

# Meituan-W (3690 HK)

## Recovery in sight

- Operating environment improved in May, adding optimism for a recovery in 2H22
- New initiatives showed narrowing losses; consumers' re-stocking demand on necessities renders the segment more defensive under COVID
- Maintain **BUY** with a revised TP of HK\$ 240

**Recovery in sight.** We expect food delivery revenue to rebound by 12%/15% YoY in 3Q22/4Q22 after delivering a meek 5% YoY growth in 2Q22. The uptick will be driven by gradual relaxation of COVID measures since June. Food delivery business declined sharply in Apr but the situation has improved since late-May. For 2021-23E, we expect food delivery revenue CAGR of 21% on the back of a 17% annual transacting user CAGR.

**Re-stocking demand on necessities.** In our view, new initiatives including community group purchase and instant purchase are less impacted by the COVID due to increase in restocking demand of food and groceries products among consumers. We expect new initiatives revenue growth to be 35%/40%/38% YoY for 2Q/3Q/4Q2022. For 2021-23E, we expect a new initiative revenue CAGR of 35%.

**Improving profitability.** Operating losses of the new initiatives segment has been narrowing from RMB 10.2bn in 4Q21 to RMB 9.0bn in 1Q22 cost control and economies of scales. Further room for cost control is possible but the management would need to strike a balance between growth and profitability. Driven by improving profitability of the new initiatives, we expect the company to report RMB7.8bn in core net profit in 2023E vs. RMB8.3bn core net losses in 2022E.

**Maintain BUY.** We maintain **BUY** with a revised DCF-based TP of HK\$ 240. In our view, the narrowing losses of new businesses would alleviate investors' concerns on profitability. With the gradual improvement in operating environment as COVID recedes, share performance will regain strength in the near term.

### Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	114,794	179,128	208,896	272,871
Chg (% YoY)	17.7	56.0	16.6	30.6
Net profit (RMB mn)	4,708	(23,536)	(13,632)	2,557
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)*	3,121	(15,572)	(8,296)	7,839
Chg (% YoY)	(33.0)	NA	NA	NA
EPS (RMB)	0.8	(3.9)	(2.2)	0.4
Chg (% YoY)	107.5	NA	NA	NA
Core EPS (RMB)*	0.5	(2.6)	(1.4)	1.3
Chg (% YoY)	(33.88)	NA	NA	NA
P/S (x)	9.0	6.0	5.2	4.0
Core P/E (x)*	331.7	NA	NA	138.6
ROAE (%)	5.0	(21.1)	(11.2)	2.1
ROAA (%)	3.2	(11.6)	(5.5)	1.0

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

Source(s): Bloomberg, ABCI Securities estimates

CNY/HKD = 1.1755

## Company Report

June 8, 2022

Rating: **BUY**

TP: HK\$ 240

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Share price (HK\$)	208.2
Est. share price return	15.3%
Est. dividend yield	NA
Est. total return	15.3%
Previous Rating & TP	BUY/HK\$190
Previous Report Date	Mar 30, 2022

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	338.0/103.5
Issued shares (mn)	6,184
of which	
Listed B shares (mm)	5,506
Unlisted shares (mm)	678
B share market cap (HK\$ mn)	1,137,457
Avg daily turnover (HK\$ mn)	6,587
<b>Major shareholder(s)</b>	<b>Voting right</b>
Wang Xing	44.9%

Source(s): Bloomberg, Company, ABCI Securities



## Eye on recovery in 2H22 and beyond

Approaching the end of 1H22, the market has largely priced in the expected bottoming in 2Q results as China is deep in the throes of its fight against COVID and begun to look forward to the potential business rebound in 2H22 and beyond. Among Meituan's major segment, food delivery and new businesses are likely to recover quicker than the in-store/hotel/travel in coming months.

**Food delivery:** We expect a meaningful recovery for the food delivery and new businesses, including the community group purchase, to start in 3Q22. Food delivery business suffered severe decline in order volume in Apr but performance has improved since late-May. Since fewer lockdowns and restrictions are in place for major cities in June, management expects a sharp rebound in food delivery order in June. To recall, revenue of the food delivery segment went up 17% YoY in 1Q22 with segment operating margin improving to 6.5% in 1Q22 vs. 5.4% in 1Q21 due to cost control on subsidy.

