



Meituan

“Resurgence of a tech leader”

Bloomberg: 3690:HK | Reuters: 3690.HK | Stock Code: 3690.HK

HANG SENG
Technology
BUY

TP: HK\$253.94
Price: HK\$197.70

Valuation / Recommendation

Meituan, the bellwether of the Hong Kong market, has plunged 50.7% from a high of HK\$401.4 in February 2021 following a regulatory crackdown on technology companies. It is an opportune time to accumulate the stock with the relaxation of the total lockdown in China starting in June 2022. Meituan deserves a premium rating on its (i) focus and progressive management team and (ii) higher break-up value of its three distinct business divisions. The sum-of-the-parts (SOTP) valuation reveals that the stock has an upside potential of 28.4% with a fair value of HK\$253.94

Investment Highlights

Food delivery is staging a turnaround following the relaxation of the total lockdown policy, particularly in top-tier cities where Meituan has the largest market share. In late May, Meituan is experiencing a strong and positive pick-up in order volume. We recall that in 1QFY22, the growth of both order volume (up 15.8% yoy) and average order value (AOV) was overwhelmingly encouraging before it hit a snag in 2QFY22 on the covid outbreak. For 2HFY22, we expect the growth of average order volume to be high in the high teens. However, the AOV will be flattish or lower as more restaurants with lower ASPs are back into the delivery business after the lockdown period. Likewise, the Gross Transaction Value (GTV) is expected to improve while the take rate should climb on fewer subsidies granted, along with higher order volume. In FY23, we expect the GTV to improve by 26% yoy to RMB953 bn on better macro conditions and higher-order frequency. The take rate is forecasted to improve from 14.0% to 14.8% in FY23 with the ongoing cost optimization program. EBIT should top RMB13.9 bn, a 33.5% yoy growth for FY23.

In-store, hotel & travel divisions suffered the most from this pandemic outbreak, taking longer time to recover. Stricter travel mandates are still in place despite the relaxation of lockdown. Tourists are not keen to travel extensively in China for the rest of the year and hence, we expect the revenue will drop 13.9% in FY22 despite positive revenue growth in 1QFY22. Business can only be normalized in FY23. We concur with the management view that the segment will resume CAGR growth of 25% per annum with an operating margin of around 45% for the next five years.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RMB bn)	114,794	179,128	197,622	275,000	328,564
EBIT (RMB bn)	159	(18,126)	(11,829)	14,350	39,168
EBIT (%)	0.1%	-10.1%	-6.0%	5.2%	11.9%
EBITDA (RMB bn)	4,708	(23,536)	(15,949)	9,590	33,928
EBITDA (%)	4.1%	-13.1%	-8.1%	3.5%	10.3%
Pre-tax Profit (RMB bn)	4,438	(23,566)	(16,449)	9,090	33,428
Net Profit (RMB bn)	4,708	(23,536)	(16,649)	8,181	26,742
EPS (HK\$)	0.94	(4.49)	(3.15)	1.55	5.05
BV Per Share (RMB)	16.6	20.5	17.6	18.9	23.2
PE (x)	211.3	(44.1)	(62.9)	127.9	39.1
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	5.0%	-21.1%	-14.2%	7.2%	20.5%

Sources: Mercury Securities, Company

Business Overview

Meituan operates a web-based shopping platform for consumer products and retail services. Meituan connects consumers and businesses to provide online eating delivery services while also engaging in the operation of a bike-sharing app, Mobike. Meituan also provides community group buying (CGB) services through Meituan Select. Meituan has three major business divisions, namely, food delivery, in-store hotel & travel, and CGB and other new initiatives.

