

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

MEITUAN (3690 HK)

Turnaround surprise

■ 2Q22 results a strong beat with Non-IFRS net Income reached Rmb2.1bn, against consensus estimate loss of Rmb2.2bn. Revenue grew 16% yoy, 5% above expectation

■ 2Q22 Non-IFRS OPM reached 2.5%, +9.4ppt yoy, +11.7ppt qoq, boosted by reduced subsidies and cost control. 2H recovery intact with margin upside as Meituan focuses on operational efficiency

■ BUY: Gradual recovery to trend growth as logistics issue subsides; TP revised up to HKD261

Strong 2Q22 results

2Q22 Group revenue reached RMB50.9bn, +16% yoy, +10% qoq, 5% above consensus. Non-IFRS net income reached positive RMB2.1bn, vs forecasted loss of RMB2.2bn. 2Q22 GP was +24% yoy, and +45% qoq, while reported operating loss narrowed significantly. The significant beat is due to reduced subsidies for food delivery segment and continued efficiency push, the latter is similar to other internet peers' 2Q22 results. Meituan adjusted its reporting segments by combining FD, IHT, and Instashopping into "Core local commerce", and remaining segments into "New initiatives and others revenue", indicating updated strategic direction and resource allocation. In our view, the change also signifies Instashopping's elevated position as part of its core segments going forward, given fine-tuned business model and fast growth potential.

2H recovery remains intact

We see relatively eased lockdown conditions as compared to Apr/May period to support recovery, food delivery orders have recovered from 5% yoy for 2Q, 10% yoy for June, and likely to reach 20% yoy in August. IHT segment which recorded high teens decline yoy in 2Q22 should also recover but would be somewhat dragged by still conservative advertising spending due to persistent pandemic-related travelling uncertainties, which is also impacting recovery of some in-store categories' recovery. We expect Instashopping to maintain rapid growth, as management expects that trend to continue on the back of increasing penetration among existing Meituan FD customers and continued broadening product categories. For New initiatives segment, we forecast growth to remain strong but likely to remain at a net loss, though at a narrowed negative NPM as efficiency push remains a top priority.

Maintain BUY: Raise earnings forecast and TP

Management remains upbeat on its goal to reach 100mn peak daily FD orders by 2025, and 10mn avg daily orders for Instashopping. We adjusted our earnings forecast to reflect the exceptional 2Q22 performance (Figure 8), significantly reducing our Non-IFRS net loss forecast for FY22E, while raising FY23E and FY24E Non-IFRS net income by 25%. We raised our SOTP-TP from HKD244 to HKD261 reflecting earnings update, keeping multiples unchanged for key FD and IHT segments (Figure 10), maintain BUY. **Key Risks:** 1) Competition; 2) Regulatory; 3) Macro/Consumption; 4) Pandemic-related uncertainties.

Financials

RMB mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	114,795	179,128	221,003	279,440	338,583
Growth	17.7%	56.0%	23.4%	26.4%	21.2%
Adj. NP to shareholders	3,121	(15,572)	(272)	9,807	22,116
Growth	-33.0%	n.a.	-98.3%	n.a.	125.5%
Adj. diluted EPS (HKD)	0.61	(3.04)	(0.05)	1.88	4.24
P/S (x)	7.8	5.2	4.3	3.4	2.8
ROE	5.0%	-21.1%	-7.8%	1.1%	9.6%

Note: Closing price as of August 26, 2022; Sources: Company, CMS (HK) estimates

Tommy WONG

Crystal LI, CFA

+852 3189 6634

+852 3189 6122

tommywong@cmschina.com.hk crystalli@cmschina.com.hk

Kaia ZHANG

+852 3189 6176

kaiazhang@cmschina.com.hk

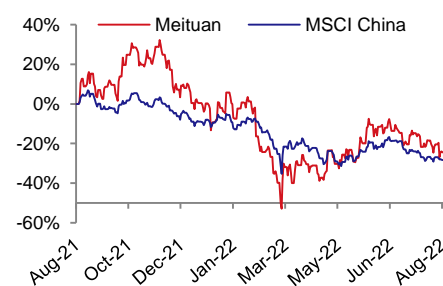
WHAT'S NEW

2Q22 results; Revised TP and forecasts

BUY

Previous	BUY
Price	HKD181.9
12-month Target Price (Potential Up/downside)	HKD261 (+43.5%)
Previous	HKD244

Price Performance



Source: Bloomberg

%	1m	6m	12m
3690 HK	3.2	6.9	(19.2)
MSCI China	0.1	(11.4)	(20.6)

Sector: Technology, Media & Telecom	
Hang Seng Index (Aug. 26, 2022)	20,170
MSCI China (Aug. 25, 2022)	67
Key Data	
52-week range (HKD)	104 - 298
Market cap (HKD bn)	1,125.5
Avg. daily volume (mn)	31.79
Shareholding Structure	
Huai River Investment Ltd	11.3%
Tencent Holdings Ltd	7.2%
Sequoia Capital Operations LLC	5.0%
Others	2.3%
Free float	74.2%