We expect segment revenue growth to slow to 5% YoY in 2Q22 before recovering to 12%/15% YoY in 3Q/4Q22, driven by normalization of business environment as COVID subsides. For 2021-23E, we expect a revenue CAGR of 21% on the back of a 17% annual transacting user CAGR .

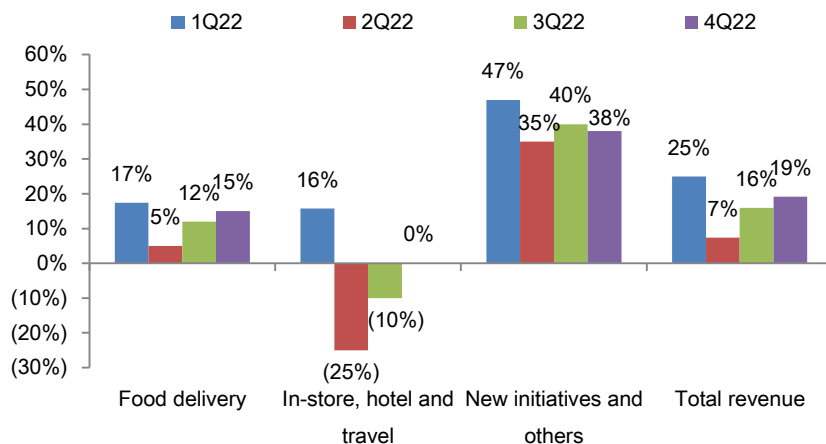
**New initiatives and others:** For the new businesses, including community group purchase and on-demand purchase, improvement in 2H22E will be supported by increasing demand of food and grocery products because consumers are keen on stocking up staples for potential lockdowns. Operating losses for the segment narrowed to RMB 9.0bn in 1Q22 from RMB10.2bn in 4Q21 due to cost control and better economies of scale. Segment revenue growth was 47% YoY in 1Q22 vs. 59% in 4Q21. The segment seemed to be more defensive than the food delivery business amid COVID.

Meituan Instashopping has benefited from the rise in re-stocking demand of consumer staples and the shift to local on-demand delivery due to bottleneck of inter-city logistic network; in general, supermarkets and convenience stores under Meituan Instashopping have been less impacted than the restaurants for the past months. Looking forward, the management sees further room of cost control and will balance between cost reduction and business growth.

We expect segment revenue growth to slow to 35% YoY in 2Q22 but recover to 40%/38% YoY in 3Q/4Q22, driven by re-stocking demand of consumers on daily necessities. For 2021-23E, we expect a revenue CAGR of 35% based on expansion in the community group purchase and instant e-commerce businesses.

**In-store/hotel/travel:** The in-store/hotel/travel segment, however, is likely to experience a more serious near-term impact, as demand for hotel and travel will take longer to recover. In 1Q22, the segment revenue grew 16% YoY versus 22% in 4Q21.

We expect segment revenue to drop by 25% YoY in 2Q22; for 3Q22/4Q22, revenue growth would be -10%/0% YoY. For 2021-23E, we estimate a 11% revenue CAGR, assuming business environment will be normalized by 2023.

**Exhibit 1: Quarterly revenue growth trend (YoY)**


Source(s): Company, ABCI Securities estimates

Overall, we expect revenue growth to slow to 7% YoY in 2Q22, followed by sequential recovery afterwards with revenue growth climbing to 19% YoY in 4Q22. For 2021-23E, we expect a 23% CAGR revenue growth.

