

Research on Meituan' valuation based on qualitative and quantitative analysis

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Abstract. Company valuation is a crucial part to help stakeholders to make accurate financial decisions. Valuation multiples is a financial measurement tool that recognized one financial ratio of another, therefore it allows to compute financial ratios of a certain entity to be more comparable with other business. The research object in this essay is Meituan, which is a Chinese company operating as a delivery platform. This paper uses the qualitative approach with a SWOT analysis for its macro environment, and the multiple valuation method to evaluate and predict its trend of stock price. The result illustrates that Meituan is currently performing well in financial position, and is predicted to grow rapidly in the future. In that case, the stock of Meituan is still profitable and worthwhile to be invested. However, investors should not be ignored that the uncertainty of covid epidemic, which plays an important role in Meituan's development in the future. Meanwhile, the single profit model and lack of unique raise the uncertainty of long-run growth.

Keywords: Meituan; SWOT; investment strategy.

1. Introduction

This paper contains five parts. The first and second paragraphs briefly illustrate the background of Meituan and its main strategy. Then third part then analysis the existing strength, weakness, opportunities and threats during the epidemic. The next part demonstrates the financial performance through introducing the trend of its stock price and some key metrics, and computes the company valuing by comparing the statistic of industrial average, main competitors and Meituan itself. The conclusion is given in the last paragraph. Both quantitative and multiple valuation approach are adopted in this paper to identify the impact of macro environment and predict the future stock price and estimate the company value respectively. Equity multiples and enterprise multiples are two types of valuation multiples. This paper selects equity multiples as the valuation method, and refers P/E ratio as earning multiple. In that case, the metrics of Meituan and its competitors could be comparable. The outcome of multiple valuation allows the potential risk and return to be foreseeable, therefore those investors and stakeholders could make wise decision depends on whether their bonds and stocks are profitable.

Meituan, formerly Meituan Dianping is a Chinese shopping platform funded in 2010. It initially operates as a platform for consumers to make comment on local restaurants. Now its main business has covered online and on-demand delivery platforms. During the pandemic, its new business has become Meituan's second largest business. The epidemic boosted the food delivery business of Meituan. In addition to food delivery, demand for instant retail such as medicines, flowers, groceries, branded cosmetics and mobile phones is growing rapidly, due to the raising expectation of consumers for instant retail service. Meanwhile, Meituan began to accelerate the layout of community group purchase, shared bikes and other businesses.

2. The problems and strategy of Meituan

2.1 Problems faced by Meituan in its operation:

1. Low entry requirements and inadequate supervision. Low entry requirements encourage an increasing number of merchants to enter the group buying market, oversaturating the market's capacity and raising competition levels. The quality of the merchants in the group buying industry is uneven due to an ineffective supervision system and the predominance of merchant interests. Low-quality merchants also negatively impact high-quality merchants and the reputation of the group buying website, and customers are unable to tell the difference between genuine and fake merchants.

2. Information asymmetry. For group buying activities on network media dissemination of information, so the spread of information can't pass information the recipient information source direct passing, and need the third party sites as to convey information, it is easy to cause the spread of information asymmetry, it is easy to let merchants in order to benefit to group-buying websites providing false information, providing false service to consumers.

3. The service quality is low and the rights and interests of consumers are not protected. Group buying websites are only the media support for the presentation of commodities, and generally will not bear direct responsibility for the services or commodities launched by their own websites. However, as a stakeholder, merchants care about their own interests more than the rights and interests of consumers. As a new industry, supervision measures for this area are not perfect, supervision is also weak, so that there is no place to protect the rights and interests of consumers, but also many illegal websites and merchants for their own interests to harm the interests of consumers.

4. Business advantages are difficult to maintain. Because the online group buying industry has no supervision mechanism of goods in and out, it is difficult to form industry barriers and long-term advantages. When the same product is compared horizontally among group purchase websites, consumers tend to choose websites with lower prices, which leads to low user stickiness of group purchase websites. In the long run, the market share of group purchase websites and the accuracy of users will also be reduced, and their business advantages will also be affected.