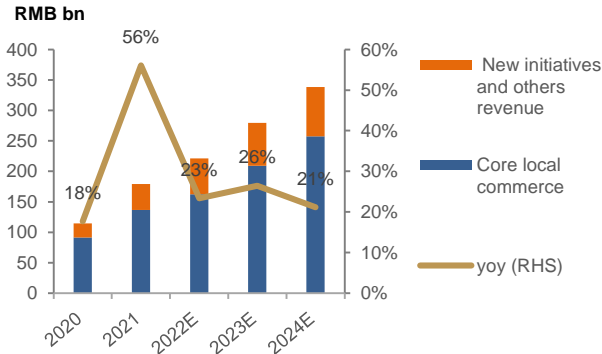
Sources: Bloomberg, Wind, CMS (HK) research

Related Research

- MEITUAN (3690 HK) - 2Q22 trough stance intact, though COVID disruption remains (BUY) (July 26, 2022)
- MEITUAN (3690 HK) - 1Q results point to high quality growth ahead (BUY) (June 4, 2022)
- MEITUAN (3690 HK) - Solid results with long term outlook intact (BUY) (Mar 27, 2022)

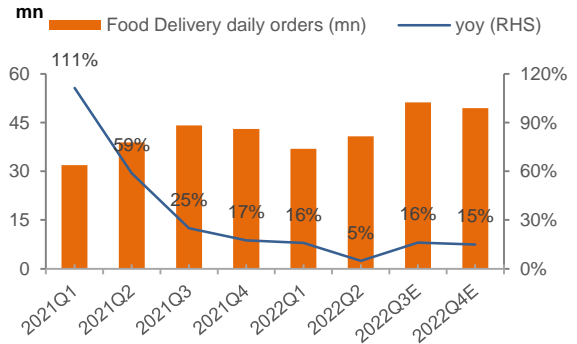
Focus charts

Figure 1: Total revenue forecast by segment



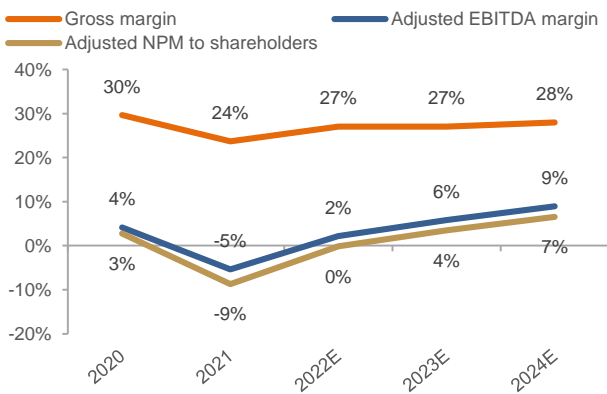
Sources: Company, CMS (HK) estimates

Figure 2: Food delivery orders



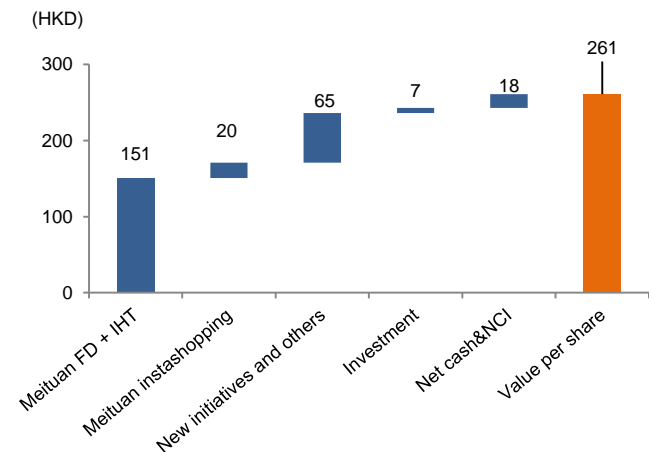
Sources: Company, CMS (HK)

Figure 3: Group margins forecast



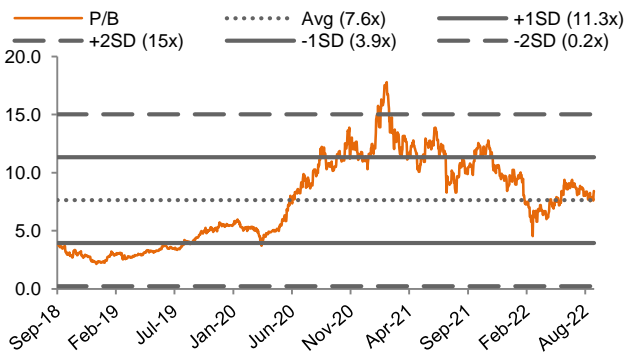
Sources: Company, CMS (HK) estimates

Figure 4: SOTP



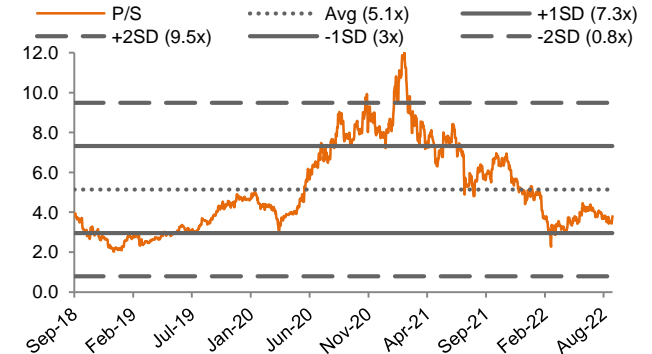
Sources: Company, CMS (HK) estimates

Figure 5: P/B range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 6: P/S range



