

Meituan-W (3690 HK)

Strategic shift to raise profitability

- Restructuring of community group purchases business to reduce segment losses
- Margin pressure in core local commerce amid soft macro and stiff competition, but narrowing losses in community group purchases should help mitigate some impacts
- Maintain **BUY** with a revised TP of HK \$120

Strategic shift in community group purchase. Meituan plans to restructure its community group purchase business by refocusing on quality growth instead of market share gains through measures including reducing price subsidies, and scaling back offline operation, among others. The goal is to significantly reduce new initiatives business losses. Strategically, the community group purchase market has become less favorable, and it might be wise for the company to devote more resources to other businesses. We expect new initiatives operating losses to narrow to RMB 4.6bn in 2025E vs. RMB 20.1bn in 2023. This could raise core net margin to 12.8% in 2025E vs. 8.4% in 2023.

Mitigating margin pressure in core local commerce. In our view, reduced losses of community group purchases could help mitigate the margin pressure on core local commerce business amid soft macro and stiff competition. We expect core local commerce revenue to expand at 18% CAGR in 2023-25E, supporting a 15% CAGR in overall revenue during the same period.

Maintain BUY with a revised DCF-based TP of HK \$120. Our TP implies 14.4x 2025E core P/E. In our view, the market may have priced in some of the margin improvement potential amid the recent rally. The extent and pace of further re-rating potential will depend on 1) overall market sentiment; 2) new initiatives profitability trend; and 3) ongoing share repurchase efforts.

Results and Valuation

FY end Dec 31	2022A	2023A	2024E	2025E
Revenue (RMB mn)	219,955	276,745	320,783	368,509
Chg (% YoY)	22.8	25.8	15.9	14.9
Net profit (RMB mn)	(6,685)	13,856	24,961	36,734
Chg (% YoY)	NA	NA	80.1	47.2
Core net profit (RMB mn)*	2,827	23,253	34,865	47,285
Chg (% YoY)	NA	722.5	49.9	35.6
EPS (RMB)	(1.1)	2.2	4.0	5.9
Chg (% YoY)	NA	NA	80.1	47.2
Core EPS (RMB)*	0.5	3.7	5.6	7.6
Chg (% YoY)	NA	712.4	49.9	35.6
P/S (x)	2.3	1.9	1.6	1.4
Core P/E (x)*	NA	22.4	14.9	11.0
ROAE (%)	(5.3)	9.9	15.0	18.2
ROAA (%)	(2.8)	5.2	8.1	10.7

*Excl. share-based compensation, amortization, impairment, etc.

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 27, 2024

Rating: BUY

TP: HK\$ 120

Analyst : Steve Chow

Tel: (852) 2147 8809

stevechow@abci.com.hk

Share price (HK\$)	91.2
Est. share price return	31.6%
Est. dividend yield	NA
Est. total return	31.6%
Previous Rating & TP	BUY/HK\$110
Previous Report Date	Mar 7, 2024

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	150.0/61.1
Issued shares (mn)	6,234
of which	
Listed B shares (mm)	5,634
Unlisted shares (mm)	600
B share market cap (HK\$ mn)	513,821
Avg daily turnover (HK\$ mn)	3,836
Major shareholder(s)	Voting right
Wang Xing	41.8%

Source(s): Bloomberg, Company, ABCI Securities

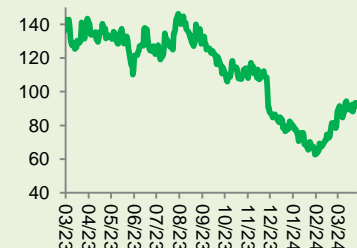
Share Performance (%)

	Absolute	Relative*
1-mth	11.8	13.8
3-mth	16.6	17.6
6-mth	-20.5	-13.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Financial Outlook