2.2 Future development trends and Suggestions:

1. First, the company can improve hiring and training of staff and find versatile talent through campus or online recruitment, identifying candidates who are a good fit for Meituan, infuse new life into the business, boost staff development, and cultivate high-quality, high-skill, high-service talent. Meituan will unavoidably hire both good and poor people, therefore it is essential to train the team to execute tasks better, ensure that everyone is aware of the relevant policies, and then advance individual employees' careers to give them a clear sense of where they fit in the workforce. In order for Meituan to evolve through time, this type of training can strengthen the team's cohesiveness and performance. Second, in order to improve professional knowledge understanding and assist corporate management, top management of the enterprise should also receive training in social responsibility and professional knowledge.

2. Strengthen the merchant pre-sale audit. Even for merchants with good reputations across a variety of industries, Meituan.com's internal management carefully adheres to the reputation of the merchants and the items they offer in order to choose those with high reputations for consumers. Meituan influences Meituan's management and brand-building in addition to serving as a platform for group purchases to promote e-commerce businesses. Starting at the source, monitoring can use a store's reputation as a yardstick to choose its participating businesses. Additionally, unlawful businesses must be handled carefully in accordance with Meituan's internal standards. The guidelines are more than just a lottery or a hoax for the sake of the public. To identify unlawful retailers and those sailors who damage the reputation of the retailers, Meituan.com can establish up a blacklist at its entry.

3. Diversified means of publicity. First of all, the rich merchant resources should be utilized to pull banners or post posters in the entity stores of cooperative merchants to promote the website. Free

desk calendars and greeting cards printed with holiday wishes and website advertisements can also be distributed to customers consuming in this store during festivals. Secondly, the group purchase website should be added into the group purchase navigation websites to target the Internet habits of office white-collar workers and students aged 18-24, and advertisements should be put on the forums they often go to, the books and newspapers they buy and the bus TV, so as to increase the contact opportunities with the target consumer groups. Finally, the spread of social circles. Register and cancel with Meituan

Customers who have spent the money can share their consumption intentions and get a chance to draw a lottery or a certain rebate of gift certificates on wechat, Sina Weibo, Baidu Post Bar and other social tools, which not only increases the possibility of customers' second consumption, but also promotes the website by using customers.

4. Expand the market and appropriately tighten cost control. The high cost is partly to blame for Meituan's low operating profit. Profits can rise in line with good cost control. Adhere to low cost and high efficiency, lead with science and technology, and cut spending. Finance-wise, it implements automatic settlement with merchants via the system, minimizes manual involvement, optimizes workflow, minimizes needless operations, and decreases the usage of paper text. It uses online distribution for advertisements, which allows for analysis, quantification, and summarization on the data side. In order to save expenses, all departments optimize every step of the supply chain. To increase earnings, it might also widen the market. The third- and fourth-tier cities will first undergo vigorous development. Meituan needs to expand its group buying business from first- and second-tier cities to third- and fourth-tier cities, and even overseas through regional expansion, increase the number of group buying activities, and expand the revenue model of the website in order to spur business growth. This is due to the increasing competition in the group buying market in major first- and second-tier cities.

3. Meituan financial data analysis

According to the Meituan financial statements, we can know that Meituan's cash in 2017 was 45272 millions, its EBITDA was 3617 millions, its net income was 18917 millions, and its earnings per share was 3.44RMB, which was significantly improved in 18 years. In 2018, Meituan's market value reached 271.4776 billion, with cash of 58874 millions, EBITDA of 110099 millions, net income of 115477 millions, stock price of 43.90RMB, earnings per share of 42.40RMB, P/E ratio of 1.035 and enterprise value of 212.603 billion. In 2019, Meituan's market value reached 630.1496billions, with cash of 62382millions, EBITDA of 7784 millions, net income of 2239 millions, stock price of 101.90RMB, earnings per share of 0.39RMB, P/E ratio of 261.28 and enterprise value of 41.789 billion. Market price of Meituan in 2020, Meituan's market value reached 1818.096 billion, with cash of 61093 millions, EBITDA of 9977 millions, net income of 4708 millions, stock price of 294.00 RMB, earnings per share of 0.81RMB, P/E ratio of 362.962 and enterprise value of 1276.107 billion. In 2021, the market value of Meituan reached 1393.8736 billion, with cash of 116795 millions, EBITDA of 13558 millions, net income of 23538 millions, stock price of 225.40 RMB, earnings per share of 3.90 RMB, price-earnings ratio of 57.794 and enterprise value of 341.0206 billion. In recent years, the average PE is 170.78, and the median PE is 159.537.