**Exhibit 2: Revenue forecasts**

	2020	2021	2022E	2023E	21-23E CAGR
<b>Revenue (RMB mn)</b>	<b>114,794</b>	<b>179,128</b>	<b>208,896</b>	<b>272,871</b>	<b>23%</b>
Food delivery	66,265	96,312	108,146	141,441	21%
In-store, hotel and travel	21,252	32,530	30,554	40,175	11%
New initiatives and others	27,277	50,286	70,196	91,255	35%

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Major assumptions**

	2020	2021	2022E	2023E	21-23E CAGR
Annual transacting users (mn)	511	691	829	953	17%
No. of food delivery transactions (mn)	10,147	14,368	16,523	19,827	17%

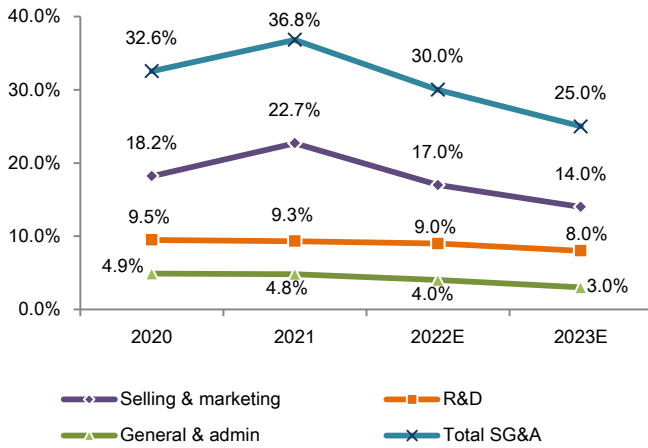
Source(s): Company, ABCI Securities estimates

In terms of operating cost, we expect SG&A/revenue ratio to gradually fall to 25.0% in 2023E from 36.8% in 2021 on economies of scale and cost control, especially in the new businesses. 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 the new business initiatives is the major swing factor of the profit outlook. We expect new business operating losses to narrow to RMB 16.5bn by 2023E from RMB 38.4bn in 2021 as the business increased in scale with effective cost control. As such, we project core net losses to be RMB 8.3bn in 2022E before swinging into the black with a core net profit of RMB 7.8bn in 2023E.

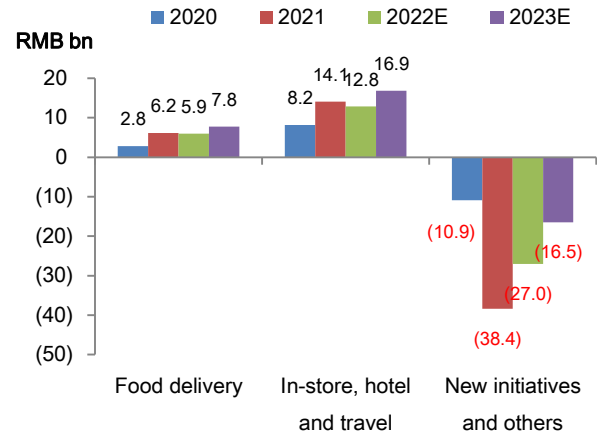


Exhibit 4: Cost trend (% of revenue)



Source(s): Company, ABCI Securities estimates

Exhibit 5: Segment operating profit



Source(s): Company, ABCI Securities estimates

Exhibit 6: Forecast changes

RMB mn	2022E				Comment	2023E			
	old	new	Diff			old	new	Diff	
Revenues	216,070	208,896	(3.3%)		Soft macro environment	289,132	272,871	(5.6%)	
Core profit	(8,583)	(8,296)	(3.3%)		Lower cost assumptions	5,404	7,839	45.1%	

Source(s): ABCI Securities estimates



## Valuation and TP

We maintain **BUY** with a revised DCF-based TP of HK\$ 240. In our view, the narrowing losses of new businesses should allay investors' concerns on profitability. Adding to that, a gradual improving operating environment should also support share price in the near term. Of course, a consistent trend of improving profitability is crucial in boosting the Group's long-term outlook.