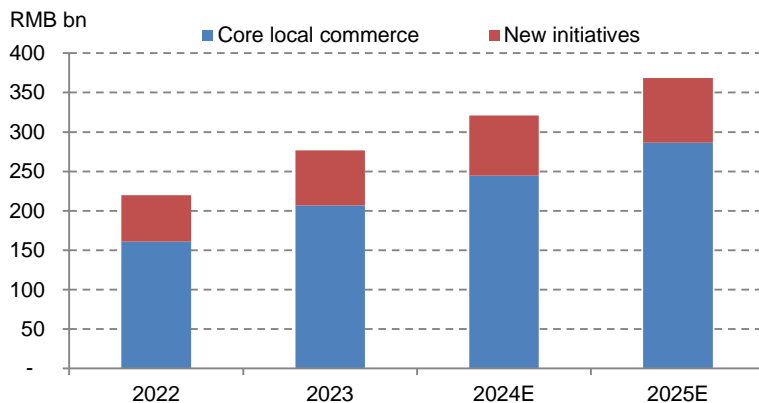
We expect revenue to grow at 15% CAGR in 2023-25E.

Core local commerce: We expect core commerce revenue (food delivery, Meituan Instashopping, in-store/hotel/travel, etc.) to grow at 18% CAGR in 2023-25E due to (1) the less favorable comparison base for Meituan Instashopping and hotel/travel and (2) weaker demand on food delivery amid a moderating economy. For example, demand for food delivery in the workplace could be affected. However, value-for-money offerings like "Pin Hao Fan(拼好飯)" and improved multi-media content production capabilities may help reduce the negative impact.

For the sub-segments, we project a mid-teens food delivery revenue CAGR in 2023-25E, while Meituan Instashopping and in-store/hotel/travel revenue CAGR will be in the low-20s.

New initiatives: We anticipate segment revenue will grow at 8% CAGR between 2023–25E. We believe Meituan Select's growth will be flatter as the company refocuses on quality growth rather than market share gains through measures such as cutting price subsidies and scaling back offline operations.

Exhibit 1: Revenue trend



Source(s): Company, ABCI Securities estimates

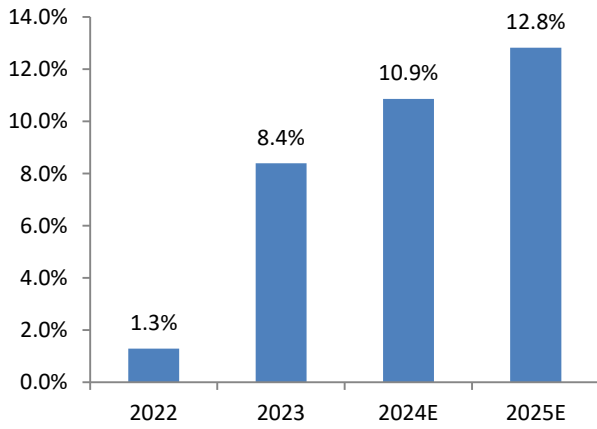
Regarding segment profitability, we expect operating margin of core local commerce to moderate to 16.4% in 2025E due to rising competition from short-video platforms and increased customer incentives, although increased labor supply for delivery rider would help counteract the impact on margins. We factor in a low-teens operating margin for food delivery and c.30% operating margins for in-store/hotel/travel in 2024E-25E.

We expect new initiatives to continue to reduce operating losses on cost control. Operating losses of new initiatives would narrow to RMB 4.6bn in 2025E.

We estimate the core net margin to increase to 12.8% in 2025E.

