

Meituan (3690 HK)

Determined to maintain local consumer services industry consumer mind share

Meituan reported (25 May) its 1Q23 results: revenue was RMB58.6bn, up 26.7% YoY, 3/2% higher than our forecast/consensus estimate. Adjusted net profit during 1Q23 reached RMB5.5bn, better than our/consensus forecast of RMB2.0/1.9bn, due to better-than-expected operating profit generated from core local commerce business aided by better operating leverage improvement, and more stringent than expected cost control from new initiatives. Meituan remains determined to invest in driving for better consumer mindshare and merchants ROI in local consumer services industry, in order to fend off escalating competition from Douyin. We expect GTV share will be key evaluation metrics for assessing Meituan's competitive strategy results. We lift our DCF-based TP to HK\$172.0 to account for better-than-expected UE expansion of food delivery (FD) business. Maintain BUY.

■ **Remains determined to maintain market share in local consumer services industry.** Core local commerce (CLC) segment revenue/OP was RMB42.9/9.4bn in 1Q23, up 25.5/100.7% YoY. It was 4/25% higher than our estimate, thanks to: 1) better-than-expected unit economics (UE) expansion of food delivery business; 2) better-than-expected OPM for in-store hotel and travel (ISHT) business aided by strong margin expansion of hotel business, and less than expected spending to drive for consumer mind share gain and merchant ROI improvement in 1Q23. We expect Meituan to maintain aggressive investment on ISHT business to sustain over two thirds of online local life service market share until industry competition shows a marginal easing trend. We forecast Meituan's ISHT business GMV/revenue to grow 100/58% YoY on low base and aggressive investment, and to ink 30% OPM in 2Q23E.

■ **UE expansion of food delivery business better than expectation in 1Q23.** We estimate Meituan's FD business within CLC segment has achieved per order operating profit of RMB1.3 in 1Q23, up from RMB0.5 in 1Q22, and better than our estimate at RMB1.0, thanks to: 1) decline in per order rider cost aided by more abundant rider supply; 2) more optimized user subsidy spend; and 3) increase in revenue contribution from online marketing services. For 2Q23E, we forecast FD revenue growth of 30% YoY, driven by 30% YoY growth in order volume, and per order OP of RMB1.3, flat YoY, which could be driven by the increase in monetization from online marketing services, but offset by the decrease in average order value, as business operation of SMEs on Meituan's FD platform has come back to normal.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	179,128	219,955	273,943	336,874	403,392
YoY growth (%)	56.0	22.8	24.5	23.0	19.7
Net profit (RMB mn)	(23,538.2)	(6,686.1)	10,246.6	26,792.7	40,660.0
Adjusted net profit (RMB mn)	(15,571.5)	2,827.2	18,193.3	34,677.1	48,798.6
EPS (Adjusted) (RMB)	(2.54)	0.46	2.93	5.52	7.69
Consensus EPS (RMB)	na	0.46	2.26	4.33	7.25
P/E (x)	na	na	69.0	26.6	17.7
ROE (%)	(21.1)	(5.3)	7.7	17.3	20.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$172.00

(Previous TP) HK\$168.00

Up/Downside 36.5%

Current Price HK\$126.00

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Stock Data

Mkt Cap (HK\$ mn)	775,731.0
Avg 3 mths t/o (HK\$ mn)	3,858.3
52w High/Low (HK\$)	208.20/120.60
Total Issued Shares (mn)	6156.6

Source: FactSet

Shareholding Structure

Huai River Investment Limited	10.1%
Crown Holdings Asia Limited	7.9%

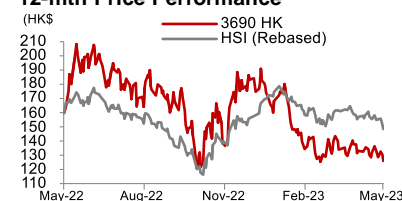
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.3%	0.2%
3-mth	-6.3%	0.1%
6-mth	-7.8%	-13.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