### Exhibit 7: DCF sensitivity

	WACC					
	11.0%	12.0%	13.0%	14.0%	15.0%	
Terminal growth	2.0%	267	232	205	182	164
	2.5%	277	240	211	187	167
	3.0%	289	249	217	192	171
	3.5%	302	258	224	197	175
	4.0%	317	269	232	203	180

Source (s): ABCI Securities estimates

\*Assuming 15.6% cost of equity, 6% cost of debt, 15% tax rate, 25% long-term debt to capital ratio for the mid-point of WACC range (13%)

### Exhibit 8: TP changes (HK\$ per share)

Segment	Old	New	Methodology -old	Methodology - new
Overall	190	240	DCF	DCF with revised financial forecast

Source(s): ABCI Securities estimates



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>208,896</b>	<b>272,871</b>
Cost of sales	(80,744)	(136,654)	(159,806)	(201,924)
<b>Gross profit</b>	<b>34,050</b>	<b>42,474</b>	<b>49,091</b>	<b>70,946</b>
Other gains/losses	8,117	630	500	500
Selling & marketing expenses	(20,883)	(40,683)	(35,512)	(38,202)
R&D expenses	(10,893)	(16,676)	(18,801)	(21,830)
General & admin expenses	(5,594)	(8,613)	(8,356)	(8,186)
Impairment	(468)	(260)	(150)	(100)
<b>Operating Profits</b>	<b>4,330</b>	<b>(23,127)</b>	<b>(13,228)</b>	<b>3,129</b>
Finance income, net	(156)	(585)	(500)	(400)
Share of gains of investments	264	146	110	110
<b>Profit before tax</b>	<b>4,438</b>	<b>(23,566)</b>	<b>(13,618)</b>	<b>2,839</b>
Tax	270	30	0	(284)
<b>Profit after tax</b>	<b>4,708</b>	<b>(23,536)</b>	<b>(13,618)</b>	<b>2,555</b>
Minority interests	(1)	0	14	(3)
<b>Profit attributable to shareholders</b>	<b>4,708</b>	<b>(23,536)</b>	<b>(13,632)</b>	<b>2,557</b>
Share-based compensation	3,277	5,194	5,222	5,185
Amortization and impairment	610	496	600	600
Adjustments on disposals/revaluation	(5,810)	(1,247)	(500)	(500)
Other adjustments	335	3,522	14	(3)
<b>Core net profit</b>	<b>3,121</b>	<b>(15,572)</b>	<b>(8,296)</b>	<b>7,839</b>
<b>Growth</b>				
Total revenue (%)	17.7	56.0	16.6	30.6
Gross Profits (%)	5.4	24.7	15.6	44.5
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)	(6.3)	1.1
Net margin (%)	4.1	(13.1)	(6.5)	0.9
Core net margin (%)	2.7	(8.7)	(4.0)	2.9
ROAE (%)	5.0	(21.1)	(11.2)	2.1
ROAA (%)	3.2	(11.6)	(5.5)	1.0

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	37,112	50,607
Restricted cash	12,776	13,277	13,941	14,638
Account receivables	1,031	1,793	2,289	2,990
Deposit, prepayments and other assets	12,940	15,282	16,046	16,848
Inventories	466	682	1,282	1,674
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>154,952</b>	<b>171,040</b>
<b>Total assets</b>	<b>166,575</b>	<b>240,654</b>	<b>255,241</b>	<b>278,840</b>
Accounts payable	11,967	15,166	17,742	23,175
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>81,530</b>	<b>92,344</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>138,079</b>	<b>153,939</b>
<b>Net current assets</b>	<b>37,158</b>	<b>79,237</b>	<b>73,422</b>	<b>78,697</b>
Equity attributable to shareholders	97,693	125,613	117,204	124,946
Non-controlling interests	(58)	(57)	(43)	(46)
<b>Total equity</b>	<b>97,635</b>	<b>125,557</b>	<b>117,161</b>	<b>124,900</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)	(13,618)	2,839
Depreciation and amortization	5,194	8,928	8,000	8,000
Other operating cash flow	(3,047)	3,419	5,222	4,901
Change in working capital	1,890	7,208	289	3,090
<b>Operating cash flow</b>	<b>8,475</b>	<b>(4,011)</b>	<b>(106)</b>	<b>18,829</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>4,599</b>	<b>13,495</b>

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

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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. The competition will be on commission rate, promotion discount, brand advertising, technological investment, and more.

### 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 ( $\sim 10\%$ )
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.

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