

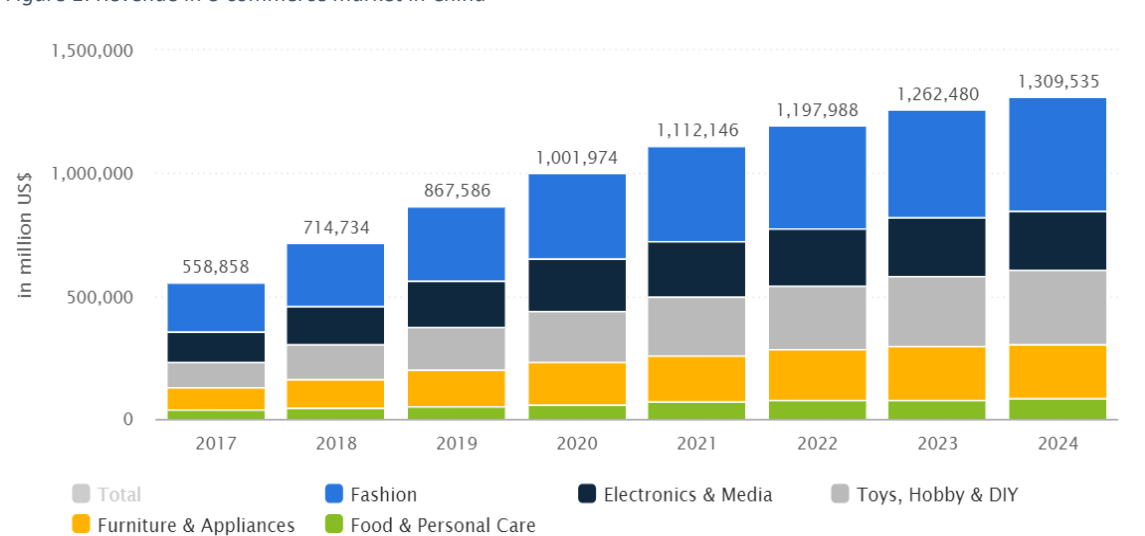
Case study of Pinduoduo

Name of Company	Pinduoduo Inc. (PDD)
Exchange	NASDAQ-GS
Industry	Business Services
Share Volume	9,884,115
Market Cap	41,728,622,475

E-commerce in China

With the rise of the internet and logistics, e-commerce have become one of the fastest growing industry in China. According to the statistics from *statista*, the revenue in the e-commerce market has reached \$1,001,974 million in 2020 and it is expected to achieve \$1,309,535 million by 2024. The user penetration is 61.8% in 2020 and it is expected to reach 70.3% by 2024. Besides, the impact of covid-19 should not be ignored. In May 2019, the government in China issued regulations to support the development of e-commerce, especially in rural area, by sharpening policy and encouraging bonus.

Figure 1: Revenue in e-commerce market in China



Source: Statista

Introduction

Founded in September 2015, Pinduoduo is a rapidly growing e-commerce platform providing users with a team purchase service with online shopping experience. Users can share information of products through social media and enjoy the comprehensive experience of online shopping and interacting with others. Whether to initiate or to join a team purchase, users can buy a full variety of products at lower prices.

Management

Zheng Huang, the founder, chairman of board of directors and CEO of Pinduoduo, is an experienced entrepreneur in technology and internet sectors in China. He worked for Google when started his career and then founded Xinyoudi Studio, whose main business is developing and operating online games, and Ouku.com operating a B2C platform. Other co-founder and management board are also expertise in technology and internet sectors.

