

# Meituan-W (3690 HK)

## Resilient demand on staples

- Resilient demand on staples is supporting Meituan's food delivery business and new initiatives, which partially offset the lackluster momentum in hotel/travel businesses
- Narrowing losses of new initiatives thanks to cost control and improved operation
- Improving profitability to mitigate divestment risk from strategic investor

**Resilient demand on staples.** The ecommerce market has been recovering since June 2022, with sales of consumer staples, such as food and groceries, outperforming the discretionary. Meituan's food delivery and various new initiatives, including Meituan Instashopping, Meituan Select, and Meituan Grocery, mainly cover staple products and are currently benefiting from the industry trend. Near-term business outlook for hotel/travel businesses, however, is still soft.

**Recovery underway.** In 2Q22, core local commerce revenue grew 9% YoY, driven by 7.6% YoY order growth in food delivery and Meituan Instashopping businesses. Food delivery volume was impacted by COVID in Apr/May but recovered in June. The in-store, hotel & travel business recovered slightly in June as COVID calmed. New initiative revenue growth remained solid at 41% YoY during the quarter on increasing demand of groceries and daily necessities products.

**Improving profitability.** Operating losses of the new initiatives narrowed to RMB 6.8bn in 2Q22 vs. RMB8.4bn in 1Q22 thanks to cost control and economies of scales. Further room for cost tightening is possible though management would need to balance growth with profitability. Driven by improving profitability of the new initiatives, we expect a 2023E core net profit of RMB 10.8bn vs. 2022E core net losses of RMB 2.7bn.

**Maintain BUY.** We maintain **BUY** with a DCF-based TP of HK\$ 240 given the resilient demand of consumer staples. Narrowing loss in new businesses is encouraging, and improving profitability may mitigate divestment risk by Tencent, in our view.

### Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	114,794	179,128	219,326	278,926
Chg (% YoY)	17.7	56.0	22.4	27.2
Net profit (RMB mn)	4,708	(23,539)	(11,650)	2,238
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)*	3,121	(15,572)	(2,708)	10,809
Chg (% YoY)	(33.0)	NA	NA	NA
EPS (RMB)	0.8	(3.9)	(1.9)	0.4
Chg (% YoY)	107.5	NA	NA	NA
Core EPS (RMB)*	0.5	(2.6)	(0.4)	1.8
Chg (% YoY)	(33.9)	NA	NA	NA
P/S (x)	7.8	5.2	4.3	3.4
Core P/E (x)*	287.8	NA	NA	87.2
ROAE (%)	5.0	(21.1)	(9.5)	1.8
ROAA (%)	3.2	(11.6)	(4.7)	0.8

CNY/HKD = 1.13

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

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Sep 5, 2022  
 Rating: BUY  
 TP: HK\$ 240

Analyst : Steve Chow  
 Tel: (852) 2147 8809  
 stevechow@abci.com.hk

Share price (HK\$)	173.6
Est. share price return	38.2%
Est. dividend yield	NA
Est. total return	38.2%
Previous Rating & TP	BUY/HK\$240
Previous Report Date	June 10, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	298.0/103.5
Issued shares (mn)	6,187
of which	
Listed B shares (mm)	5,509
Unlisted shares (mm)	678
B share market cap (HK\$ mn)	956,362
Avg daily turnover (HK\$ mn)	5,411
<b>Major shareholder(s)</b>	<b>Voting right</b>
Wang Xing	42.0%

Source(s): Bloomberg, Company, ABCI Securities

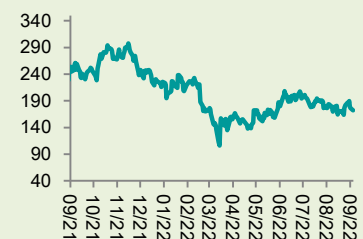
### Share Performance (%)

	Absolute	Relative*
1-mth	(6.2)	(1.2)
3-mth	-4.4	4.5
6-mth	4.5	16.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



## Recovery underway

In 2Q22, core local commerce revenue, which mainly consists of food delivery, In-store/hotel/travel, and Meituan Instashopping businesses, grew 9% YoY on the 7.6% YoY order growth in food delivery and Meituan Instashopping businesses. Food delivery volume was impacted by COVID in Apr/May but recovered in June. Meanwhile, Meituan Instashopping benefited from restocking demand of groceries and daily necessities. The in-store, hotel & travel business was heavily impacted by COVID during the quarter but began to recover in June. Operating margin of local core commerce was 22.5% in 2Q22 vs. 17.6% in 2Q21.