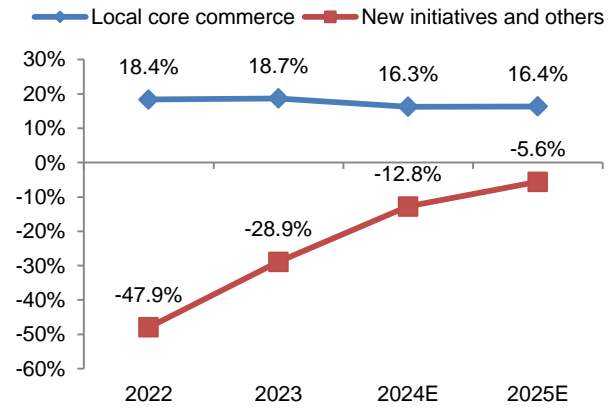


Exhibit 2: Core net margin



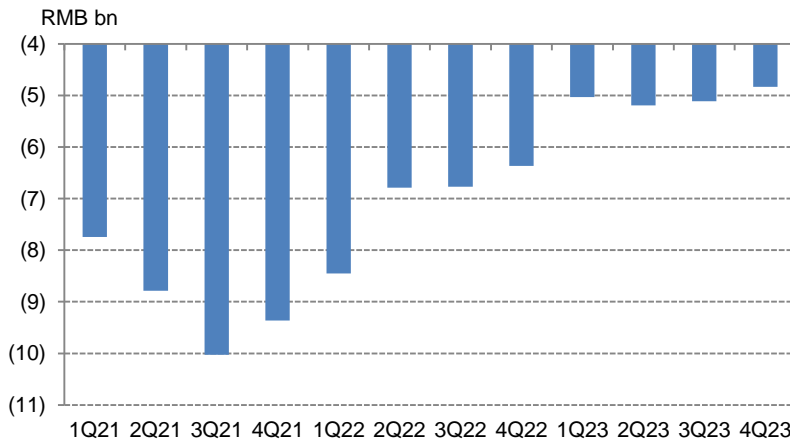
Source(s): Company, ABCI Securities estimates

Exhibit 3: Segment operating profit margin



Source(s): Company, ABCI Securities estimates

Exhibit 4: Operating losses – New initiatives



Source(s): Company, ABCI Securities

Exhibit 5: Financial forecast changes

	2024E			2025E			Comment
	old	new	Diff	old	new	Diff	
Revenues	318,521	320,783	0.7%	368,557	368,509	0.0%	Expect new initiative losses to reduce more than previously expected
Core profit	26,827	34,865	30.0%	35,039	47,285	35.0%	

Source(s): ABCI Securities estimates

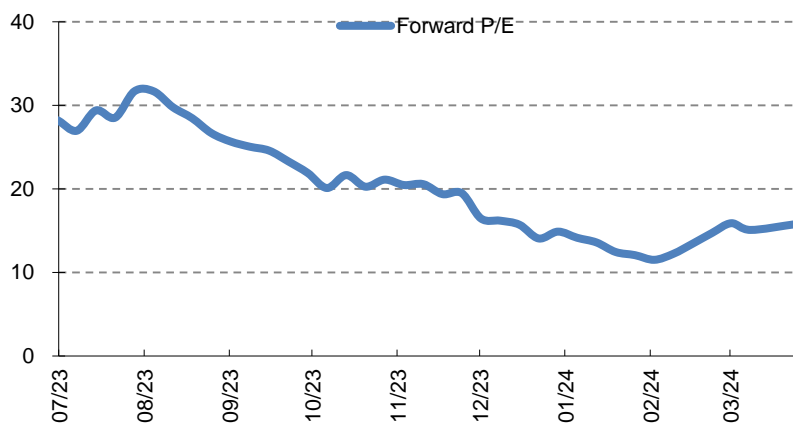


Valuation and TP

We raise our DCF-based TP to HK\$ 120 to reflect the improving margin outlook arising from the restructuring of new initiatives. Our TP implies 14.4x 2025E core P/E.

The counter has experienced a rally recently, and we believe the market might have priced in some margin improvement potential. Nonetheless, the counter's present valuation at a low-teens multiple of 2025E core P/E is still not excessive, in our view. We believe the extent and pace of further re-rating potential will depend on 1) overall market sentiment; 2) future quarterly new initiatives profitability; 3) ongoing share repurchase efforts.

