

Meituan-W (3690 HK)

Holding up well

- Resilient margins despite increased marketing effort to cope with competition
- Ongoing margin improvement mitigates soft macro environment
- Maintain **BUY** with a revised TP of HK\$190

A strong 2Q23 but growth might moderate in 2H23. In 2Q23, core local commerce revenue grew 39% YoY, thanks to the 32% YoY volume growth in on-demand transaction. In particular, in-store, hotel, and travel GTV grew 120% YoY, driven by low base and strong demand of local travel. Looking forward, we expect core local commerce revenue growth to moderate to 21% YoY in 2H23 due to the higher base, less favorable weather condition, and economic slowdown. On the other hand, new initiative revenue growth slowed to 18% YoY in 2Q23 from 30% YoY in 1Q23 and we expect such trend to continue due to the calming demand for food and groceries items in the e-commerce industry.

Resilient margins despite increasing subsidies to fend off competition. Operating margin of local core commerce was largely stable at 21.8% in 2Q23 vs. 22.0% in the previous quarter despite increased marketing efforts to cope with competition from short video platforms. In our view, the increased labor supply for delivery riders amid the lackluster economy and other cost-control measures helps mitigate the cost pressure arising from marketing expenses. Overall, we estimate core net margin to improve from 1.3% in 2022 to 8.7% in 2024E.

Resilient against headwinds. In our view, the Group would remain resilient based on its ongoing margin improvement amid the slowing economy. Maintain **BUY** with a revised TP of HK\$190 to reflect the current soft macro environment. On a positive note, the counter is trading at 2.4x forward P/S, representing a reasonable valuation for long-term investors in our view.

Results and Valuation

FY end Dec 31	2021A	2022A	2023E	2024E
Revenue (RMB mn)	179,128	219,955	272,667	318,227
Chg (% YoY)	56.0	22.8	24.0	16.7
Net profit (RMB mn)	(23,538)	(6,686)	10,592	17,577
Chg (% YoY)	NA	NA	NA	65.9
Core net profit (RMB mn)*	(15,572)	2,827	20,180	27,706
Chg (% YoY)	NA	NA	NA	NA
EPS (RMB)	(3.9)	(1.1)	1.7	2.9
Chg (% YoY)	NA	NA	NA	NA
Core EPS (RMB)*	(2.6)	0.5	3.3	4.5
Chg (% YoY)	NA	NA	NA	NA
P/S (x)	4.1	3.4	2.8	2.4
Core P/E (x)*	NA	NA	37.4	27.3
ROAE (%)	(21.1)	(5.3)	7.6	10.9
ROAA (%)	(11.6)	(2.8)	4.0	5.8

HKD/CNY=0.92

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

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 30, 2023

Rating: BUY

TP: HK\$ 190

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Share price (HK\$)	134.2
Est. share price return	41.6%
Est. dividend yield	NA
Est. total return	41.6%
Previous Rating & TP	BUY/HK\$230
Previous Report Date	Dec 29, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	195.6/109.2
Issued shares (mn)	6,241
of which	
Listed B shares (mm)	5,637
Unlisted shares (mm)	604
B share market cap (HK\$ mn)	756,485
Avg daily turnover (HK\$ mn)	2,985
Major shareholder(s)	Voting right
Wang Xing	41.8%

Source(s): Bloomberg, Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	-5.0	1.8
3-mth	16.2	16.4
6-mth	-0.6	5.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Recent business update

2Q23 revenue grew 33% YoY to RMB 67.9bn, in line with market expectation, indicating a sequential improvement vs. the 27% YoY revenue growth in the previous quarter. In addition, core net profit rose by 272% YoY to RMB 7.6bn, significantly above market expectation of RMB 4.5bn, thanks to better-than-expected cost control and operating leverage.

Among major segments, core local commerce revenue grew 39% YoY in 2Q23 (vs. 25% YoY growth in 1Q23) amid the 32% YoY increase in on-demand transaction. In particular, in-store, hotel, and travel GTV grew 120% YoY, driven by low base and strong demand for local travel. On the flip side, new initiative revenue growth moderated to 18% YoY in 2Q23 vs. 30% in 1Q23, possibly due to overall “de-stocking” of food and groceries items post-COVID. In addition, management expects food delivery business might moderate slightly in 3Q23 due to unfavorable weather condition and weak macro environment.