Revenue growth of new initiatives remained solid at 41% YoY as Meituan Select and Meituan Grocery also benefited from increasing demand of consumer staples. Operating losses of new initiatives narrowed to RMB 6.8bn during the quarter vs. RMB 8.7bn in 2Q21 thanks to cost control and operational improvement. Operating margin of the segment was -48.0% vs. -87.3% in 2Q21.

In terms of cost structure, selling and marketing expenses dropped 17.2% YoY, indicating a more prudent approach in user acquisition. As a result, core net margin improved to 4.0% vs. -5.1% in 2Q21.

In 2Q22, revenue rose 16% YoY to RMB 50.9bn. Core net profit was RMB2.0bn – a big jump from the RMB 2.2bn core net losses in 2Q21.

Online sales of consumer staples, such as food and groceries, outperformed the discretionary in recent months. Online sales of food product and groceries product increased 15.7% YoY and 5.0% YoY respectively in 7M22, higher than the 3.4% YoY online sales growth of apparel product during the same period, according to NBS. Meituan's food delivery and various new initiatives, including Meituan Instashopping, Meituan Select, and Meituan Grocery, mainly cover staple products and are currently benefiting from the industry trend.

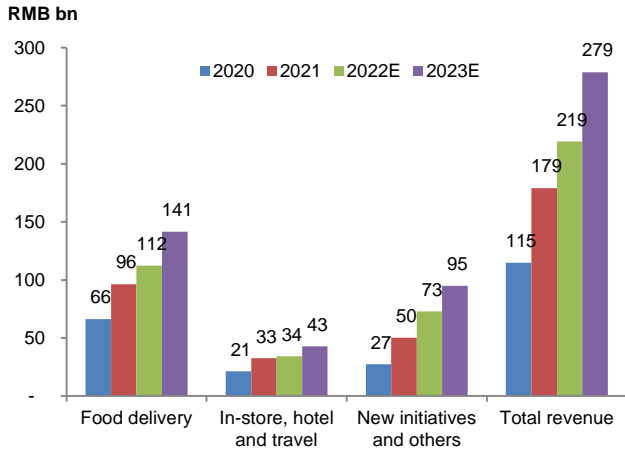
## Financial outlook

Overall, we expect revenue growth to moderate to 22% YoY in 2022E vs. 56% in 2021 due to COVID resurgence and soft macro environment in 2022 before accelerating to 27% YoY in 2023E, implying a 25% CAGR in 2021-23E.

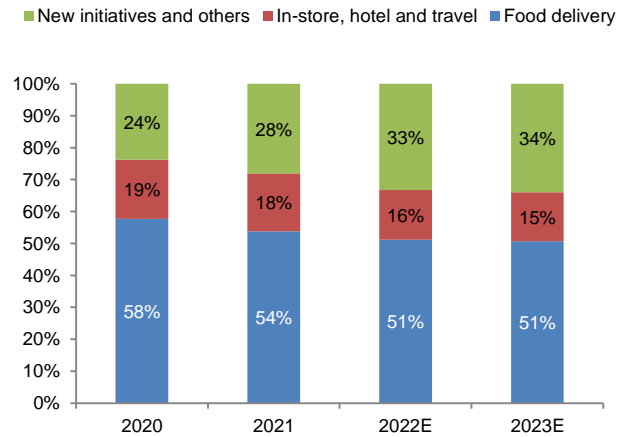
**Food delivery:** We estimate revenue would expand at 21% CAGR in 2021-23E, driven by 15% CAGR in annual transacting user and 17% CAGR in food delivery transaction. We expect the recovery pace to extend to 2H22 and beyond.

**In-store/hotel/travel:** Compared to the food delivery segment, the in-store/hotel/travel segment will continue to suffer in the near term as demand for hotel and travel will take longer to resume, in our view. As a result, we expect 2021-23E revenue CAGR to be 15%.