Exhibit 6: Forward core P/E



Source(s): Bloomberg, ABCI Securities

Exhibit 7: TP changes (HK\$ per share)

Old	New	Remark
110	120	DCF with revised financial forecast, 16% WACC (unchanged), and 3% terminal growth rate (unchanged)

Source(s): ABCI Securities estimates



Company profile

<p>Business</p> <ul style="list-style-type: none"> • Largest local service platform in China; Core local commerce (on-demand delivery and in-store/hotel/travel) revenue size about 3x vs. Alibaba's Ele.me in 2022 • Business segment - Core local commerce mainly includes the Food delivery and In-store, hotel & travel segments, Meituan Instashopping (美团闪购), alternative accommodations and transportation ticketing; New initiatives mainly includes Meituan Select (美团优选), Meituan Grocery (美团买菜), B2B food distribution (快驴), ridesharing, and other new initiatives • 678mn annual transacting users and 9.3mn active merchants at end-2022 • Platform-based business model that does not bear inventories. Its on-demand delivery network is co-operated with delivery partners who are responsible for recruiting riders and other day-to-day management • Actively expanding into community group purchase and grocery in recent years • In-store segment faces rising competition from short video platforms
<p>Financials</p> <ul style="list-style-type: none"> • Core local commerce accounted for 68% of revenue in 2023, while new initiatives accounted for 32%. • Core local commerce is the profit contributor with an operating margin at the mid-teens level in recent quarters • New initiatives are still making losses, but their operating losses have narrowed in recent quarters. • Sales and marketing expenses are the largest cost item due to price subsidies and incentives for consumers • The company has achieved positive core net profit since 2Q22 • Overall strong liquidity position with RMB 33bn cash and RMB 111bn short-term treasury investment against RMB 54bn debts at Dec 2023 • The company raised USD10bn via share placement and convertible bonds in Apr 2021 • Meituan holds about 15.1% stake in Li Auto
<p>Management and shareholder</p> <ul style="list-style-type: none"> • Wang Xing currently hold ~41.8% of the voting right of the company • Wang Xing is also a major investor of Li Auto with a 21.79% stake • Co-founder Wang Huiwen retired from management role at Meituan in 2020. He further resigned from his non-executive director role in June 2023 • Divestment risk from strategic investors
<p>Shareholders' return</p> <ul style="list-style-type: none"> • The company plans to share repurchase of up to US\$ 1bn to enhance shareholders' return
<p>Corporate governance/information disclosure</p> <ul style="list-style-type: none"> • RMB3.4bn in antitrust fine in 2021 • The company acquired Mobike, a bike-sharing platform, for US\$ 2.7bn in Apr 2018 but decided to book RMB 1.7bn impairment related to bike-sharing/Mobike in Mar 2019 • The company acquired AI start-up Light Year founded by Meituan's co-founder and ex-director Wang Huiwen for US\$ 281mn in Jun 2023 • Less disclosure on operational and financial metrics such as GTV, food delivery, and in-store/hotel/travel segment revenue, etc. in recent years • Various ESG initiatives in recent years



Segment profile: Local service

Food delivery

- Meituan and Ele.me are the two major players in this segment. Based on our estimates, **Meituan's food delivery market share at ~60% is roughly twice of Ele.me**. Meituan has been able to maintain its leading market position despite Douyin's entry attempts
- The requirement of nationwide on-demand delivery network and short delivery time presents a major entry barrier, in our view. Nonetheless, Douyin is addressing the barrier by partnering with third-party delivery platforms such as Ele.me and Dada
- Regulators are requesting food delivery platforms to **take up the social insurances payment of delivery riders**