■ **New initiatives continue to drive for operating efficiency improvement.** Revenue generated from new initiatives was RMB15.7bn in 1Q23, up 30% YoY, inline with our estimate. Operating loss for the segment was RMB5.0bn, better than our estimate at RMB5.6bn, implying a loss margin of 32% (1Q22: 70%), driven by better-than-expected operating efficiency improvement of both Meituan Select and other new initiatives. We expect Meituan to continue to drive for operating efficiency improvement across business lines in 2023, although 2Q23 is likely to see some short-term disturbance, as Meituan Select needs to increase subsidy to drive for better consumer engagement amid the release of pent-up demand for offline activities. We forecast OP loss for new initiatives to narrow to RMB5.3bn/19.4bn in 2Q23/2023 (2Q22/2022: RMB6.8bn/28.4bn).

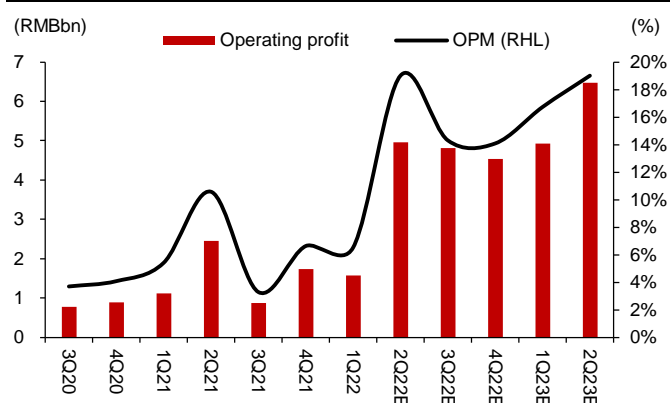
Key results update

Core local commerce (73% of 1Q23 revenue)

CLC business segment, which mainly comprises former FD and in-store and hotel business, as well as Meituan Instashopping, alternative accommodations, and transportation ticketing, saw revenue growth of 25.5% YoY to RMB42.9bn. Among which we estimate FD revenue has grown 22% YoY, and ISHT revenue has increased by 23% YoY. Segmental operating profit of RMB9.4bn is 25% ahead of our forecast, which implies a OPM of 22.0% (1Q22: 13.8%), mainly thanks to better-than-expected unit economics generated from FD business. We estimate OPM of FD business has reached 16.7% in 1Q23, indicating a YoY expansion of 10.2pp, and per order operating profit of FD has reached RMB1.3 in 1Q23 (1Q22: RMB0.47).

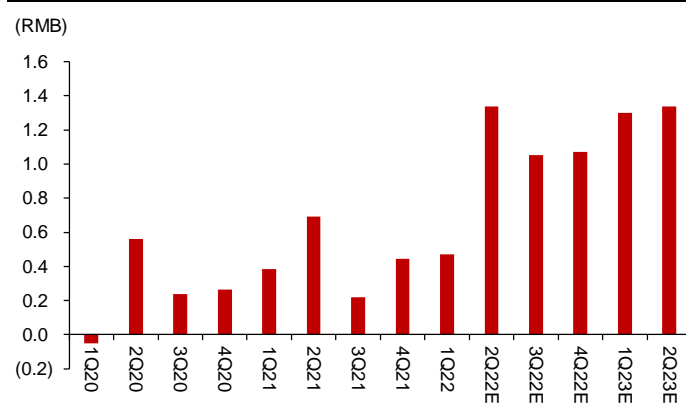
Looking into 2Q23, we forecast 30/30% YoY growth in FD order/revenue growth, and estimate operating profit of RMB6.5bn for 2Q23, indicating per order operating profit of RMB1.3.

Figure 1: Meituan: FD operating profit and OPM (Qtr)



Source: Company data, CMBIGM estimates

Figure 2: Meituan: OP per order for FD business



Source: Company data, CMBIGM estimates

For ISHT business, we forecast 2Q23 revenue of RMB11.4bn, up 58% YoY, thanks to strong GMV growth of 100% YoY, driven by low base and Meituan's strategic move to enhance merchants' online penetration and ROI. We forecast OPM of 30.0% for ISHT business in 2Q23, compared to c.46% in 2Q22, owing to Meituan's aggressive competitive strategy to maintain GMV share.