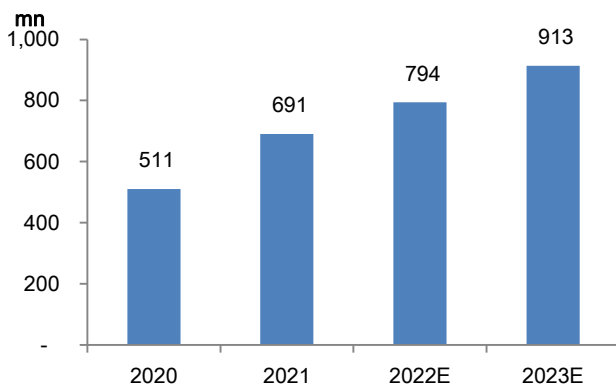
**New initiatives and others:** We estimate a 2021-23E revenue CAGR of 37% for the segment on increasing demand of food and grocery products since consumers are keen to stock up on staples for potential lockdowns. In addition, competition in emerging businesses, such as community group purchase and fresh food, has dwindled as smaller platforms streamline operation, benefiting established players such as Meituan.

**Exhibit 1: Revenue trend**


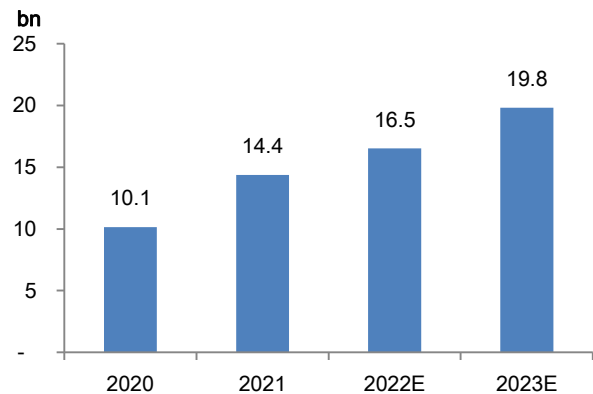
Source(s): Company, ABCI Securities estimates

**Exhibit 2: Revenue mix**


Source(s): Company, ABCI Securities estimates

**Exhibit 3: Annual transacting users**


Source(s): Company, ABCI Securities estimates

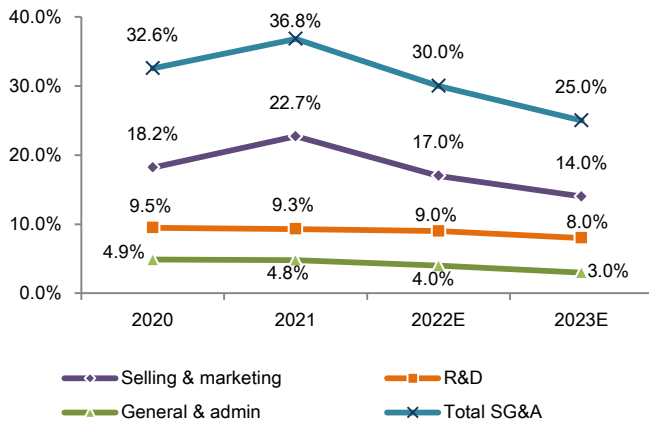
**Exhibit 4: Number of food delivery transactions**


Source(s): Company, ABCI Securities estimates

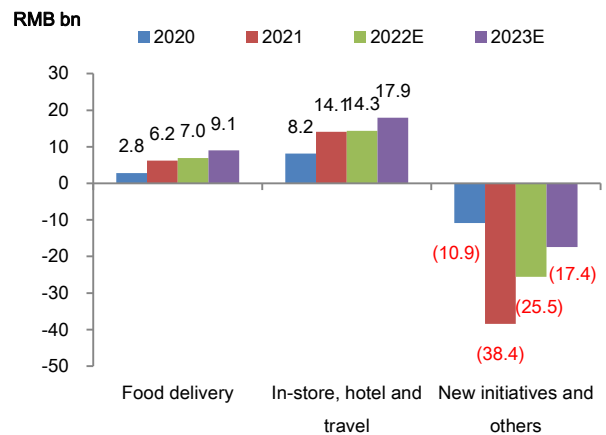
In terms of operating cost, we expect SG&A/revenue ratio to trend down to 25.0% in 2023E from 36.8% in 2021 on economies of scale and cost control, especially in the new initiatives and others segment. In particular, we expect selling and marketing expenses/revenue ratio to fall from 22.7% in 2021 to 14.0% in 2023E since the Group has acquired a certain level of consumer loyalty and fewer subsidies will be needed.