Stock Return Information

Hang Seng (pts)	21,643.58
Expected Share Return (%)	28.4
Expected Dividend Yield (%)	-
Expected Total Return (%)	28.4

Share Information

Market Cap (HK\$ bn)	1,224
Issued Shares (m)	6,193
52W High (HK\$)	302.0
52W Low (HK\$)	103.5
Estimated Free Float (%)	76.2
Beta vs Hang Seng	1.8
3-month Average Vol. (bn)	0.7

Top 3 Shareholders (%)

Tencent Holdings Ltd	19.27
Baillie Gifford & Co	4.95
BlackRock Inc	4.79

Price Performance

	1M	3M	12M
Absolute (%)	-5.7	25.4	-26.6
Relative to Index (%)	-4.0	26.5	-6.4



Source: Bloomberg

Soh Meng Hui

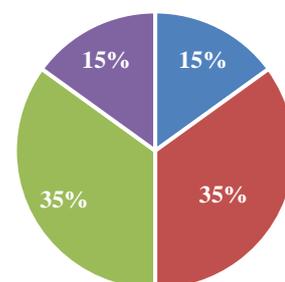
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New initiatives business. Though being a late comer into the Community Group Buying (CGB) business, Meituan manages to rival the market leader, Pinduoduo, and secured an equally 35% market share, emerging as a formidable force. CGB has good growth potential with an estimated GMV of RMB900 bn in 2025. The regulatory crackdown and harsh operating environment that resulting the closure of smaller operators have helped Meituan solidify its market leader position, narrowing its losses and quickening its breakeven cycle. Before the covid outbreak in 1QFY22, order volume and GTV growths were 85% YoY and 110% YoY on better AOV, higher-order density, and improved delivery efficiency. Strong revenue growth of 50% is expected to resume in FY23. Along with the cost optimization program to improve margin, we should expect a significant turnaround in CGB business with a small positive EBIT of RMB1 bn in FY24.

Risk factors. (i) The biggest risk factor is that investments in new initiatives may not be turnaround sooner than expected. (ii) Stringent rules and stricter labor rights dampened its profit margin. (iii) A weaker-than-expected recovery may dampen its revenue growth. (iv) Competition from market leaders like Alibaba and Pinduoduo especially in the CGB market may put pressure on its market share and profit margin.

Using SOTP valuation, we break the business into 3 divisions, namely food delivery, in-store hotel & travel, and, CGB and other initiatives. The food delivery business is valued at RMB353bn at FY23 EV/Sales of 2.5x compared with the industry EV/Sales of around 1.3x to 4x. For in-store, hotel & travel, we use an adjusted EBIT of RMB16.9bn at a P/E of 27x against its revenue growth of 36% in FY23, and thus, the HK\$456 bn valuation is justified. Again, CGB and new initiatives business will be valued at FY23 EV/Sales of 2.5x against sales of RMB96bn, giving rise to a valuation of HK\$240bn. Since Meituan has one of the most focused and progressive management teams that constantly exceeds expectations plus the fact that Meituan is worth higher as a separate three business divisions, we attach a reasonable 15% premium to its valuation. **At an equity value of HK\$1,573 bn, the stock is worth HK\$253.94, an upside of 28.4%.**

Figure 1: CGB market share 2022 Forecast



■ Others ■ Meituan Select ■ Duoduo Maicai ■ Taocaicai

Source: Mercury Securities

App owned by: Meituan Select = Meituan, Duoduo Maicai = Pinduoduo, Taocaicai = Alibaba

Sum -of-Part Valuation	(RMB bn)
Food Delivery: Sales of FY23 of RMB141 bn X EV/Sales of 2.5X	353
In-store, Hotel & Travel: Adjusted EBIT of RMB16.9 bn X P/E of 27X	456
CGB : Sales of FY23 of RMB96bn X EV/Sales of 2.5X	240
Enterprise Value	1,049
Add Net Cash	120
Equity Value	1,169
Attached a 15% premium on management and break-up value	1,344
Equity Value in HK\$ bn	1,573
Number of Shares (bn)	6.2
Fair Value / Share (HK\$)	253.94