Sources: Company, Bloomberg, CMS (HK) estimates

Figure 7: 2Q22 results table

RMB mn	2Q21	1Q22	2Q22	1Q22 yoy	2Q22 yoy	1Q22 qoq	2Q22 qoq	Actual vs CMS		Actual vs Consensus	
								2Q22E	% diff	2Q22E	% diff
Revenue	43,759	46,269	50,938	25%	16%	-7%	10%	49,439	3%	48,585	5%
Core local commerce	33,695	34,180	36,779	19%	9%	-8%	8%				
New initiatives and others revenue	10,064	12,089	14,159	46%	41%	-3%	17%				
Gross profit	12,513	10,740	15,574	49%	24%	-10%	45%	12,360	26%	12,415	25%
S&M expenses	-10,849	-9,106	-8,986	26%	-17%	-19%	-1%	-8,899	1%		
R&D expenses	-3,901	-4,879	-5,204	40%	33%	6%	7%	-4,944	5%		
G&A expenses	-2,053	-2,312	-2,504	33%	22%	-5%	8%	-2,472	1%		
Operating profit / (loss)	-3,252	-5,584	-493	17%	-85%	12%	-91%	-3,214	-85%	-3,658	-87%
Core local commerce	5,914	4,705	8,261	30%	40%	-7%	76%				
New initiatives and others	-8,785	-8,453	-6,790	9%	-23%	-9%	-20%				
Adjusted OP	-3,051	-4,264	1,259	4%	n.a.	-5%	n.a.			-3,658	n.a.
Adjusted EBITDA	-1,240	-1,841	3,803	-23%	n.a.	-8%	n.a.	-607	n.a.	-122	n.a.
Net profit (loss) after minority	-3,357	-5,703	-1,116	18%	-67%	7%	-80%	-3,541	-68%	-3,245	-66%
Adj. net profit/(loss) after minority	-2,218	-3,586	2,058	-8%	n.a.	-9%	n.a.	-1,997	n.a.	-2,173	n.a.
OCF	2,880	-11,278	9,233								
Total cash	134,945	114,561	120,791								
ST debt	11,563	11,716	11,011								
LT debt	7,592	15,339	17,473								
Net cash (debt)	115,790	87,506	92,308								
Total equity	134,829	121,088	123,565								
Net cash/equity	86%	72%	75%								
Key operating data											
Annual active merchants (mn)	7.7	9.0	9.2	27%	19%	2%	2%				
Annual avg. number of transactions per Transacting User	33	37	38	22%	16%	4%	2%				
Annual active consumers (mn)	628	693	685	22%	9%	0%	-1%				
Annual total orders (mn)	20,612	25,776	26,087	48%	27%	4%	1%				
Number of on-demand delivery transactions	3,814	3,717	4,102	19%	8%	-12%	10%				
Daily orders (mn)	42	41	45	19%	8%	-12%	10%				
Key ratio (%)											
Gross margin	28.6	23.2	30.6	3.8ppt	2.0ppt	-1.0ppt	7.4ppt	25.0	5.6ppt	25.6	5.0ppt
Operating margin	(7.4)	(12.1)	(1.0)	0.8ppt	6.5ppt	-2.0ppt	11.1ppt	(6.5)	5.5ppt	(7.5)	6.6ppt
Core local commerce	17.6	13.8	22.5	1.1ppt	4.9ppt	0.1ppt	8.7ppt				
New initiatives and others	(87.3)	(69.9)	(48.0)	23.7ppt	39.3ppt	5.1ppt	22.0ppt				
Adjusted Operating Margin	(7.0)	(9.2)	2.5	1.9ppt	9.4ppt	-0.2ppt	11.7ppt				
Adjusted EBITDA Margin	(2.8)	(4.0)	7.5	2.5ppt	10.3ppt	0.1ppt	11.4ppt	(1.2)	8.7ppt		
Net margin to shareholders	(7.7)	(12.3)	(2.2)	0.8ppt	5.5ppt	-1.5ppt	10.1ppt	(7.2)	5.0ppt	(6.7)	4.5ppt
Adjusted net margin to shareholders	(5.1)	(7.8)	4.0	2.8ppt	9.1ppt	0.2ppt	11.8ppt	(4.0)	8.1ppt	(4.5)	8.5ppt

