

Meituan (3690 HK)

Embracing tougher fight ahead

Meituan reported (24 Mar) its 4Q22 results: revenue was RMB60.1bn, up 21% YoY, 4% higher than both our forecast and consensus estimate. Adjusted net profit during 4Q22 reached RMB829mn, better than our/consensus forecast of RMB281/528mn, due to better-than-expected operating efficiency improvement. In view of rising competition from Douyin on in-store business, Meituan is defending its leading position, with some short term trading off in terms of monetization and profitability to retain resilient GTV share, and aiming for larger operating profit pool for the long-term, which in our view should propel faster online penetration in the life-services industry. To factor in the potential change in industry competition dynamics, and Meituan's competitive strategy, we lowered our DCF-based target price by 22% to HK\$168.0 (prior HK\$216.4). We think entry point could appear after the market fully digest the impacts from the changed industry competition dynamics and landscape.

■ **On-demand delivery has high entry barrier; competition impact is limited.** Core local commerce segment revenue/OP was RMB43.4/7.2bn in 4Q22, up 17/41% YoY. It was 5/7% higher than our estimate, thanks to better than expect growth in food delivery (FD) orders, which was up 8% YoY in 4Q22 (our estimate: 5%). The number of daily average orders for Meituan Instashopping reached 6.5mn in 4Q22 (4Q21: 3.7mn), due to favourable consumer mindshare gain during the pandemic impact. We expect Meituan to see limited competition impact on its FD business, as the business was location based and on-demand in nature, while Meituan has established a strong fulfilment network, accumulated abundant merchant resources and had a sticky consumer base. We expect Meituan to refocus on scale expansion while ensuring efficiency at the same time. We forecast FD revenue to grow 21% YoY to RMB140.0bn in 2023E, and per order OP to reach RMB1.06 (2022: RMB1.0).

■ **In-store hotel and travel (ISHT) business: trading off short-term profitability for resilient GMV share.** For ISHT business, Meituan is defending its leading position in an aggressive way. Meituan is prioritizing GMV growth for 2023. It is making investment to drive for better consumer engagement, and to improve merchant ROI by providing more supporting policies. Taking into account of Meituan's aggressive competition strategy, we forecast ISHT GTV/revenue growth of 60/36% YoY to RMB564.4/43.8bn in 2023, as well as an operating profit of RMB14.2bn which translates into segmental OPM of 32% (2022E: 43%).

■ **New initiatives continue to drive for operating efficiency improvement.** Revenue generated from new initiatives was RMB16.7bn in 4Q22, up 33.4% YoY, inline with our estimate. Operating loss for the segment was RMB6.4bn, better than our estimate at RMB6.8bn, implying a loss margin of 38% (4Q21: 75%). Meituan Grocery & Meituan Select remains two key focus pillars within new initiatives that are strategically important to drive for long-term development. We expect Meituan to continue drive for operating efficiency improvement across business lines in 2023. We forecast OP loss for new initiatives to narrow to RMB5.6bn/19.4bn in 1Q23/2023 (1Q22/2022: RMB8.5/28.4bn).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	179,128	219,955	273,556	341,157	414,726
YoY growth (%)	56.0	22.8	24.4	24.7	21.6
Net profit (RMB mn)	(23,538.2)	(6,685.9)	5,686.0	19,666.8	33,565.8
Adjusted net profit (RMB mn)	(15,571.5)	2,827.2	13,544.0	27,645.5	41,920.3
Adj. NP (consensus; RMB mn)			14,124	28,630	52,220
P/E (x)	na	na	134.1	39.2	23.2
ROE (%)	(21.1)	(5.3)	4.3	13.4	18.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$168.00**

(Previous TP **HK\$216.40**)

Up/Downside **19.8%**

Current Price **HK\$140.20**

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Stock Data

Mkt Cap (HK\$ mn)	863,154.6
Avg 3 mths t/o (HK\$ mn)	154.1
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%

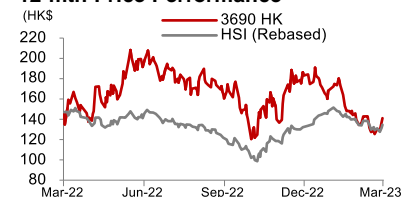
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.3%	4.8%
3-mth	-23.5%	-24.7%
6-mth	-12.5%	-21.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