New initiatives (27% of 1Q23 revenue)

Revenue generated from new initiatives was RMB15.7bn in 1Q23, up 30.1% YoY, inline with our estimate. Operating loss for the segment was RMB5.0bn (our estimate: RMB5.6bn), implying a loss margin of 32% (1Q22: 70%), which we attribute to more stringent than expected cost control.

We forecast new initiatives revenue to grow 20.2% YoY to RMB17.0bn in 2Q23, and an operating loss of RMB5.3bn (2Q22: RMB6.8bn), thanks to continuous cost optimization and efficiency improvement, while the widened QoQ loss was mainly due to increased investment in Meituan Select to retain more consumer wallet share amid the backdrop of increasing offline shopping activities.

Revision of forecast and valuation

Figure 3: Meituan: quarterly financial results

(RMB mn)	1Q22	2Q22	3Q22	4Q22	1Q23	CMBI estimates	Diff (%)	Consensus	Diff (%)
Revenue	46,269	50,938	62,619	60,129	58,617	56,964	2.9%	57,476	2.0%
YoY	25.0%	16.4%	28.2%	21.4%	26.7%				
<u>New segmentation</u>									
CLC	34,180	36,779	46,328	43,473	42,885	41,317	3.8%	41,628	3.0%
YoY		9.2%	24.6%	17.4%	25.5%				
New initiatives	12,089	14,159	16,291	16,656	15,732	15,647	0.5%	16,077	-2.1%
YoY		40.7%	39.7%	33.4%	30.1%				
<u>Previous segmentation (CMBI estimates)</u>									
Food delivery					29,471	28,746	2.5%	28,960	1.8%
ISHT					9,348	9,260	1.0%	9,308	0.4%
New initiatives					19,798	18,957	4.4%	18,752	5.6%
Operating profit	-5,584	-493	988	-732	3,586	643	458.0%	428	738.6%
<u>New segmentation</u>									
CLC					9,445	7,551	25.1%	7,675	23.1%
New initiatives					-5,029	-5,573		-5,681	
<u>Prior segmentation (CMBI estimates)</u>									
Food delivery					4,929	3,823	28.9%	3,792	30.0%
ISHT					4,487	4,074	10.1%	3,980	12.7%
New initiatives					-5,020	-5,920	-15.2%	-6,427	-21.9%
Non-IFRS net profit	-3,586	2,058	3,527	829	5,491	1,952	181.3%	1,948	181.9%
OPM (%)	-12.1%	-1.0%	1.6%	-1.2%	6.1%	1.1%	5.0 ppt	0.7%	5.4 ppt
Non-IFRS						3.4%	5.9 ppt	3.4%	6.0 ppt
NPM (%)	-7.8%	4.0%	5.6%	1.4%	9.4%				

Note: CLC: core local commerce

Source: CMBIGM estimates

Figure 4: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	273.9	336.9	403.4	273.6	341.2	414.7	0.1%	-1.3%	-2.7%
OP	12.9	31.7	48.6	7.5	23.4	40.2	72.0%	35.4%	21.0%
Non-IFRS NP	18.2	34.7	48.8	13.5	27.6	41.9	34.3%	25.4%	16.4%
OPM	4.7%	9.4%	12.1%	2.7%	6.9%	9.7%	2.0 pp	2.5 pp	2.4 pp
Non-IFRS NPM	6.6%	10.3%	12.1%	5.0%	8.1%	10.1%	1.7 pp	2.2 pp	2.0 pp

Source: CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB bn				Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	273.9	336.9	403.4	278.3	344.5	417.8	-1.6%	-2.2%	-3.4%
OP	12.9	31.7	48.6	6.5	20.8	37.9	97.7%	52.5%	28.4%
Non-IFRS NP	18.2	34.7	48.8	14.5	28.1	46.0	25.3%	23.5%	6.2%
OPM	4.7%	9.4%	12.1%	2.3%	6.0%	9.1%	2.4 pp	3.4 pp	3.0 pp
Non-IFRS NPM	6.6%	10.3%	12.1%	5.2%	8.2%	11.0%	1.4 pp	2.1 pp	1.1 pp

Source: Bloomberg, CMBIGM estimates

DCF-based target price of HK\$172.0

Our DCF-based target price is HK\$172.0, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), akin to 3.5x 2023E PS.