Operating margin of new businesses improved to -31.0% vs. -32.0% in the previous quarter. New businesses operating losses narrowed to RMB 5.1bn during the quarter vs. RMB6.8bn operating losses in 2Q22. Operating margin of local core commerce remained largely stable at 21.8% in 2Q23 vs. 22.0% in 1Q23 despite increased marketing efforts to cope with competition. In our view, the increased labor supply for delivery rider amid the current weak macro environment might help mitigate the cost pressure arising from marketing expenses. Core net margin improved to 11.3% in 2Q23 vs. 4.0% in 2Q22 and 9.4% in 1Q23.

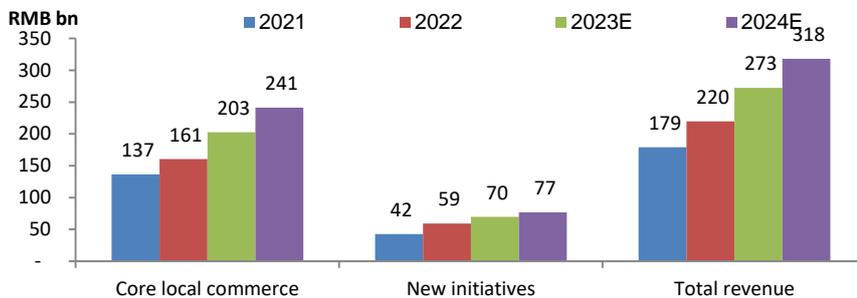
Financial Outlook

We expect revenue to grow at 20% CAGR in 2022-24E.

Core local commerce: We expect core commerce revenue (food delivery, Meituan Instashopping, in-store/hotel/travel, etc.) to increase at 23% CAGR in 2022-24E. We expect segment revenue growth to moderate to 21% YoY in 2H23 vs. 33% YoY in 1H23 due to higher base, less favorable weather condition, and weaker demand on food delivery amid economic slowdown. For 2023E, we expect a 19% segment revenue growth.

New initiatives: We expect segment revenue to increase 13% YoY and 10% YoY in 2H23 and 2024E respectively vs. 24% YoY growth in 1H23. In our view, its Meituan Select and Meituan Grocery are likely to see flatter growth due to overall “de-stocking” effect of food and groceries items in the post COVID-era.

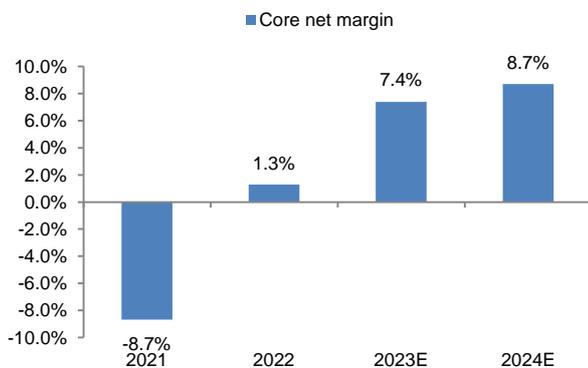
Exhibit 1: Revenue trend



Source(s): Company, ABCI Securities estimates

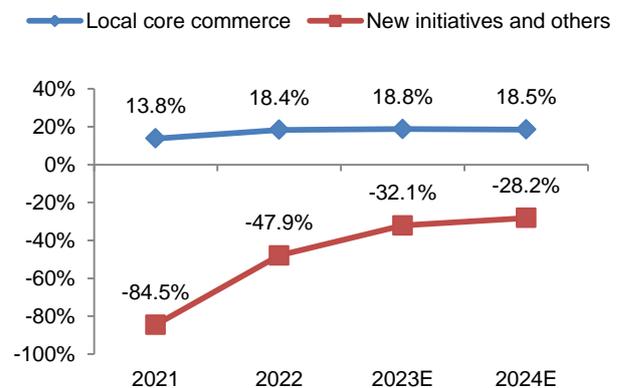
In terms of segment profitability, we expect operating margin of local core commerce to be stable going forward. In our view, increased labor supply for delivery rider amid the slowing economy could help mitigate the cost pressure arising from marketing expenses to cope with competition from short video platforms. In addition, we expect new initiatives to continue to improve its profitability due to cost control. We estimate core net margin to increase from 1.3% in 2022 to 8.7% in 2024E.