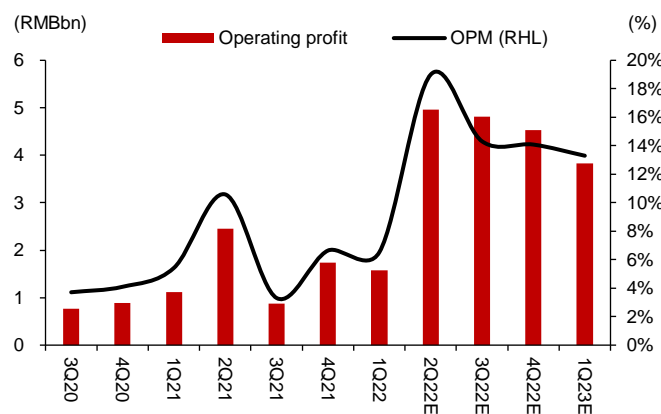
Key results update

Core local commerce (72% of 4Q22 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 a revenue growth of 17% YoY to RMB43.5bn. Among which we estimate FD revenue has grown 23% YoY, and ISHT revenue has declined 18% YoY. Segmental operating profit of RMB7.2bn is 7% ahead of our forecast, which implies a OPM of 16.6% (4Q21: 13.8%), mainly thanks to better than expected unit economics generated from FD business and Meituan Instashopping business. We estimate OPM of FD business has reached 14% in 4Q22, indicating a YoY expansion of 7pp, and per order operating profit of FD has reached RMB1.1 in 4Q22 (4Q21: RMB0.44).

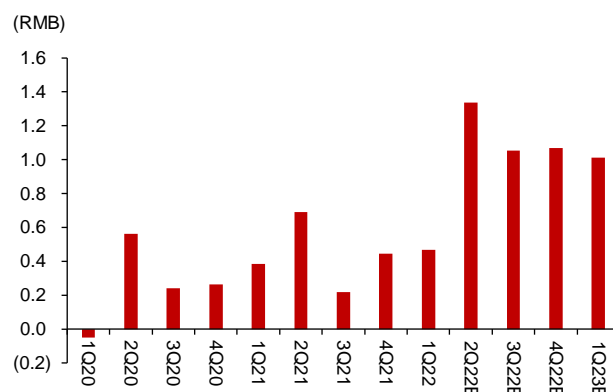
Looking into 1Q23, we forecast 12.5/19.0% YoY growth in FD order/revenue growth, and estimate operating profit of RMB3.8bn for 1Q23, indicating per order operating profit of RMB1.0.

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 1Q23 revenue of RMB9.4bn, up 22% YoY, thanks to recovery in offline activities which aided GTV recovery. We forecast OPM of 42% for ISHT business, flat QoQ.

New initiatives (28% of 4Q22 revenue)

Revenue generated from new initiatives was RMB16.7bn in 4Q22, up 33.4% YoY, inline with our estimate. Operating loss for the segment was RMB6.4bn (our estimate: RMB6.8bn), implying a loss margin of 38% (4Q21: 75%), which we attribute to better than expected cost saving across business lines.

We forecast new initiatives revenue to grow 29% YoY to RMB15.6bn in 1Q23, and an operating loss of RMB5.6bn (1Q22: RMB8.5bn), narrower both QoQ and YoY thanks to continuous cost optimization and efficiency improvement.

Revision of forecast and valuation

Figure 3: Meituan: quarterly financial results

(RMB mn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	CMBI estimates	Diff (%)	Consensus	Diff (%)
Revenue	37,016	43,759	48,829	49,523	46,269	50,938	62,619	60,129	57,767	4.1%	57,923	3.8%
YoY growth (%)	120.9%	77.0%	37.9%	30.6%	25.0%	16.4%	28.2%	21.4%				
Gross profit	7,200	12,513	10,778	11,983	10,740	15,574	18,505	16,933	16,760	1.0%	16,081	5.3%
Operating profit	(4,767)	(3,252)	(10,103)	(5,006)	(5,584)	(493)	988	(732)	-1,216	na	-1537.5	na
Non-IFRS net profit	-3,892	-2,217	-5,527	-3,936	-3,586	2,058	3,527	829	281	195.0%	527.8	57.1%
GPM (%)	19.5%	28.6%	22.1%	24.2%	23.2%	30.6%	29.6%	28.2%	29.0%	-0.9 ppt	27.8%	0.4 ppt
OPM (%)	-12.9%	-7.4%	-20.7%	-10.1%	-12.1%	-1.0%	1.6%	-1.2%	-2.1%	0.9 ppt	-2.7%	1.4 ppt
Non-IFRS NPM (%)	-10.5%	-5.1%	-11.3%	-7.9%	-7.8%	4.0%	5.6%	1.4%	0.5%	0.9 ppt	0.9%	0.5 ppt