Profitability of new initiatives and others segment is the major swing factor of profit outlook. We expect segmental losses to narrow to RMB 17.4bn by 2023E from RMB 38.4bn in 2021 as the business increased in scale with effective cost control. As such, we project the Group's core net losses to be RMB 2.7bn in 2022E before swinging into a core net profit of RMB 10.8bn in 2023E.

Note that the company has changed the segment breakdown recently by regrouping its various segments into core commerce, which mainly consists of food delivery, in-store/hotel/travel, and Meituan Instashopping businesses, and new initiatives. We will update our financial forecast when the updated 2021 segment breakdown details become available.

**Exhibit 5: Cost trend (% of revenue)**


Source(s): Company, ABCI Securities estimates

**Exhibit 6: Segment operating profit**


Source(s): Company, ABCI Securities estimates

**Exhibit 7: Forecast changes**

RMB mn	2022E				2023E			
	old	new	Diff	Comment	old	new	Diff	Comment
Revenues	208,896	219,326	5.0%		272,871	278,926	2.2%	
Core profit	(8,296)	(2,708)	67.4%	Lower cost assumptions	7,839	10,809	37.9%	Lower cost assumptions

Source(s): ABCI Securities estimates

## Valuation and TP

We maintain **BUY** with a DCF-based TP of HK\$ 240. In our view, the narrowing losses of new businesses would allay investors' concerns on profitability. Adding to that, improving operating environment should support share price in the near term while mitigating divestment risk from Tencent.

**Exhibit 8: DCF sensitivity**

	WACC					
	2.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Terminal growth	2.0%	259	224	195	172	152
	2.5%	270	232	201	176	156
	3.0%	283	241	208	182	160
	3.5%	296	251	215	187	164
	4.0%	312	262	224	193	169

Source (s): ABCI Securities estimates

Note: Our TP implies c. 12% WACC under DCF



Consolidated income statement (FY20A-FY23E)

FY Ended Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
<b>Total revenue</b>	<b>114,794</b>	<b>179,128</b>	<b>219,326</b>	<b>278,926</b>
Cost of sales	(80,744)	(136,654)	(162,301)	(205,011)
<b>Gross profit</b>	<b>34,050</b>	<b>42,474</b>	<b>57,025</b>	<b>73,915</b>
Other gains/losses	8,117	630	(1,800)	(1,000)
Selling & marketing expenses	(20,883)	(40,683)	(37,285)	(39,050)
R&D expenses	(10,893)	(16,676)	(19,739)	(22,314)
General & admin expenses	(5,594)	(8,613)	(8,773)	(8,368)
Impairment	(468)	(260)	(150)	(100)
<b>Operating Profits</b>	<b>4,330</b>	<b>(23,127)</b>	<b>(10,723)</b>	<b>3,084</b>
Finance income, net	(156)	(585)	(500)	(400)
Share of gains of investments	264	146	(300)	(200)
<b>Profit before tax</b>	<b>4,438</b>	<b>(23,566)</b>	<b>(11,523)</b>	<b>2,484</b>
Tax	270	30	(115)	(248)
<b>Profit after tax</b>	<b>4,708</b>	<b>(23,536)</b>	<b>(11,638)</b>	<b>2,236</b>
Minority interests	(1)	2	12	(2)
<b>Profit attributable to shareholders</b>	<b>4,708</b>	<b>(23,539)</b>	<b>(11,650)</b>	<b>2,238</b>
Share-based compensation	3,277	5,194	6,580	6,973
Amortization and impairment	610	496	550	600
Adjustments on disposals/revaluation	(5,810)	(1,247)	1,800	1,000
Other adjustments	335	3,524	12	(2)
<b>Core net profit</b>	<b>3,121</b>	<b>(15,572)</b>	<b>(2,708)</b>	<b>10,809</b>
<b>Growth</b>				
Total revenue (%)	17.7	56.0	22.4	27.2
Gross Profits (%)	5.4	24.7	34.3	29.6
Operating Profits (%)	61.6	NA	NA	NA
Net profit (%)	110.3	NA	NA	NA
Core profit (%)	(33.0)	NA	NA	NA
<b>Operating performance</b>				
Operating margin (%)	3.8	(12.9)	(4.9)	1.1
Net margin (%)	4.1	(13.1)	(5.3)	0.8
Core net margin (%)	2.7	(8.7)	(1.2)	3.9
ROAE (%)	5.0	(21.1)	(9.5)	1.8
ROAA (%)	3.2	(11.6)	(4.7)	0.8