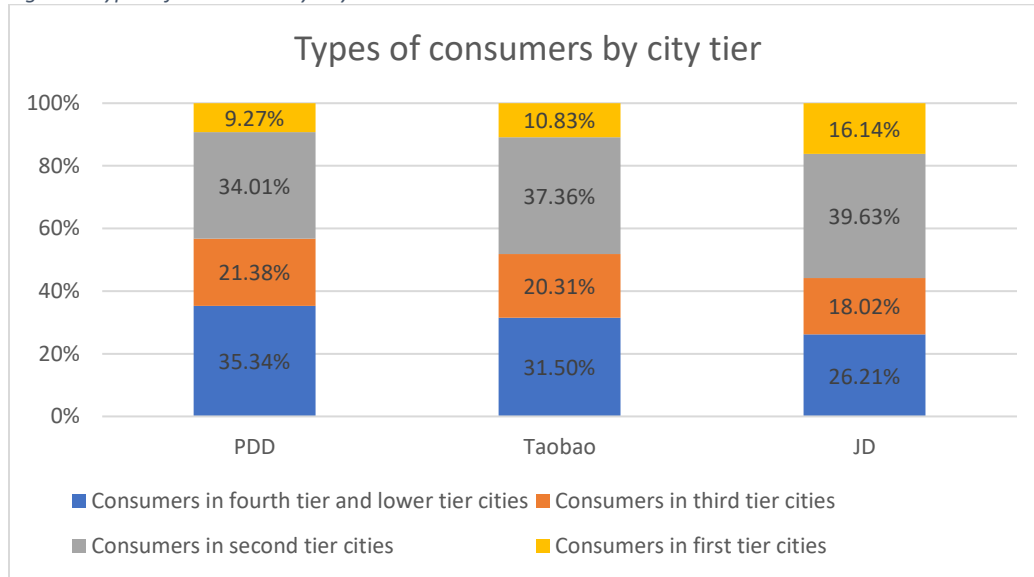
By Dec 2019, 1.34% of shares is held by all insider, 29.28% of shares held by institutions, 29.68% of float held by institutions. There are 370 institutions holds shares and top 3 holders are FMR, LLC with 24.83%, Baillie Gifford and Company with 19.81% and Hsbc Holdings Plc with 13.79%.

Strategy

Pinduoduo applies C2M model connecting customers with manufacturers directly, which reduces the cost of the middlemen and gain price advantages. Also, the group purchase strategy with lower prices would attracts more new users. Meanwhile, PDD has developed many kinds of interactive events, like daily login bonus, in its app to keep the user retention rate.

Unlike its main competitors, Tmall and JD, whose customers mainly locate in first and second tier cities, PDD focused on customers from third and lower tier cities who make up the majority of the population in China. The large demand in those cities enables PDD to expand and to gain shares from Tmall and JD.

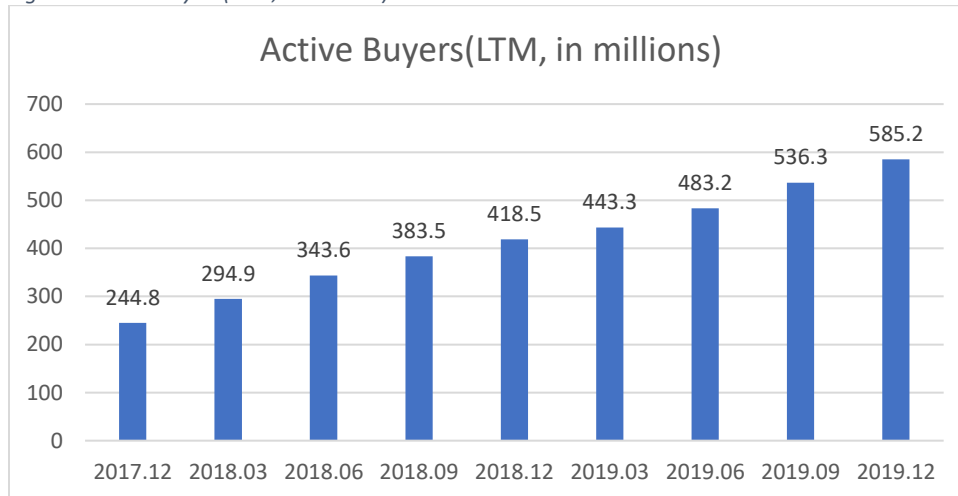
Figure 2 Types of consumers by city tier



Source: Jiguang, Changjiang Securities

The Q4 result of PDD shows a 40% YoY growth in the amount of active users by December 2019. The significant increase in active users also attracts clients who intend to advertise in PDD's platform.