Source: CMBIGM estimates

Figure 4: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)	
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E
Revenue	273.6	341.2	414.7	281.3	357.7		-2.8%	-4.6%
Gross profit	86.5	114.8	145.5	89.5	123.0		-3.3%	-6.7%
Operating profit	7.5	23.4	40.2	8.0	28.1		-6.5%	-16.8%
Non-IFRS net profit	13.5	27.6	41.9	14.3	32.2		-5.2%	-14.2%
Operating margin	2.7%	6.9%	9.7%	2.8%	7.9%		-0.1 pp	-1.0 pp
Non-IFRS net margin	5.0%	8.1%	10.1%	5.1%	9.0%		-0.1 pp	-0.9 pp

Source: CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB bn	CMBIGM			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	273.6	341.2	414.7	277.0	344.8	409.4	-1.2%	-1.1%	1.3%
Operating profit	7.5	23.4	40.2	6.9	22.5	45.8	7.8%	4.1%	-12.2%
Non-IFRS net profit	13.5	27.6	41.9	14.1	28.6	52.2	-4.1%	-3.4%	-19.7%
Operating margin	2.7%	6.9%	9.7%	2.5%	6.5%	11.2%	0.2 pp	0.3 pp	-1.5 pp
Non-IFRS net margin	5.0%	8.1%	10.1%	5.1%	8.3%	12.8%	-0.1 pp	-0.2 pp	-2.6 pp

Source: Bloomberg, CMBIGM estimates

DCF-based target price of HK\$168.0

Our DCF-based target price is HK\$168.0, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), akin to 3.4x 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	352,519	371,826	390,438	383,543	377,634	348,620	313,250	256,241	190,459	100,273
Discounted terminal value	473,400									
Total equity valuation	927,381									
Total equity valuation (HKDmn)	1,044,559									
No. of shares (diluted, mn)	6,218									
Valuation per share (HKD)	168.0									

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\$168.0 per share implies a total valuation of HK\$1.0tn 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 RMB123.6bn, which translates into 1.4x 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
FD	20.4%	26.6%	2025E PE, discount back	27,392	20.0	3.2	444,701	48.4
ISHT	28.1%	17.3%	2023E PE	12,396	18.0	5.2	223,127	24.3
New initiatives and others	26.4%					1.4	123,612	13.5
Cash and short-term investment (2023E)							126,759	13.8
Total valuation (RMBmn)							918,199	
Total valuation (HK\$ mn)							1,034,217	
Valuation per share (HK\$)							168	