Exhibit 2: Cost net margin



Source(s): Company, ABCI Securities estimates

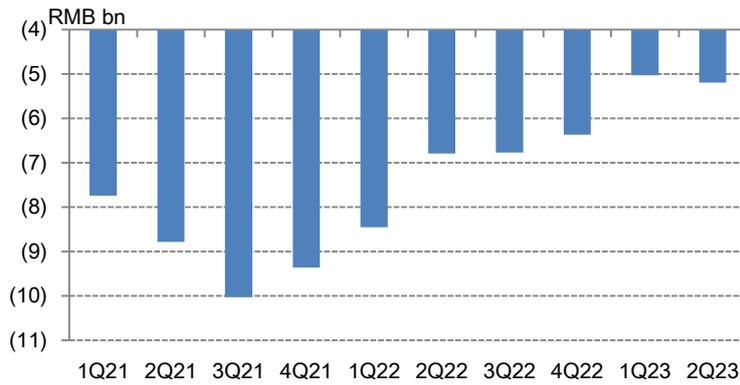
Exhibit 3: Segment operating profit margin



Source(s): Company, ABCI Securities estimates



Exhibit 4: Operating losses – New initiatives



Source(s): Company, ABCI Securities

Exhibit 5: Forecast changes

RMB mn	2023E		Diff	Comment
	Old	New		
Revenues	266,596	272,667	2.3%	
Core profit	14,324	20,180	40.9%	Reduced losses in New initiatives

Source(s): ABCI Securities estimates

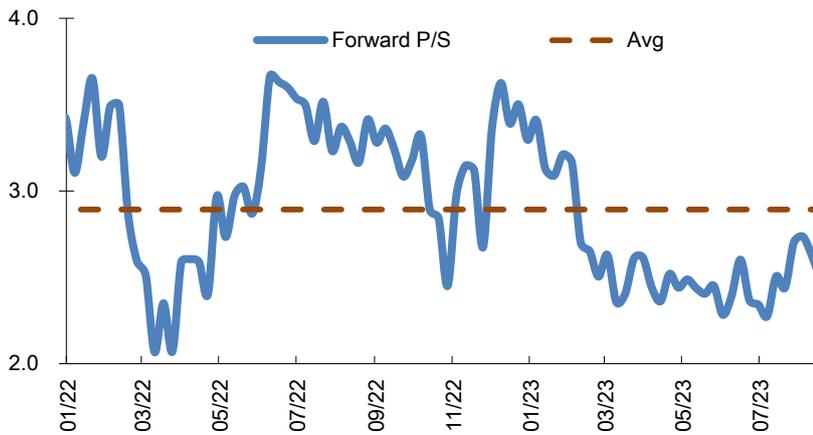


Valuation and TP

In our view, Meituan’s operational improvement could help it navigate through the economic headwinds. We maintain **BUY** on Meituan to reflect its leading market position in the food delivery and local service industry. Our revised DCF-based TP is HK\$ 190, which implies 3.4x 2024E P/S.

The counter is trading at 2.4x forward P/S, which nears the low-end of its historical range and represents a reasonable valuation for long-term investors, in our view. Having said that, Prosus is still holding ~4.1% of Meituan shares from Tencent’s distribution and therefore, future disposal risk still exists.

Exhibit 6: Valuation



Source(s): Company, ABCI Securities

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

Old	New	Remark
230	190	DCF based with 14% WACC versus 13% previously; TP implies 3.4x 2024E P/S vs. 3.9x previously

Source(s): ABCI Securities estimates



Consolidated income statement (FY21A-FY24E)