Figure 6: Meituan: DCF valuation, WACC of 11.0%, terminal growth of 2.5%

(RMBmn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NPV of FCF	360,759	379,183	392,291	379,787	366,996	334,771	295,833	239,984	175,769	92,880
Discounted terminal value	438,500									
Total equity valuation	903,834									
Total equity valuation (HK\$mn)	1,018,037									
No. of shares (diluted, mn)	6,218									
Valuation per share (HK\$)	172.0									

Source: Company data, CMBIGM estimates

■ Valuation cross-check: reversed SOTP valuation

We build a reverse SOTP valuation to cross-check our valuation for Meituan. We assign 20x 2025E PE for Meituan's FD business, and discount back to 2023E. For ISHT business, we assign 18.0x 2023E PE, which we view 17.3% 2022-2025E operating profit CAGR as support.

Our target price of HK\$172.0 per share implies a total valuation of HK\$1.1tn for Meituan, and after deducting valuation for FD, In-store, hotel and travel (ISHT), and net cash, the valuation left for new initiatives and others was RMB82.8bn, which translates into 0.9x 2023E PS.

Figure 7: Valuation cross-check: reversed SOTP valuation

(RMBmn)	2022-2025E revenue CAGR (%)	2022-2025E OP CAGR	Valuation method	2023/2025E NP	Target PE	Implied 2023E PS	2023E valuation	As % of total valuation
			2025E PE, discount back	30,613	20.0	3.5	496,989	52.9
FD	21.1%	31.4%						
ISHT	28.1%	17.3%	2023E PE	12,761	18.0	5.4	229,689	24.4
New initiatives and others	21.9%					0.9	82,804	8.8
Cash and short-term investment (2023E)							130,798	13.9
Total valuation (RMBmn)							940,280	
Total valuation (HK\$ mn)							1,059,088	
Valuation per share (HK\$)							172	

Note: business segment listed above are based on previous segmentation given by Meituan
 Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	114,795	179,128	219,955	273,943	336,874	403,392
Cost of goods sold	(80,744)	(136,654)	(158,202)	(184,592)	(219,700)	(257,276)
Gross profit	34,050	42,474	61,753	89,351	117,174	146,116
Operating expenses	(29,720)	(65,601)	(67,573)	(76,480)	(85,493)	(97,475)
SG&A expense	(26,477)	(49,296)	(49,517)	(57,779)	(63,996)	(72,288)
R&D expense	(10,893)	(16,676)	(20,740)	(21,734)	(25,408)	(29,155)
Others	7,649	370	2,683	3,033	3,911	3,969
Operating profit	4,330	(23,127)	(5,820)	12,871	31,681	48,642
Share of (losses)/profits of associates/JV	264	146	36	(50)	(50)	(50)
Interest income	214	546	658	724	796	876
Interest expense	(370)	(1,131)	(1,629)	(1,629)	(1,629)	(1,629)
Others	0	0	0	0	0	0
Pre-tax profit	4,438	(23,566)	(6,756)	11,916	30,799	47,839
Income tax	270	30	70	(1,668)	(4,004)	(7,176)
After tax profit	4,708	(23,536)	(6,686)	10,247	26,795	40,663
Minority interest	(1)	2	1	1	2	3
Net profit	4,708	(23,538)	(6,686)	10,247	26,793	40,660
Adjusted net profit	3,121	(15,572)	2,827	18,193	34,677	48,799
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	88,306	147,829	143,145	148,022	184,396	245,612
Cash & equivalents	17,094	32,513	20,159	22,801	55,821	114,462
Restricted cash	12,776	13,277	14,606	16,066	17,673	19,440
Inventories	466	682	1,163	1,043	1,561	1,432
Other current assets	57,970	101,357	107,218	108,112	109,342	110,278
Non-current assets	78,269	92,825	101,336	127,177	131,788	135,000
PP&E	13,917	22,814	22,201	23,744	22,935	21,661
Intangibles	31,676	31,049	30,643	31,232	31,413	31,659
Other non-current assets	32,675	38,962	48,491	72,201	77,441	81,680
Total assets	166,575	240,653	244,481	275,198	316,184	380,612
Current liabilities	51,148	68,593	76,430	97,544	104,150	120,195
Short-term borrowings	6,395	11,565	17,562	24,045	23,698	24,288
Account payables	21,382	26,117	29,812	34,147	40,503	45,272
Tax payable	23,371	30,911	29,056	39,352	39,949	50,635
Non-current liabilities	17,793	46,504	39,345	39,939	40,113	40,166
Long-term borrowings	1,957	12,220	1,549	2,121	2,090	2,142
Other non-current liabilities	15,835	34,284	37,796	37,819	38,023	38,023
Total liabilities	68,941	115,097	115,775	137,483	144,263	160,361
Share capital	0	0	0	0	0	0
Capital surplus	263,155	311,221	316,743	324,139	331,549	339,212
Retained earnings	(159,201)	(182,742)	(189,466)	(187,853)	(161,059)	(120,395)
Other reserves	(6,262)	(2,867)	1,484	1,484	1,484	1,484
Total shareholders equity	97,693	125,613	128,762	137,770	171,975	220,301
Minority interest	(59)	(57)	(56)	(55)	(53)	(50)
Total equity and liabilities	166,575	240,653	244,481	275,198	316,184	380,612