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	273,556	341,157	414,726
Cost of goods sold	(80,744)	(136,654)	(158,202)	(187,036)	(226,402)	(269,256)
Gross profit	34,050	42,474	61,753	86,520	114,755	145,470
Operating expenses	(29,720)	(65,601)	(67,573)	(79,039)	(91,350)	(105,260)
SG&A expense	(26,477)	(49,296)	(49,517)	(57,424)	(67,539)	(77,637)
R&D expense	(10,893)	(16,676)	(20,740)	(23,071)	(26,754)	(31,301)
Others	7,649	370	2,683	1,456	2,943	3,679
Operating profit	4,330	(23,127)	(5,820)	7,482	23,405	40,210
Share of (losses)/profits of associates/JV	264	146	36	36	36	36
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)	6,612	22,608	39,493
Income tax	270	30	70	(926)	(2,939)	(5,924)
After tax profit	4,708	(23,536)	(6,686)	5,687	19,669	33,569
Minority interest	(1)	2	1	1	2	3
Net profit	4,708	(23,538)	(6,686)	5,686	19,667	33,566
Adjusted net profit	3,121	(15,572)	2,827	13,544	27,646	41,920
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	88,306	147,829	143,145	143,993	173,576	229,161
Cash & equivalents	17,094	32,513	20,159	18,820	44,491	97,429
Restricted cash	12,776	13,277	14,606	16,066	17,673	19,440
Inventories	466	682	1,163	1,039	1,597	1,480
Other current assets	57,970	101,357	107,218	108,067	109,815	110,813
Non-current assets	78,269	92,825	101,336	127,148	132,080	135,639
PP&E	13,917	22,814	22,201	23,730	23,046	22,034
Intangibles	31,676	31,049	30,643	31,232	31,417	31,674
Other non-current assets	32,675	38,962	48,491	72,186	77,617	81,931
Total assets	166,575	240,653	244,481	271,140	305,656	364,801
Current liabilities	51,148	68,593	76,430	98,130	105,351	123,011
Short-term borrowings	6,395	11,565	17,562	23,247	22,099	22,250
Account payables	21,382	26,117	29,812	34,994	41,934	47,836
Tax payable	23,371	30,911	29,056	39,889	41,319	52,926
Non-current liabilities	17,793	46,504	39,345	39,867	39,987	40,020
Long-term borrowings	1,957	12,220	1,549	2,050	1,949	1,962
Other non-current liabilities	15,835	34,284	37,796	37,817	38,038	38,058
Total liabilities	68,941	115,097	115,775	137,997	145,338	163,031
Share capital	0	0	0	0	0	0
Capital surplus	263,155	311,221	316,743	324,128	331,632	339,511
Retained earnings	(159,201)	(182,742)	(189,466)	(192,414)	(172,745)	(139,176)
Other reserves	(6,262)	(2,867)	1,484	1,484	1,484	1,484
Total shareholders equity	97,693	125,613	128,762	133,199	160,372	201,819
Minority interest	(59)	(57)	(56)	(55)	(53)	(50)
Total equity and liabilities	166,575	240,653	244,481	271,140	305,656	364,801

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,438	(23,566)	(6,685)	5,687	19,669	33,569
Depreciation & amortization	5,194	8,928	9,335	9,806	10,665	11,322
Change in working capital	1,896	7,209	(236)	13,203	2,503	13,986
Others	(3,053)	3,418	8,997	7,386	7,505	7,880
Net cash from operations	8,475	(4,011)	11,411	36,081	40,342	66,757
Investing						
Capital expenditure	(11,223)	(9,010)	(9,898)	(9,848)	(9,825)	(10,152)
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)	(341)	(415)
Net cash from investing	(21,232)	(58,492)	(14,714)	(43,607)	(13,423)	(13,987)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	5,452	15,768	(4,674)	6,186	(1,250)	165
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)	6,187	(1,248)	168
Net change in cash						
Cash at the beginning of the year	13,396	17,094	32,513	20,159	18,820	44,491
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	18,820	44,491	97,429
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	17.7%	56.0%	22.8%	24.4%	24.7%	21.6%
Gross profit	5.4%	24.7%	45.4%	40.1%	32.6%	26.8%
Operating profit	61.6%	na	na	na	212.8%	71.8%
Net profit	110.4%	na	na	na	245.9%	70.7%
Adj. net profit	(33.0%)	na	na	379.1%	104.1%	51.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.7%	23.7%	28.1%	31.6%	33.6%	35.1%
Operating margin	3.8%	(12.9%)	(2.6%)	2.7%	6.9%	9.7%
Adj. net profit margin	2.7%	(8.7%)	1.3%	5.0%	8.1%	10.1%
Return on equity (ROE)	5.0%	(21.1%)	(5.3%)	4.3%	13.4%	18.5%
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	1.6	1.9
Receivable turnover days	2.7	2.8	3.1	2.8	2.4	2.2
Inventory turnover days	1.7	1.5	2.1	2.1	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	134.1	39.2	23.2
P/E (diluted)	207.2	na	na	133.4	39.0	23.1
P/B	10.0	11.6	7.2	5.7	4.8	3.9
P/CFPS	na	na	608.4	28.8	24.7	13.3
EV	690,819.9	650,048.5	648,809.6	654,873.8	626,346.5	571,805.9
EV/Sales	6.0	3.6	2.9	2.4	1.8	1.4

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

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