Receivables | 674 | 588 | 621 | 647 | 647 |
| Cash & Equivalents | 6,427 | 34,326 | 110,626 | 215,535 | 344,786 |
| Other Current Assets | 153,809 | 181,704 | 185,612 | 188,960 | 188,960 |
| Total Assets | 181,210 | 237,120 | 316,800 | 424,823 | 553,944 |
| Long-Term Debt | 11,789 | 1,576 | 1,576 | 1,576 | 1,576 |
| Other Non-Current Liabilities | 32 | 13 | 13 | 13 | 13 |
| Short-Term Debt | NA | NA | NA | NA | NA |
| Other Current Liabilities | 93,730 | 116,889 | 137,528 | 163,966 | 163,966 |
| Total Liabilities | 106,095 | 119,349 | 139,988 | 166,426 | 166,426 |
| Total Equity | 75,115 | 117,771 | 176,813 | 258,397 | 387,518 |
| Total Equity & Liabilities | 181,210 | 237,120 | 316,800 | 424,823 | 553,944 |

iQmethodSM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 8.5% | 28.8% | 32.0% | 31.1% | 34.3% |
| Return On Equity | 18.5% | 40.7% | 40.1% | 37.5% | 40.0% |
| Operating Margin | 7.3% | 23.3% | 21.7% | 20.1% | 24.8% |
| EBITDA Margin | 8.9% | 25.0% | 22.0% | 20.2% | 24.8% |

iQmethodSM - Quality of Earnings*

| | | | | | |
|--------------------------|-------|--------|--------|--------|--------|
| Cash Realization Ratio | 2.3x | 1.2x | 1.3x | 1.3x | 1.0x |
| Asset Replacement Ratio | 2.2x | 0.3x | 0.2x | 0.2x | 0.3x |
| Tax Rate (Reported) | 20.4% | 13.0% | 18.0% | 17.0% | 17.0% |
| Net Debt-to-Equity Ratio | 7.9% | -27.1% | -61.2% | -82.5% | -88.3% |
| Interest Cover | NA | NA | NA | NA | NA |

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

PDD is a one of China's top e-commerce platform that provides buyers with a broad selection of cost-effective merchandise and a dynamic social shopping experience. Buyers are able to make team purchases on either PDD's platform directly or through social channels, such as Wexin and QQ. Leveraging social networks is an effective and efficient instrument to attract users and improve user engagement, and PDD accomplished 76bn total orders with 869mn active buyers in 2021.

Investment Rationale

PDD is the second-largest eCommerce platform in China by active buyers (or the third largest by GMV). We like PDD for its exposure to China's rising online shopping demand in low-tier cities, well-executed team purchase model leveraging social networks, and unique proposition in the "value-for-money" segment. We believe these differentiated factors have helped PDD to create an innovative, viral marketplace as a newcomer and to become defensive against competition from major eCommerce peers.

Stock Data

Price to Book Value

8.0x



Price objective basis & risk

Pinduoduo Inc. (PDD)

We use a multi-year DCF to capture the impact of both the company's near-term losses and longer-term profitability. Our US\$182 PO is based on assumptions of 1) a 14% discount rate (similar to peers, which are also volatile and hence have higher betas), 2) a terminal growth rate of 3%, and 3) non-GAAP net margin of 25-32% in FY23-30E.

Downside risks are monetization ability, reversal of consumption downgrade trend to upgrade, regulatory changes, potential brand and reputation damage, reduced support from Tencent, more intense competition with market leaders, and VIE (variable interest entity) structure, and investor sentiment on china macro.