Note. Individual items may not sum to total due to rounding

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (FY20A-FY23E)**

As of Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
Fixed assets	13,917	22,814	23,814	24,814
Intangible assets	31,676	31,049	31,549	32,049
Investment in associates and JV	13,794	18,310	23,310	28,310
Financial assets	10,863	15,892	16,686	17,521
Other non-current assets	8,019	4,760	4,929	5,106
<b>Total non-current assets</b>	<b>78,269</b>	<b>92,825</b>	<b>100,288</b>	<b>107,800</b>
Cash & equivalents	17,094	32,513	41,157	55,825
Restricted cash	12,776	13,277	13,941	14,638
Account receivables	1,031	1,793	2,404	3,057
Deposit, prepayments and other assets	12,940	15,282	16,046	16,848
Inventories	466	682	1,346	1,711
Short term investment	43,999	84,282	84,282	84,282
<b>Total current assets</b>	<b>88,306</b>	<b>147,829</b>	<b>159,176</b>	<b>176,361</b>
<b>Total assets</b>	<b>166,575</b>	<b>240,654</b>	<b>259,464</b>	<b>284,161</b>
Accounts payable	11,967	15,166	18,628	23,690
Borrowings and notes	6,395	11,565	21,565	26,565
Deferred revenue	5,053	5,478	5,752	6,040
Other current liabilities	27,733	36,383	36,471	36,563
<b>Total current liabilities</b>	<b>51,148</b>	<b>68,593</b>	<b>82,416</b>	<b>92,858</b>
Deferred revenue	167	-	-	-
Borrowings	14,923	42,603	52,603	57,603
Other non-current liabilities	2,703	3,901	3,946	3,993
<b>Total non-current liabilities</b>	<b>17,793</b>	<b>46,504</b>	<b>56,549</b>	<b>61,596</b>
<b>Total liabilities</b>	<b>68,941</b>	<b>115,097</b>	<b>138,965</b>	<b>154,454</b>
<b>Net current assets</b>	<b>37,158</b>	<b>79,237</b>	<b>76,759</b>	<b>83,503</b>
Equity attributable to shareholders	97,693	125,613	120,543	129,754
Non-controlling interests	(58)	(57)	(45)	(47)
<b>Total equity</b>	<b>97,635</b>	<b>125,557</b>	<b>120,498</b>	<b>129,707</b>

Note. Individual items may not sum to total due to rounding

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

Source(s): Company, ABCI Securities estimates

**Consolidated cash flows (FY20A-FY23E)**

As of Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
PBT	4,438	(23,566)	(11,523)	2,484
Depreciation and amortization	5,194	8,928	8,000	8,000
Other operating cash flow	(3,047)	3,419	6,465	6,725
Change in working capital	1,890	7,208	997	2,793
<b>Operating cash flow</b>	<b>8,475</b>	<b>(4,011)</b>	<b>3,939</b>	<b>20,002</b>
Acquisition of fixed asset	(15,824)	(9,010)	(9,000)	(9,000)
Purchase of investment	2,679	(44,744)	(5,000)	(5,000)
Other investment cash flow	(8,087)	(4,738)	(1,295)	(1,334)
<b>Investing cash flow</b>	<b>(21,232)</b>	<b>(58,492)</b>	<b>(15,295)</b>	<b>(15,334)</b>
<b>Financing cash flow</b>	<b>17,418</b>	<b>78,598</b>	<b>20,000</b>	<b>10,000</b>
<b>Net cash flows</b>	<b>4,661</b>	<b>16,095</b>	<b>8,644</b>	<b>14,667</b>

Note. Individual items may not sum to total due to rounding

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

Source(s): Company, ABCI Securities estimates



## Risk factors

### Loss-making business

The Group reported core net losses in recent quarters. Unless the Group can reverse the loss-making situation, the current business model may not be sustainable in the long run. In such case, our forecast and DCF-valuation method cannot be justified.

### Market competition

The ecommerce industry is a competitive one, with the rivals competing closely with each other on commission rate, promotion discount, brand advertising, 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 ( $\sim 10\%$ )
Hold	- Market return rate ( $\sim 10\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 10\%$ )
Sell	Stock return $<$ - Market return ( $\sim 10\%$ )

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 2009 (HSI total return index in 2009-21 averaged at 9.2%)

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 2022 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) 2868 2183**