Figure 3 Active Buyers(LTM, in millions)

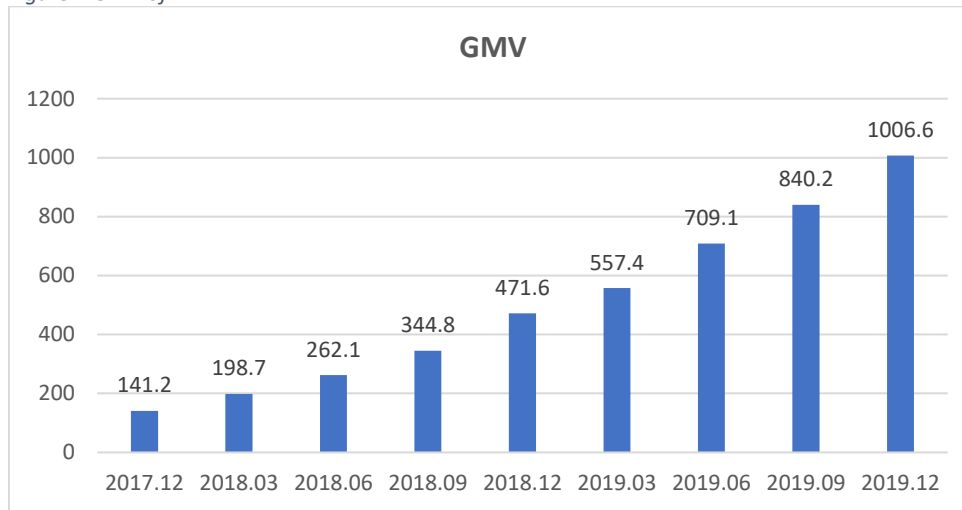


Source: PDD financial result

Financial analysis

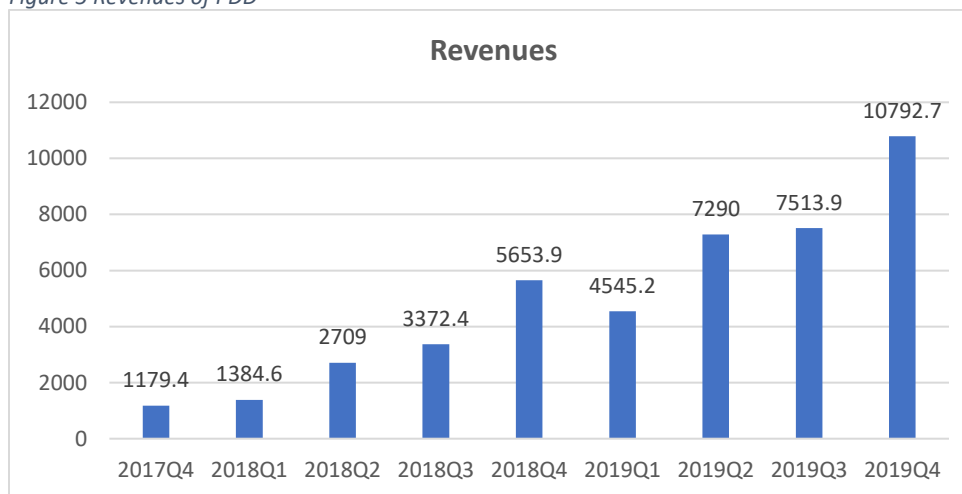
GMV(\$ in billion, TTM)	YoY(%)	EPS(\$)	Forward P/E
144.6	113%	-2.09	243.9
Price/Book(\$ MRQ)	BVPS(\$)	Current ratio(MRQ)	ROE
11.85	3.43	1.6	-28.27%

Figure 4 GMV of PDD



Source: PDD financial result

Figure 5 Revenues of PDD



Source: PDD financial result

There is a 91% YoY growth in revenues at 2019 quarter 4.