Sources: Bloomberg, Company, CMS (HK) estimates

Figure 8: Revision summary

RMB mn	Revised			Previous			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues	221,003	279,440	338,583	213,356	270,622	325,384	3.6%	3.3%	4.1%
Gross profit	59,747	75,449	94,803	53,400	73,068	91,108	11.9%	3.3%	4.1%
Operating profit / (loss)	(8,119)	2,789	16,753	(12,186)	1,121	10,473	-33.4%	148.7%	60.0%
Adjusted EBITDA	4,827	16,285	30,200	(343)	14,485	23,722	n.a.	12.4%	27.3%
Net profit / (loss) to shareholders	(9,397)	1,302	11,898	(13,290)	(395)	7,848	-29.3%	n.a.	51.6%
Adjusted net profit / (loss) to shareholders	(272)	9,807	22,116	(5,978)	7,845	17,671	-95.5%	25.0%	25.2%
Margins (%)									
Gross margin	27.0	27.0	28.0	25.0	27.0	28.0	2.0ppt	0.0ppt	0.0ppt
Operating margin	(3.7)	1.0	4.9	(5.7)	0.4	3.2	2.0ppt	0.6ppt	1.7ppt
Adjusted EBITDA margin	2.2	5.8	8.9	(0.2)	5.4	7.3	2.3ppt	0.5ppt	1.6ppt
Net margin to shareholders	(4.3)	0.5	3.5	(6.2)	(0.1)	2.4	2.0ppt	0.6ppt	1.1ppt
Adjusted net margin to shareholders	(0.1)	3.5	6.5	(2.8)	2.9	5.4	2.7ppt	0.6ppt	1.1ppt
yoy (%)									
Revenues	23.4	26.4	21.2	19.1	26.8	20.2	4.3ppt	-0.4ppt	0.9ppt
Gross profit	40.7	26.3	25.7	25.7	36.8	24.7	14.9ppt	-10.6ppt	1.0ppt
Operating profit / (loss)	(64.9)	n.a.	500.7	(47.3)	n.a.	834.1	-17.6ppt	n.a.	-333.4ppt
Adjusted EBITDA	n.a.	237.4	85.4	(96.5)	n.a.	63.8	n.a.	n.a.	21.7ppt
Net profit / (loss) to shareholders	(60.1)	n.a.	813.8	(43.5)	(97.0)	n.a.	-16.5ppt	n.a.	n.a.
Adjusted net profit / (loss) to shareholders	(98.3)	n.a.	125.5	(61.6)	n.a.	125.2	-36.6ppt	n.a.	0.3ppt

Sources: Company, CMS (HK) estimates

Figure 9: CMS forecasts vs. consensus

RMB mn	CMS forecasts			Consensus			Diff %		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY23E
Revenue	221,003	279,440	338,583	216,276	282,975	353,428	2%	-1%	-4%
GM (%)	27.0	27.0	28.0	25.6	30.3	31.6	1.5ppt	-3.3ppt	-3.6ppt
Operating profit / (loss)	(8,119)	2,789	16,753	(13,877)	3,535	19,213	-41%	n.a.	n.a.
Net profit to shareholders	(9,397)	1,302	11,898	(13,644)	1,762	16,120	-31%	n.a.	n.a.
Basic EPS (RMB)	(1.53)	0.21	1.94	(2.15)	0.65	2.38	-29%	n.a.	n.a.
Adjusted net profit / (loss) to shareholders	(272)	9,807	22,116	(7,726)	10,125	25,365	-96%	-3%	-13%
Adjusted diluted EPS (RMB)	(0.04)	1.60	3.60	(1.32)	1.59	3.87	-97%	1%	-7%

Note: Data as of August 26, 2022; Sources: Bloomberg, Company, CMS (HK) estimates

Figure 10: Valuation table based on SOTP

RMB mn	Valuation basis	Valuation metrics	Multiple given to Meituan			Valuation		
			Bear	Base	Bull	Bear	Base	Bull
Meituan FD + IHT	EV/EBITDA	FY23E EBITDA RMB40,583mn	15.0	20.0	25.0	608,741	811,655	1,014,568
Meituan instashopping	P/S	FY23E Revenue RMB15,499mn	6.0	7.0	8.0	61,996	108,492	123,991
New initiatives and others	P/S	FY23E Revenue RMB70,322mn	4.0	5.0	6.0	140,644	351,611	421,933
LT finance products & investments @ book							36,555	
Net cash, add							98,575	
Minority/NCI, subtract							57	
Total valuation (RMB mn)						946,455	1,406,832	1,695,566
HKD/CNY							1.14	
Total valuation (HKD mn)						1,078,958	1,603,788	1,932,946
No. of diluted shares (mn) by FY22E							6,148	
Value per share (HKD)						176	261	314
FY22E Revenue (RMB mn)						221,003	221,003	221,003
Implied PS multiple						4.3x	6.4x	7.7x
FY23E Revenue (RMB mn)						279,440	279,440	279,440
Implied PS multiple						3.9x	5.7x	6.9x