Analyst Certification

I, Joyce Ju, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Internet, Media and Software Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|--------------------------------|-------------|------------------|---------------------|
| BUY | | | | |
| | Agora | API | API US | Daley Li, CFA |
| | AiHuiShou | RERE | RERE US | Joyce Ju |
| | Alibaba Group | BABA | BABA US | Joyce Ju |
| | Alibaba Group | BABAF | 9988 HK | Joyce Ju |
| | Alibaba Health | ALBHF | 241 HK | Miranda Zhuang, CFA |
| | Baidu.com | BIDU | BIDU US | Miranda Zhuang, CFA |
| | Baidu.com | BAIDF | 9888 HK | Miranda Zhuang, CFA |
| | Bilibili | BILI | BILI US | Lei Zhang |
| | Bilibili | BLBLF | 9626 HK | Lei Zhang |
| | CAR Group | CRSLF | CAR AU | Sriharsh Singh |
| | Chinasoft International | CFTLF | 354 HK | Daley Li, CFA |
| | Cloud Music | XWJF | 9899 HK | Lei Zhang |
| | Com2uS Corp | XOYAF | 078340 KS | Jeehoon Jeong, CFA |
| | DBAPPSecurity | XDBAF | 688023 CH | Daley Li, CFA |
| | Delhivery | XDVLF | DELHIVER IN | Sachin Salgaonkar |
| | Dingdong | DDL | DDL US | Joyce Ju |
| | East Money | XEQTF | 300059 CH | Michael Li |
| | Grab Holdings | GRAB | GRAB US | Sachin Salgaonkar |
| | Hello Group | MOMO | MOMO US | Lei Zhang |
| | Huntsun Technologies | XYTGF | 600570 CH | Daley Li, CFA |
| | HYBE | XBGOF | 352820 KS | Susie Lee |
| | iQIYI | IQ | IQ US | Lei Zhang |
| | JD Health | JDHIF | 6618 HK | Miranda Zhuang, CFA |
| | JD.com | JD | JD US | Joyce Ju |
| | JD.com | JDCMF | 9618 HK | Joyce Ju |
| | JYP Entertainment | ALNNF | 035900 KS | Susie Lee |
| | Kingdee International Software | KGDEF | 268 HK | Daley Li, CFA |
| | Kingsoft Corporation | KSFTF | 3888 HK | Daley Li, CFA |
| | Kuaishou | KUASF | 1024 HK | Lei Zhang |
| | Makemytrip Limited | MMYT | MMYT US | Sachin Salgaonkar |
| | Meituan | MPNGF | 3690 HK | Lei Zhang |
| | Naver Corporation | NHNCF | 035420 KS | Susie Lee |
| | NetEase | NETTF | 9999 HK | Lei Zhang |
| | NetEase, Inc | NTES | NTES US | Lei Zhang |
| | Nine Entertainment Company | NNMTF | NEC AU | Alice Lei, CFA |
| | Paytm | XUXBF | PAYTM IN | Sachin Salgaonkar |
| | Pinduoduo Inc. | PDD | PDD US | Joyce Ju |
| | Plan B Media PCL | XMKTF | PLANB TB | Thititthep Nophaket |
| | PT Bukalapak.com | BKLPF | BUKA IJ | Sachin Salgaonkar |

APR - Internet, Media and Software Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|-------------------------------|-------------|------------------|---------------------|
| | PVR-Inox Ltd | PVRLF | PVRINOX IN | Sachin Salgaonkar |
| | REA Group | RPGRF | REA AU | Sriharsh Singh |
| | Tencent Holdings | TCTZF | 700 HK | Miranda Zhuang, CFA |
| | Tencent Music | TME | TME US | Lei Zhang |
| | Tencent Music | XWFWF | 1698 HK | Lei Zhang |
| | Tongcheng Travel | TNGCF | 780 HK | Janet Yang |
| | Trip.com Group | TCOM | TCOM US | Joyce Ju |
| | Trip.com Group | TRPCF | 9961 HK | Joyce Ju |
| | TUHU Car | XTCRF | 9690 HK | Miranda Zhuang, CFA |
| | Venustech | XVCGF | 002439 CH | Daley Li, CFA |
| | Vipshop Holdings | VIPS | VIPS US | Joyce Ju |
| | Xero Limited | XROLF | XRO AU | Sriharsh Singh |
| | YG Entertainment | XYEIF | 122870 KS | Susie Lee |
| | Yonyou Network | XYNIF | 600588 CH | Daley Li, CFA |
| | YY | YY | YY US | Lei Zhang |
| | Zee Entertainment Enterprises | XZETF | Z IN | Sachin Salgaonkar |
| | Zomato Limited | XMWRF | ZOMATO IN | Sachin Salgaonkar |

NEUTRAL

| | | | | |
|--|----------------------------|-------|-------------|---------------------|
| | AfreecaTV | WNTHF | 067160 KS | Susie Lee |
| | Autohome | ATHM | ATHM US | Miranda Zhuang, CFA |
| | Autohome | XXYZF | 2518 HK | Miranda Zhuang, CFA |
| | Baозun | BZUN | BZUN US | Joyce Ju |
| | Coupang | CPNG | CPNG US | Susie Lee |
| | Glodon Company | XGCOF | 002410 CH | Daley Li, CFA |
| | GoTo Group | GTOFF | GOTO IJ | Sachin Salgaonkar |
| | Huya | HUYA | HUYA US | Lei Zhang |
| | Kakao Corp. | DAUCF | 035720 KS | Susie Lee |
| | KE Holdings | BEKE | BEKE US | Miranda Zhuang, CFA |
| | KE Holdings | XSQRF | 2423 HK | Miranda Zhuang, CFA |
| | Kingsoft Cloud | KC | KC US | Daley Li, CFA |
| | Kingsoft Cloud | KCLHF | 3896 HK | Daley Li, CFA |
| | Krafton | XKINF | 259960 KS | Susie Lee |
| | NCSOFT | NCSOF | 036570 KS | Susie Lee |
| | Nykaa | XQQGF | NYKAA IN | Sachin Salgaonkar |
| | PB Fintech | XPFXF | POLICYBZ IN | Sachin Salgaonkar |
| | PropertyGuru | PGRU | PGRU US | Sachin Salgaonkar |
| | Sea Limited | SE | SE US | Sachin Salgaonkar |
| | Seek Limited | SKLTF | SEK AU | Sriharsh Singh |
| | Seven West Media | WANHF | SWM AU | Alice Lei, CFA |
| | The ONE Enterprise | XUFCF | ONEE TB | Thititthep Nophaket |
| | VGI Public Company Limited | XZQHF | VGI TB | Thititthep Nophaket |
| | Weimob | WEMXF | 2013 HK | Daley Li, CFA |
| | WiseTech Global Limited | WTCHF | WTC AU | Ware Kuo |
| | XD Inc. | XDNCF | 2400 HK | Lei Zhang |