Sources: Company, Mercury Securities



Peer Comparison

Company	Bloomberg Ticker	Share Price (local)	Market Cap (US\$ m)	EV / Sales 2022 (X)	EV/Sales 2023 (X)	Sales Growth 2023	EPS 2022 (local)	EPS 2023 (local)	P/E 2022 (X)	P/E 2023 (X)	EPS Growth 2023
Food Delivery											
DoorDash	DASH US	69.36	27,569	3.8	3.1	23.9%	-1.7	-1.1	-41.8	-64.2	-34.9%
Domino Pizza	DPZ US	397.57	14,330	4.3	4.0	7.3%	12.8	15.1	31.2	26.3	18.5%
Uber	UBER US	21.50	42,219	1.7	1.3	21.2%	-3.4	-0.1	-6.4	-195.5	-96.7%
Industry Average			84,118	2.3	1.8	24.9%			-12.5	-7.7	62.1%
Travel											
Airbnb	ABNB US	92.88	59,969	6.4	5.4	18.6%	1.9	2.4	50.2	38.7	29.7%
Booking	BKNG US	1,750.86	71,126	3.9	3.4	15.2%	75.0	123.9	23.4	14.1	65.2%
Expedia	EXPE US	93.87	14,747	1.6	1.4	15.1%	5.0	7.5	18.8	12.5	50.0%
Industry Average			145,842	3.8	3.2	16.0%			32.3	20.6	57.1%
CGB											
Alibaba Group	BABA US	119.12	322,924	1.9	1.7	12.8%	6.9	7.5	17.2	15.9	7.9%
Pinduoduo	PDD US	61.69	78,000	4.0	3.2	24.2%	1.6	2.2	39.8	28.6	39.4%
Industry Average			400,924	2.1	1.9	14.2%			19.4	17.4	10.9%
Meituan	3690.HK	197.70	159,166	4.6	3.3	0.4	-3.1	5.1	-62.9	127.9	n/a

Income Statement

FY ended 31 December (RMB bn)	2020	2021	2022	2023	2024
Food Delivery	66,264.5	96,311.9	105,622.1	140,999.7	164,278.2
In-store, Travel & Hotel	21,252.0	32,530.0	28,000.0	38,000.0	41,800.0
Community Group Buying and new initiatives	27,277.0	50,286.0	64,000.0	96,000.0	124,800.0
Total Revenue	114,793.5	179,128.0	197,622.1	274,999.7	330,878.2
Food Delivery	2,833.3	6,174.6	6,421.0	13,900.0	19,568.0
Instore, Travel and Hotel	8,180.9	14,093.0	11,200.0	16,900.0	18,600.0
Community Group Buying and new initiatives	-10,855.0	-38,393.8	-29,450.0	-16,450.0	1,000.0
Total EBIT	159.2	-18,126.2	-11,829.0	14,350.0	39,168.0
Unallocated items	4,170.8	-5,001.0	-5,120.0	-5,760.0	-6,240.0
Adjusted EBIT	4,330.0	-23,127.2	-16,949.0	8,590.0	32,928.0
Adjusted EBITDA	4,707.6	-23,536.0	-15,949.0	9,590.0	33,928.0
Pre-tax Profit	4,437.8	-23,566.0	-16,449.0	9,090.0	33,428.0
Income Tax	269.7	30.3	-200.0	-909.0	-6,685.6
Net Profit	4,707.5	-23,535.7	-16,649.0	8,181.0	26,742.4
Diluted EPS (HK)	0.94	-4.49	-3.15	1.55	5.05
Number of Shares	5,885	6,136	6,193	6,193	6,193.0
Key Assumptions:					
Food Delivery					
Number of Transaction (m)	10,147.4	14,367.6	15,449.0	19,232.6	22,795.8
Average GTV (RMB)	48.2	48.9	49.0	49.6	49.7
GTV (RMB bn)	488.9	702.1	757.0	952.9	1,132.9
Take Rate (%)	13.6%	13.7%	14.0%	14.8%	14.5%
Sales Growth (%)	20.8%	45.3%	9.7%	33.5%	16.5%
EBIT Margin (%)	4.3%	6.4%	6.1%	9.9%	11.9%
In-store, Hotel and Travell					
Sales Growth	17.7%	53.1%	-13.9%	35.7%	10.0%
EBIT Margin (%)	38.5%	43.3%	40.0%	44.5%	44.5%
CGB and new initiatives					
EBIT Margin (%)	-39.8%	-76.4%	-46.0%	-17.1%	0.8%
Sales Growth	33.6%	84.4%	27.3%	50.0%	30.0%

Sources: Company, Mercury Securities

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