On-demand delivery

- **Business model:** Platforms with no inventories. Local on-demand delivery networks connect local retailers such as supermarkets/grocery stores with consumers. Delivery time is usually within hours
- In contrast with the community group purchase model, which targets price-sensitive consumers, this segment **targets those willing to pay for convenience**
- **Meituan, Dada, and Ele.me are major players.** Food delivery platforms such as Meituan and Ele.me are leveraging their existing delivery network for this segment
- Popular product categories include FMCG products and fresh products
- The segment is still in the early stage of development with **low penetration. Most players are still in losses**
- On-demand delivery enjoys a **more supportive regulatory environment than community group purchase** since the former helps SMEs extend their geographical coverage, whereas the community group purchase business usually takes market shares away from SMEs

Community group purchase

- **Community group purchase** (pre-order via community leader and next-day delivery) is a popular business model in the local service segment as local residents can enjoy low prices via grouping orders with neighboring residents. Community group purchase is particularly popular in lower-tier cities. Major players include Pinduoduo, Meituan, and Alibaba
- Major community group purchase platforms generally provided substantial **user subsidies** to maintain price advantages and attract customers in the initial stage of development. The situation has changed recently due to **tightened regulatory control over price competition** and platforms' cost-control initiatives. As a result, platforms' profitability has generally improved in recent quarters. Less aggressive industry subsidies, however, could reduce the price advantages of community group purchases over the traditional grocery store/wet market
- The food and grocery e-commerce space is consolidating due to intensified competition. For example, Missfresh (MF US) and Dingdong Maicai (DDL US) have significantly scaled down their businesses in recent quarters. While Missfresh and Dingdong Maicai do not follow the community group purchase model, they are essentially competing with community group purchase platforms in the food and grocery e-commerce space
- On the macro front, there was a surging demand for food and grocery e-commerce during the pandemic due to lockdowns, which benefited the community group purchase platforms immensely. However, **After the epidemic, consumer demand for food and grocery e-commerce has normalized**



In-store

- In contrast to the above "To-home" segments (food delivery/on-demand delivery/community group purchase), in-store business directs online traffic to offline stores (To-store) via group purchase deals, store review articles, short videos, etc. Overall, an increasing number of offline retailers are developing online marketing channels to support growth in the in-store segment
- Short-video and live-streaming platforms, including Douyin, are capitalizing on their traffic in the in-store segment by providing online marketing channels to retailers. Competition in the in-store segment has been increasing as a result.
- This segment has a lower entry barrier than food delivery because an on-demand delivery network is not required. Since pricing and customer incentives are the major competing criteria, margin pressure on local service platforms will increase
- By our broad estimates, Douyin's in-store GMV size is 30-50% of that of Meituan's



Financial Forecast

Consolidated income statement (FY22A-FY25E)

FY Ended Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E
Total revenue	219,955	276,745	320,783	368,509
Cost of sales	(158,202)	(179,554)	(212,359)	(245,058)
Gross profit	61,753	97,191	108,425	123,450
Other gains/losses	3,152	6,549	4,500	4,500
Selling & marketing expenses	(39,745)	(58,617)	(54,533)	(55,276)
R&D expenses	(20,740)	(21,201)	(22,455)	(23,953)
General & admin expenses	(9,772)	(9,372)	(9,303)	(9,950)
Impairment	(469)	(1,135)	(500)	(500)
Operating Profits	(5,820)	13,415	26,134	38,271
Finance income, net	(971)	(606)	(500)	(500)
Share of gains of investments	36	1,213	100	100
Profit before tax	(6,755)	14,022	25,734	37,871
Tax	70	(165)	(772)	(1,136)
Profit after tax	(6,685)	13,857	24,962	36,735
Minority interests	0	1	1	1
Profit attributable to shareholders	(6,685)	13,856	24,961	36,734
Share-based compensation	8,743	8,383	9,303	9,950
Amortization and impairment	471	246	600	600
Adjustments on disposals/revaluation	193	12	0	0
Other adjustments	105	756	1	1
Core net profit	2,827	23,253	34,865	47,285
Growth				
Total revenue (%)	22.8	25.8	15.9	14.9
Gross Profits (%)	45.4	57.4	11.6	13.9
Operating Profits (%)	NA	NA	94.8	46.4
Net profit (%)	NA	NA	80.1	47.2
Core profit (%)	NA	722.5	49.9	35.6
Operating performance				
Operating margin (%)	(2.6)	4.8	8.1	10.4
Net margin (%)	(3.0)	5.0	7.8	10.0
Core net margin (%)	1.3	8.4	10.9	12.8
ROAE (%)	(5.3)	9.9	15.0	18.2
ROAA (%)	(2.8)	5.2	8.1	10.7