Sources: Company, CMS (HK) estimates

Valuation comparison

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (x)		P/E (x)		PEG*	P/S (x)	P/OCF (x)	ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E				FY22E	FY22E	FY22E	FY23E	Sales
Platform																		
Tencent	700 HK	HKD	BUY	324.2	459.0	397.4	14.5	11.7	23.6	18.5	3.8	4.6	18.3	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	99.9	160.0	264.5	8.2	7.8	12.1	13.5	n.a.	2.0	12.7	6.6	9.3	12.3	n.a.	n.a.
Meituan	3690 HK	HKD	BUY	181.9	261.0	143.4	n.a.	n.a.	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	1.1	24.9	n.a.	n.a.
Baidu	BIDU US	USD	NR	151.0	n.a.	52.2	11.8	9.2	21.1	17.1	n.a.	2.8	18.7	5.1	7.2	7.6	2.7	24.1
Alphabet	GOOGL US	USD	NR	116.7	n.a.	1,528.5	12.6	11.3	20.6	18.1	1.2	6.1	15.5	26.8	27.0	4.9	17.4	20.0
Facebook	FB US	USD	NR	168.8	n.a.	453.6	8.3	7.4	15.2	13.7	3.6	3.9	9.2	21.7	22.5	8.1	4.2	5.0
Naver	035420 KS	KRW	NR	242,000.0	n.a.	29.8	22.6	18.9	36.0	26.2	n.a.	4.8	24.1	4.8	6.3	13.7	n.a.	5.4
China Mean							10.6	9.1	17.2	15.6	3.8	3.2	15.5	7.2	7.9	13.0	4.5	16.4
Global Mean							14.5	12.5	23.9	19.3	2.4	4.9	16.3	17.8	18.6	8.9	10.8	10.1
Cloud																		
Chinasoft	354 HK	HKD	BUY	6.2	13.1	2.4	6.6	6.4	11.6	9.8	0.8	0.7	n.a.	9.8	10.8	26.2	14.1	10.6
Tencent	700 HK	HKD	BUY	324.2	459.0	397.4	14.5	11.7	23.6	18.5	3.8	4.6	18.3	10.6	12.3	7.7	6.3	8.7
Alibaba	BABA US	USD	BUY	99.9	160.0	264.5	8.2	7.8	12.1	13.5	n.a.	2.0	12.7	6.6	9.3	12.3	n.a.	n.a.
Kingsoft	3888 HK	HKD	BUY	23.6	37.0	4.1	7.5	5.8	n.a.	24.2	n.a.	3.6	10.9	1.2	3.4	23.8	n.a.	32.9
Kingdee	268 HK	HKD	NR	15.5	n.a.	6.9	n.a.	n.a.	n.a.	n.a.	n.a.	9.3	n.a.	n.a.	n.a.	23.5	n.a.	n.a.
Mingyuan Cloud	909 HK	HKD	NR	6.2	n.a.	1.5	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	n.a.	n.a.	2.4	12.7	n.a.	n.a.
KC Cloud	KC US	USD	NR	3.4	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	13.6	n.a.	n.a.
Microsoft	MSFT US	USD	NR	278.9	n.a.	2,079.6	21.8	19.0	30.4	27.3	n.a.	n.a.	24.8	47.2	37.5	n.a.	n.a.	n.a.
Alphabet	GOOGL US	USD	NR	116.7	n.a.	1,528.5	12.6	11.3	20.6	18.1	1.2	6.1	15.5	26.8	27.0	4.9	17.4	20.0
Amazon	AMZN US	USD	NR	137.3	n.a.	1,398.5	21.4	16.4	n.a.	36.2	n.a.	2.7	23.8	2.9	16.3	16.9	5.8	20.3
Salesforce	CRM US	USD	NR	173.9	n.a.	173.0	37.6	17.4	n.a.	36.1	n.a.	7.0	30.7	0.9	7.9	n.a.	n.a.	n.a.
Oracle	ORCL US	USD	NR	76.9	n.a.	204.9	19.0	10.9	32.5	14.4	n.a.	5.2	22.9	n.a.	n.a.	n.a.	n.a.	n.a.
VMware	VMW US	USD	NR	121.7	n.a.	51.3	17.4	12.1	30.0	18.4	n.a.	4.3	12.5	32.2	n.a.	n.a.	n.a.	n.a.
Dropbox	DBX US	USD	NR	22.9	n.a.	8.4	11.1	10.5	15.2	14.1	1.8	3.7	10.6	n.a.	n.a.	9.7	8.5	35.2
China Mean							9.2	7.9	15.8	16.5	2.3	3.6	14.0	7.0	7.7	17.1	10.2	17.4
Global Mean							20.1	13.9	25.8	23.5	1.5	4.8	20.1	22.0	22.2	10.5	10.6	25.2
Social network & pan-entertainment																		
Tencent	700 HK	HKD	BUY	324.2	459.0	397.4	14.5	11.7	23.6	18.5	3.8	4.6	18.3	10.6	12.3	7.7	6.3	8.7
Bilibili	BILI US	USD	BUY	27.4	43.0	10.7	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	23.8	n.a.	n.a.
China Literature	772 HK	HKD	NEUTRAL	31.5	68.0	4.1	15.7	12.2	20.7	17.1	1.4	3.3	15.0	6.6	7.9	5.2	14.6	n.a.
Kuaishou	1024 HK	HKD	NR	70.8	n.a.	38.7	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	n.a.	n.a.	n.a.	18.9	n.a.	n.a.
Tencent Music	TME US	USD	NR	5.0	n.a.	8.5	9.9	9.2	14.1	13.3	n.a.	2.1	15.3	6.5	6.6	n.a.	n.a.	n.a.
Weibo	WB US	USD	NR	20.2	n.a.	4.8	6.7	5.6	8.4	7.3	n.a.	2.3	7.3	11.1	13.1	4.5	n.a.	0.4
iQiyi	IQ US	USD	NR	4.0	n.a.	3.4	n.a.	27.2	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	8.2	n.a.	n.a.	n.a.
YY	YY US	USD	NR	31.3	n.a.	2.2	n.a.	n.a.	20.8	12.7	0.6	0.9	n.a.	1.1	3.0	4.8	37.4	79.8
Momo	MOMO US	USD	NR	5.1	n.a.	1.0	2.3	2.1	5.0	4.4	n.a.	0.6	5.5	10.7	11.1	n.a.	n.a.	n.a.
Huya	HUYA US	USD	NR	3.6	n.a.	0.9	6.6	12.2	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Douyu	DOYU US	USD	NR	1.3	n.a.	0.4	29.2	47.2	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Meta	FB US	USD	NR	168.8	n.a.	453.6	8.3	7.4	15.2	13.7	3.6	3.9	9.2	21.7	22.5	8.1	4.2	5.0
Netflix	NFLX US	USD	NR	234.0	n.a.	104.1	18.0	16.0	21.7	18.7	n.a.	3.3	n.a.	24.3	21.3	10.4	2.8	6.0
Snapchat	SNAP US	USD	NR	11.2	n.a.	18.5	n.a.	39.8	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	n.a.	16.1	n.a.	n.a.
Spotify	SPOT US	USD	NR	113.5	n.a.	21.9	n.a.	n.a.	n.a.	n.a.	n.a.	1.9	n.a.	n.a.	n.a.	12.9	n.a.	n.a.
China Mean							12.1	15.9	15.4	12.2	1.9	2.0	12.2	7.7	8.9	12.7	19.4	29.6
Global Mean							13.1	21.1	18.5	16.2	3.6	3.3	9.2	23.0	21.9	11.9	3.5	5.5