FY Ended Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
Total revenue	179,128	219,955	272,667	318,227
Cost of sales	(136,654)	(158,202)	(179,960)	(211,621)
Gross profit	42,474	61,753	92,707	106,606
Other gains/losses	630	3,152	2,000	2,000
Selling & marketing expenses	(40,683)	(39,745)	(51,807)	(57,281)
R&D expenses	(16,676)	(20,740)	(21,813)	(22,276)
General & admin expenses	(8,613)	(9,772)	(8,998)	(9,547)
Impairment	(260)	(469)	(500)	(500)
Operating Profits	(23,127)	(5,820)	11,589	19,002
Finance income, net	(585)	(971)	(900)	(900)
Share of gains of investments	146	36	0	0
Profit before tax	(23,566)	(6,756)	10,689	18,102
Tax	30	70	(107)	(543)
Profit after tax	(23,536)	(6,686)	10,582	17,559
Minority interests	2	0	(11)	(18)
Profit attributable to shareholders	(23,538)	(6,686)	10,592	17,577
Share-based compensation	5,194	8,743	8,998	9,547
Amortization and impairment	496	471	600	600
Adjustments on disposals/revaluation	(1,247)	193	0	0
Other adjustments	3,524	105	(11)	(18)
Core net profit	(15,572)	2,827	20,180	27,706
Growth				
Total revenue (%)	56.0	22.8	24.0	16.7
Gross Profits (%)	24.7	45.4	50.1	15.0
Operating Profits (%)	NA	NA	NA	64.0
Net profit (%)	NA	NA	NA	65.9
Core profit (%)	NA	NA	613.8	37.3
Operating performance				
Operating margin (%)	(12.9)	(2.6)	4.3	6.0
Net margin (%)	(13.1)	(3.0)	3.9	5.5
Core net margin (%)	(8.7)	1.3	7.4	8.7
ROAE (%)	(21.1)	(5.3)	7.6	10.9
ROAA (%)	(11.6)	(2.8)	4.0	5.8

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY21A-FY24E)

As of Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
Fixed assets	22,814	22,201	18,701	15,001
Intangible assets	31,049	30,643	31,143	31,643
Investment in associates and JV	18,310	23,187	28,187	33,187
Financial assets	15,892	18,904	19,849	19,849
Other non-current assets	4,760	6,400	6,645	6,645
Total non-current assets	92,825	101,335	104,525	106,325
Cash & equivalents	32,513	20,159	49,890	88,287
Restricted cash	13,277	14,606	15,336	15,336
Account receivables	1,793	2,053	2,988	3,487
Deposit, prepayments and other assets	15,282	13,293	13,957	13,957
Inventories	682	1,163	1,673	1,952
Short term investment	84,282	91,873	91,873	91,873
Total current assets	147,829	143,146	175,717	214,893
Total assets	240,654	244,481	280,242	321,218
Accounts payable	15,166	17,379	23,158	27,027
Borrowings and notes	11,565	17,562	22,562	27,562
Deferred revenue	5,478	5,053	5,306	5,306
Other current liabilities	36,383	36,435	36,543	36,543
Total current liabilities	68,593	76,430	87,569	96,439
Deferred revenue	-	-	-	-
Borrowings	42,603	35,156	40,156	45,156
Other non-current liabilities	3,901	4,189	4,231	4,231
Total non-current liabilities	46,504	39,345	44,387	49,387
Total liabilities	115,097	115,774	131,956	145,826
Net current assets	79,237	66,716	88,148	118,454
Equity attributable to shareholders	125,613	128,762	148,352	175,476
Non-controlling interests	(57)	(56)	(66)	(84)
Total equity	125,557	128,706	148,286	175,392

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 statement (FY21A-FY24E)

As of Dec 31 (RMB mn)	FY21A	FY22A	FY23E	FY24E
PBT	(23,566)	(6,756)	10,689	18,102
Depreciation and amortization	8,928	9,730	9,500	9,700
Other operating cash flow	3,419	9,250	8,891	9,004
Change in working capital	7,208	(813)	3,097	3,091
Operating cash flow	(4,011)	11,411	32,176	39,897
Acquisition of fixed asset	(9,010)	(5,731)	(6,000)	(6,000)
Purchase of investment	(44,744)	(7,782)	(5,000)	(5,000)
Other investment cash flow	(4,738)	(1,201)	(1,445)	(500)
Investing cash flow	(58,492)	(14,714)	(12,445)	(11,500)
Financing cash flow	78,598	(9,990)	10,000	10,000
Net cash flows	16,095	(13,292)	29,731	38,397

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

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.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (9%)
Hold	- Market return rate (-9%) \leq Stock return rate $<$ Market return rate (+9%)
Sell	Stock return $<$ - Market return (-9%)

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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.

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