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY22A-FY25E)

As of Dec 31 (RMB mn)	FY22A	FY23A	FY24E	FY25E
Fixed assets	22,201	25,978	26,278	26,578
Intangible assets	30,643	30,398	30,898	31,398
Investment in associates and JV	23,187	27,008	32,008	37,008
Financial assets	18,904	20,604	20,604	20,604
Other non-current assets	6,400	5,926	5,926	5,926
Total non-current assets	101,335	109,913	115,713	121,513
Cash & equivalents	20,159	33,340	50,632	81,755
Restricted cash	14,606	19,373	19,373	19,373
Account receivables	2,053	2,743	3,515	4,038
Deposit, prepayments and other assets	13,293	14,535	14,535	14,535
Inventories	1,163	1,305	1,968	2,261
Short term investment	91,873	111,821	116,821	121,821
Total current assets	143,146	183,116	206,845	243,783
Total assets	244,481	293,029	322,558	365,296
Accounts payable	17,379	22,981	27,245	31,298
Borrowings	17,562	19,322	19,322	19,322
Deferred revenue	5,053	5,598	5,598	5,598
Other current liabilities	36,435	52,974	52,974	52,974
Total current liabilities	76,430	100,874	105,138	109,191
Borrowings	35,156	35,221	31,221	28,221
Other non-current liabilities	4,189	4,978	4,978	4,978
Total non-current liabilities	39,345	40,199	36,199	33,199
Total liabilities	115,774	141,073	141,337	142,390
Net current assets	66,716	82,242	101,707	134,592
Equity attributable to shareholders	128,762	152,013	181,277	222,961
Non-controlling interests	(56)	(57)	(56)	(55)
Total equity	128,706	151,956	181,221	222,906

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates

Consolidated cash flows statement (FY22A-FY25E)

As of Dec 31 (RMB mn)	FY22A	FY23E	FY24E	FY25E
PBT	(6,755)	14,022	25,734	37,871
Depreciation and amortization	9,730	9,500	9,700	9,700
Other operating cash flow	9,249	5,002	8,531	8,814
Change in working capital	(813)	11,998	2,828	3,238
Operating cash flow	11,411	40,522	46,793	59,622
Acquisition of fixed asset	(5,731)	(6,000)	(10,000)	(10,000)
Purchase of investment	(7,782)	(18,000)	(10,000)	(10,000)
Other investment cash flow	(1,201)	(664)	(500)	(500)
Investing cash flow	(14,714)	(24,664)	(20,500)	(20,500)
Financing cash flow	(9,990)	(2,781)	(9,000)	(8,000)
Net cash flows	(13,292)	13,077	17,293	31,122

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates



Risk factors

Market competition

The ecommerce industry is competitive, with the rivals competing closely with each other on commission rates, promotion discounts, brand advertising, and technological investment, among others.

Slowdown in ecommerce consumption

As the industry is dependent on consumer spending, any significant slowdown of consumption in China would hamper performance. In the long term, we believe consumption growth in domestic market would converge with income growth, which is usually in line with GDP growth.

Non-GAAP financials

Ecommerce platforms generally disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation and other non-core items in the former.

Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as references.

Disclosures

Analyst Certification

The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (7%)
Hold	- Market return rate (-7%) \leq Stock return rate $<$ Market return rate (+7%)
Sell	Stock return $<$ - Market return (-7%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2024 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2147 8863