Company	Bloomberg Ticker	Ccy	CMS Rating	Price	CMS TP	Mkt cap (USD bn)	EV/EBITDA (X)		P/E (x)		PEG*	P/S (x)		P/OCF (x)		ROE (%)		2021-2023E CAGR		
							FY22E	FY23E	FY22E	FY23E		FY22E	FY22E	FY22E	FY22E	FY23E	Sales	EPS	EBITDA	
Online Gaming																				
Netease	NTES US	USD	BUY	92.2	120.0	60.5	11.6	10.8	18.4	18.0	2.6	4.2	17.8	18.6	16.2	10.8	7.0	15.4		
Tencent	700 HK	HKD	BUY	324.2	459.0	397.4	14.5	11.7	23.6	18.5	3.8	4.6	18.3	10.6	12.3	7.7	6.3	8.7		
Bilibili	BILI US	USD	BUY	27.4	43.0	10.7	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	23.8	n.a.	n.a.		
Kingsoft	3888 HK	HKD	BUY	23.6	37.0	4.1	7.5	5.8	n.a.	24.2	n.a.	3.6	10.9	1.2	3.4	23.8	n.a.	32.9		
iDreamSky	1119 HK	HKD	BUY	5.2	4.4	0.9	34.2	15.8	n.a.	21.3	n.a.	2.1	n.a.	3.4	7.3	29.2	n.a.	52.0		
XD	2400 HK	HKD	NR	18.8	n.a.	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	39.7	n.a.	3.2	28.1	n.a.	n.a.		
Netdragon	777 HK	HKD	NR	15.6	n.a.	1.1	2.2	2.1	5.8	5.1	0.3	0.9	4.4	15.2	15.4	11.3	23.0	7.0		
CMGE	302 HK	HKD	NR	2.0	n.a.	0.7	7.5	5.6	7.9	6.1	0.6	1.1	9.0	9.3	11.4	14.6	13.5	6.0		
IGG	799 HK	HKD	NR	3.2	n.a.	0.5	n.a.	9.0	n.a.	16.5	n.a.	0.7	n.a.	n.a.	4.7	n.a.	n.a.	n.a.		
Archosaur Game	9990 HK	HKD	NR	4.0	n.a.	0.4	n.a.	12.8	n.a.	8.6	n.a.	1.9	7.1	0.4	14.3	65.7	n.a.	n.a.		
SEA	SE US	USD	NR	67.5	n.a.	37.9	n.a.	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	n.a.	31.0	n.a.	n.a.		
Nintendo	7974 JP	JPY	NR	57,640.0	n.a.	54.7	8.7	10.1	13.7	16.4	n.a.	3.9	22.7	26.2	21.0	n.a.	n.a.	n.a.		
Activision Blizzard	ATVI US	USD	NR	79.1	n.a.	61.9	18.5	13.8	27.5	20.5	n.a.	7.8	26.5	11.9	13.3	6.6	4.6	5.8		
Electronic Arts	EA US	USD	NR	127.6	n.a.	35.5	22.0	12.6	48.1	17.8	n.a.	5.4	20.0	11.7	19.5	n.a.	n.a.	n.a.		
Take-Two	TTWO US	USD	NR	125.5	n.a.	20.9	31.2	26.5	n.a.	26.4	n.a.	6.4	n.a.	2.4	6.2	n.a.	n.a.	n.a.		
Nexon	3659 JP	JPY	NR	2,792.0	n.a.	18.4	16.2	12.6	23.4	21.0	n.a.	7.2	23.8	12.7	13.0	12.7	n.a.	16.0		
Ncsoft	036570 KS	KRW	NR	368,500.0	n.a.	6.1	9.8	9.2	17.6	15.9	2.9	3.1	13.0	14.2	14.5	4.1	6.1	16.4		
Zynga	ZNGA US	USD	NR	8.2	n.a.	9.3	15.7	14.3	25.1	19.8	n.a.	3.2	15.0	n.a.	n.a.	8.4	n.a.	54.2		
Netmarble	251270 KS	KRW	NR	63,400.0	n.a.	4.1	24.2	14.8	708.8	26.3	n.a.	2.0	126.6	n.a.	3.5	5.6	n.a.	15.4		
China Mean							12.7	9.4	14.8	15.1	2.0	2.6	15.6	9.7	10.4	22.6	11.4	19.7		
Global Mean							18.3	14.2	123.4	20.5	2.9	4.7	35.3	13.2	13.0	11.4	5.4	21.6		
E-commerce																				
JD.com	JD US	USD	BUY	64.9	77.0	101.4	18.6	14.3	29.9	21.6	0.9	0.6	21.7	10.6	13.3	17.7	34.5	45.8		
Alibaba	BABA US	USD	BUY	99.9	160.0	264.5	8.2	7.8	12.1	13.5	n.a.	2.0	12.7	6.6	9.3	12.3	n.a.	n.a.		
Meituan	3690 HK	HKD	BUY	181.9	261.0	143.4	n.a.	n.a.	n.a.	n.a.	n.a.	4.3	n.a.	n.a.	1.1	24.9	n.a.	n.a.		
Pinduoduo	PDD US	USD	NR	59.8	n.a.	75.6	27.0	17.8	28.6	20.4	0.8	4.7	22.4	16.1	18.4	20.5	36.9	66.4		
Beike	BEKE US	USD	NR	18.0	n.a.	22.8	n.a.	19.1	n.a.	22.6	3.7	2.5	n.a.	1.4	6.3	10.9	36.4	15.8		
Vipshop	VIPS US	USD	NR	11.1	n.a.	7.0	4.7	4.6	8.5	7.8	n.a.	0.5	6.8	13.6	12.8	n.a.	n.a.	n.a.		
Baozun	BZUN US	USD	NR	8.5	n.a.	0.5	13.0	7.5	11.8	5.1	0.2	0.4	15.2	1.8	5.5	23.6	49.3	5.0		
Amazon	AMZN US	USD	NR	137.3	n.a.	1,398.5	21.4	16.4	n.a.	36.2	n.a.	2.7	23.8	2.9	16.3	16.9	5.8	20.3		
eBay	EBAY US	USD	NR	46.6	n.a.	25.6	8.9	8.7	11.3	11.4	1.4	2.6	9.5	20.0	53.5	0.8	7.9	0.0		
China Mean							14.9	12.1	20.1	16.1	1.3	2.0	16.7	8.7	10.0	18.2	38.3	35.8		
Global Mean							15.1	12.5	11.3	23.8	1.4	2.7	16.7	11.4	34.9	8.8	6.9	10.2		
Vertical																				
trip.com	TCOM US	USD	NR	28.7	n.a.	18.4	n.a.	24.4	n.a.	23.7	n.a.	6.7	n.a.	0.2	3.9	22.7	n.a.	n.a.		
Autohome	ATHM US	USD	NR	37.3	n.a.	4.7	4.0	3.1	16.3	14.4	n.a.	4.6	13.1	7.9	8.5	2.1	n.a.	n.a.		
Tongcheng-Elong	780 HK	HKD	NR	16.8	n.a.	4.8	22.2	12.7	33.0	19.9	0.8	4.6	21.1	4.4	8.3	12.9	41.1	21.8		
Expedia	EXPE US	USD	NR	108.4	n.a.	17.1	8.2	6.9	15.4	11.3	n.a.	1.5	4.5	33.2	35.7	26.8	n.a.	66.5		
China Mean							11.5	11.8	21.6	17.3	0.8	4.4	12.9	11.4	14.1	16.1	41.1	44.1		