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,438	(23,566)	(6,685)	10,247	26,795	40,663
Depreciation & amortization	5,194	8,928	9,335	9,806	10,667	11,306
Change in working capital	1,896	7,209	(236)	11,759	1,817	12,062
Others	(3,053)	3,418	8,997	7,396	7,411	7,664
Net cash from operations	8,475	(4,011)	11,411	39,208	46,691	71,695
Investing						
Capital expenditure	(11,223)	(9,010)	(9,898)	(9,862)	(9,702)	(9,875)
Net proceeds from disposal of short-term investments	2,679	(44,744)	(11,078)	(33,485)	(3,257)	(3,420)
Others	(12,688)	(4,737)	6,262	(274)	(337)	(403)
Net cash from investing	(21,232)	(58,492)	(14,714)	(43,621)	(13,296)	(13,698)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	5,452	15,768	(4,674)	7,055	(378)	642
Proceeds from share issues	0	45,286	0	0	0	0
Others	11,966	17,544	(5,316)	1	2	3
Net cash from financing	17,418	78,598	(9,990)	7,055	(376)	645
Net change in cash						
Cash at the beginning of the year	13,396	17,094	32,513	20,159	22,801	55,821
Exchange difference	(964)	(675)	938	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	17,094	32,513	20,159	22,801	55,821	114,462
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	17.7%	56.0%	22.8%	24.5%	23.0%	19.7%
Gross profit	5.4%	24.7%	45.4%	44.7%	31.1%	24.7%
Operating profit	61.6%	na	na	na	146.2%	53.5%
Net profit	110.4%	na	na	na	161.5%	51.8%
Adj. net profit	(33.0%)	na	na	543.5%	90.6%	40.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.7%	23.7%	28.1%	32.6%	34.8%	36.2%
Operating margin	3.8%	(12.9%)	(2.6%)	4.7%	9.4%	12.1%
Adj. net profit margin	2.7%	(8.7%)	1.3%	6.6%	10.3%	12.1%
Return on equity (ROE)	5.0%	(21.1%)	(5.3%)	7.7%	17.3%	20.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)
Current ratio (x)	1.7	2.2	1.9	1.5	1.8	2.0
Receivable turnover days	2.7	2.8	3.1	2.8	2.4	2.2
Inventory turnover days	1.7	1.5	2.1	2.2	2.1	2.1
Payable turnover days	41.8	35.7	37.0	37.0	37.0	37.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	207.2	na	na	69.0	26.6	17.7
P/E (diluted)	207.2	na	na	68.6	26.5	17.6
P/B	10.0	11.6	7.2	5.1	4.2	3.3
P/CFPS	na	na	608.4	23.8	18.9	11.3
EV	(65,516.1)	(106,287.5)	(107,526.4)	(104,574.9)	(139,578.4)	(199,345.2)
EV/Sales	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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