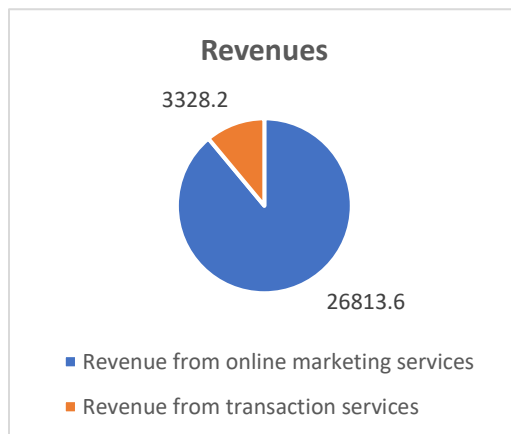


Figure 6 revenue composition

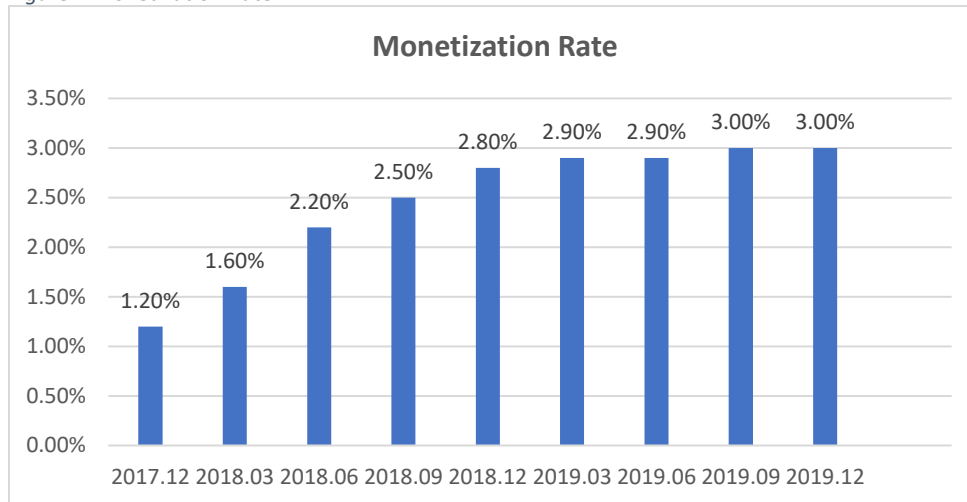
Source: PDD financial result

From the financial result of fiscal year 2019, the total revenue of the year was RMB 30,141.9 million, showing an YoY increase of 130% from 13,120.0 million in year 2018.

The majority of revenues comes from online marketing services.

The profit and loss statement shows a net loss of RMB 6,967,603(USD 1,000,834), showing a decrease of 31.8% from RMB 10,217,125.

Figure 7 Monetization Rate



Source: PDD financial result

The monetization rate kept increasing in 2018 and maintain a relative high value in 2019.

Potential risk

PDD faces a dilemma now. If it keeps offering bonus to users to keep the retention rate, the loss would continue happen. But if it stops, PDD would lose its advantages against its competitor.

Currently, the main revenue and profit attributes to advertising and promotion, which is not sustainable once PDD loses its active users.

Also, there still difficulties for PDD to control the quality of products. Though on August 22 2018, it announced an open letter to close 1128 stores and remove almost 4.3 million of products, the counterfeit goods remains concern among its users.

Due to the impact of covid-19, there may be a shrink of revenue in 2020 as small sized enterprises in PDD are possibly closed.