Note: Closing prices as of Aug. 26, 2022 (HK/KR/JP/CH markets) & Aug. 25 (US market); For future estimates of NR Co.s, BBG consensus used; Sources: BBG, Company, CMS (HK) estimate

Financial Summary

Balance Sheet

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Trade receivables	1,031	1,793	1,890	1,991	2,712
Prepayments, deposits and other assets	12,940	15,282	17,282	19,282	21,282
Short-term investments	43,999	84,282	68,042	74,846	82,331
Cash and cash equivalents	17,094	32,513	44,576	53,950	71,083
Other current assets	13,242	13,959	13,959	13,959	13,959
Current assets	88,306	147,829	145,749	164,028	191,366
Property, plant and equipment	13,917	22,814	21,015	17,902	15,699
Intangible assets	31,676	31,049	30,331	29,639	28,975
Equity method investments	13,181	13,869	13,869	13,869	13,869
Financial assets at FVPL	10,257	14,300	14,300	14,300	14,300
Other non-current assets	9,237	10,793	13,646	14,146	14,646
Non-current assets	78,269	92,825	93,161	89,857	87,489
Total assets	166,575	240,653	238,910	253,884	278,854
Trade payables	11,967	15,166	16,852	20,547	24,146
Payables to merchants	9,415	10,951	11,446	14,620	16,530
Other payables and accruals	10,557	18,401	19,321	20,287	21,301
ST borrowing	6,395	11,565	13,878	16,654	19,985
Other current liabilities	12,813	12,510	13,529	15,246	16,985
Current liabilities	51,148	68,593	75,025	87,353	98,947
LT Borrowings	1,957	12,220	13,442	14,786	16,264
Notes payable	12,966	30,383	30,383	30,383	30,383
Other liabilities	2,869	3,901	3,901	3,901	3,901
Non-current liabilities	17,793	46,504	47,726	49,070	50,548
Total liabilities	68,941	115,097	122,751	136,423	149,495
Total equity	97,634	125,557	116,159	117,461	129,359