UNDERPERFORM

| | | | | |
|--|-----------------------------------|--------|-----------|---------------------|
| | Altium Limited | ALMFF | ALU AU | Ware Kuo |
| | Appen Ltd | APPEF | APX AU | Ware Kuo |
| | BEC World | XBJHF | BEC TB | Thititthep Nophaket |
| | CJ ENM | CJHOF | 035760 KS | Susie Lee |
| | Douyu | DOYU | DOYU US | Lei Zhang |
| | Indiamart InterMesh Limited | XEITF | INMART IN | Sachin Salgaonkar |
| | Info Edge | IFOEF | INFOE IN | Sachin Salgaonkar |
| | Kakao Games | XKKGF | 293490 KS | Susie Lee |
| | Kingsoft Office | XBKOF | 688111 CH | Daley Li, CFA |
| | Ming Yuan Cloud | XWTAF | 909 HK | Daley Li, CFA |
| | NavInfo | XWLHF | 002405 CH | Daley Li, CFA |
| | Netmarble | XLGHF | 251270 KS | Susie Lee |
| | Pearl Abyss Corp | XEPAF | 263750 KS | Susie Lee |
| | Ping An Healthcare and Technology | PANHF | 1833 HK | Miranda Zhuang, CFA |
| | Qi An Xin | XQTFD | 688561 CH | Daley Li, CFA |
| | Technology One Limited | THNOF | TNE AU | Ware Kuo |
| | ThunderSoft | XSTS F | 300496 CH | Daley Li, CFA |
| | Weibo Corporation | WB | WB US | Miranda Zhuang, CFA |
| | Weibo Corporation | WEIBF | 9898 HK | Miranda Zhuang, CFA |



APR - Internet, Media and Software Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|----------------|-------------|------------------|-----------|
| | Zip Co Limited | ZIZTF | ZIP AU | Ware Kuo |
| RVW | | | | |
| | Dada Nexus | DADA | DADA US | Lei Zhang |

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

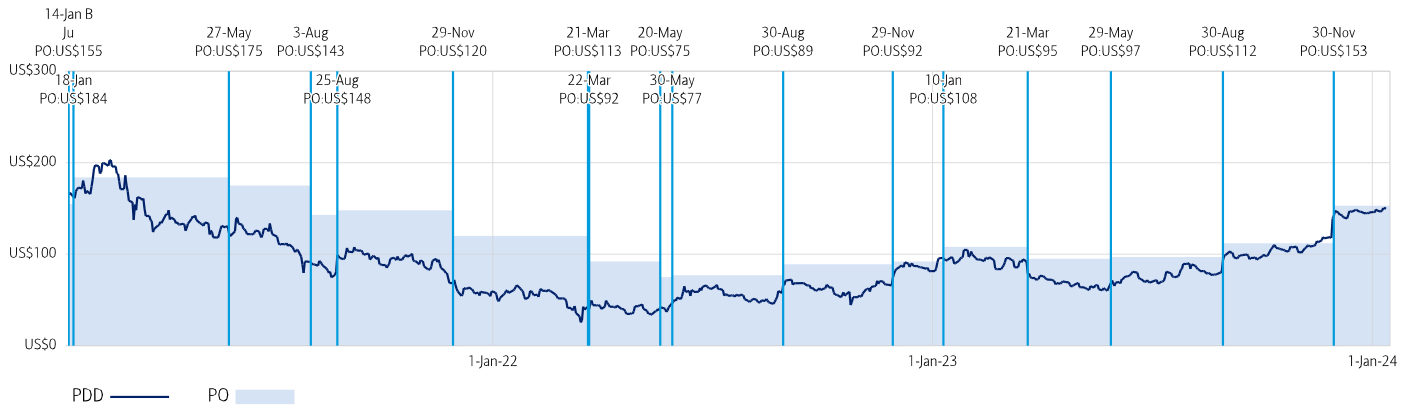
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Disclosures

Important Disclosures

Pinduoduo Inc. (PDD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Pinduoduo Inc.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Pinduoduo.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Pinduoduo.

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