Cash Flow

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
CF from operating activities	8,475	(4,011)	4,077	21,750	30,386
Profit before taxes	4,438	(23,566)	(9,457)	1,788	15,790
D&A	5,194	8,928	8,017	9,305	8,368
Share-based compensation	3,277	5,194	7,690	8,383	10,157
Working capital chg	1,890	7,209	1,522	6,952	5,042
Others	(6,325)	(1,776)	(3,695)	(4,677)	(8,971)
CF from investing activities	(21,232)	(58,492)	12,141	(8,113)	(7,906)
Purchase of PPE	(15,824)	(9,010)	(5,000)	(5,000)	(5,000)
Payments for business combinations	(27)	(867)	0	0	0
Acquisition of Investments	601	71	0	0	0
Purchase of short-term investments	(196,817)	(409,062)	16,240	(6,804)	(7,485)
Others	190,835	360,377	901	3,692	4,579
CF from financing activities	17,418	78,598	(4,155)	(4,263)	(5,348)
Proceeds from equity issuance	499	45,561	(7,690)	(8,383)	(10,157)
Proceeds from borrowing	5,452	15,768	3,535	4,120	4,809
Others	11,467	17,269	0	0	0
Net cash flow	4,661	16,095	12,063	9,374	17,132
Cash at year end	17,094	32,513	44,576	53,950	71,083

Note: Data as of August 26, 2022; Net profits shown are contributed by continuing operations; Sources: Bloomberg, Company, CMS (HK) estimates

Income Statement

Year ended 31 Dec (RMB mn)	2020	2021	2022E	2023E	2024E
Revenues	114,795	179,128	221,003	279,440	338,583
Cost of revenues	(80,744)	(136,654)	(161,256)	(203,991)	(243,779)
Gross profit	34,050	42,474	59,747	75,449	94,803
S&M expenses	(20,883)	(40,683)	(38,522)	(43,352)	(45,310)
R&D expenses	(10,893)	(16,676)	(21,535)	(22,355)	(25,394)
G&A expenses	(5,594)	(8,613)	(10,264)	(11,144)	(12,426)
Net provision for impairment losses on financial assets	(468)	(260)	(204)	0	0
Fair value changes on investments measured at FVPL	4,956	816	(1,095)	0	0
Other (losses)/gains, net	3,161	(186)	3,754	4,192	5,079
Operating profit/(loss)	4,330	(23,127)	(8,119)	2,789	16,753
Finance income	214	546	688	970	1,151
Finance costs	(370)	(1,131)	(1,673)	(1,971)	(2,114)
Profit / (loss) before income tax	4,438	(23,566)	(9,457)	1,788	15,790
Income tax credits/(expenses)	270	30	59	(486)	(3,892)
Net profit	4,708	(23,536)	(9,397)	1,302	11,898
Net profit after minority	4,708	(23,538)	(9,397)	1,302	11,898
Adjusted EBITDA	4,738	(9,694)	4,827	16,285	30,200
Adjusted net profit/(loss)	3,121	(15,572)	(272)	9,807	22,116

Financial Ratio

Year ended 31 Dec	2020	2021	2022E	2023E	2024E
yoY growth rate					
Revenue	18%	56%	23%	26%	21%
Operating profit / (loss)	62%	n.a.	-65%	n.a.	501%
Adj. EBITDA	-35%	n.a.	n.a.	237%	85%
Adj. net profit	-33%	n.a.	-98%	n.a.	126%
Profitability					
Gross margin	30%	24%	27%	27%	28%
Operating margin	4%	-13%	-4%	1%	5%
Net margin	4%	-13%	-4%	0%	4%
Adj. EBITDA margin	4%	-5%	2%	6%	9%
Adj. net margin	3%	-9%	0%	4%	7%
ROE	5%	-21%	-8%	1%	10%
ROA	3%	-12%	-4%	1%	4%
Per share (RMB)					
Diluted EPS	0.8	-3.9	-1.5	0.2	1.9
Adj. diluted EPS	0.5	-2.6	0.0	1.6	3.6
Adj. diluted EPS (HKD)	0.6	-3.0	-0.1	1.9	4.2
BVPS	16.7	20.8	18.9	19.1	21.1
Valuation					
P/S (x)	7.8	5.2	4.3	3.4	2.8
P/E (x)	296.5	n.a.	n.a.	n.m.	42.9
P/B (x)	9.2	7.4	8.2	8.1	7.3

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888 Fax: +852 3101 0828