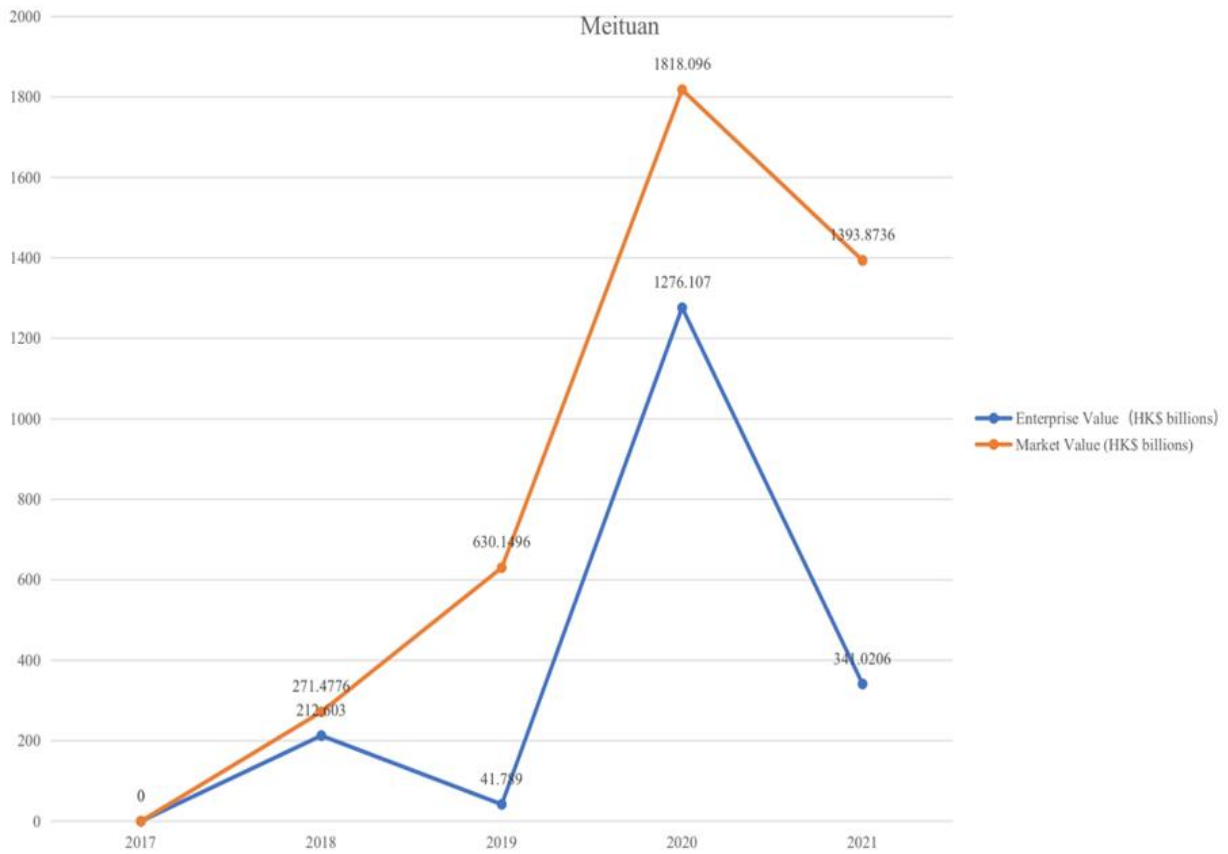


Figure 1. The Enterprise Value and Market Value of Meituan.

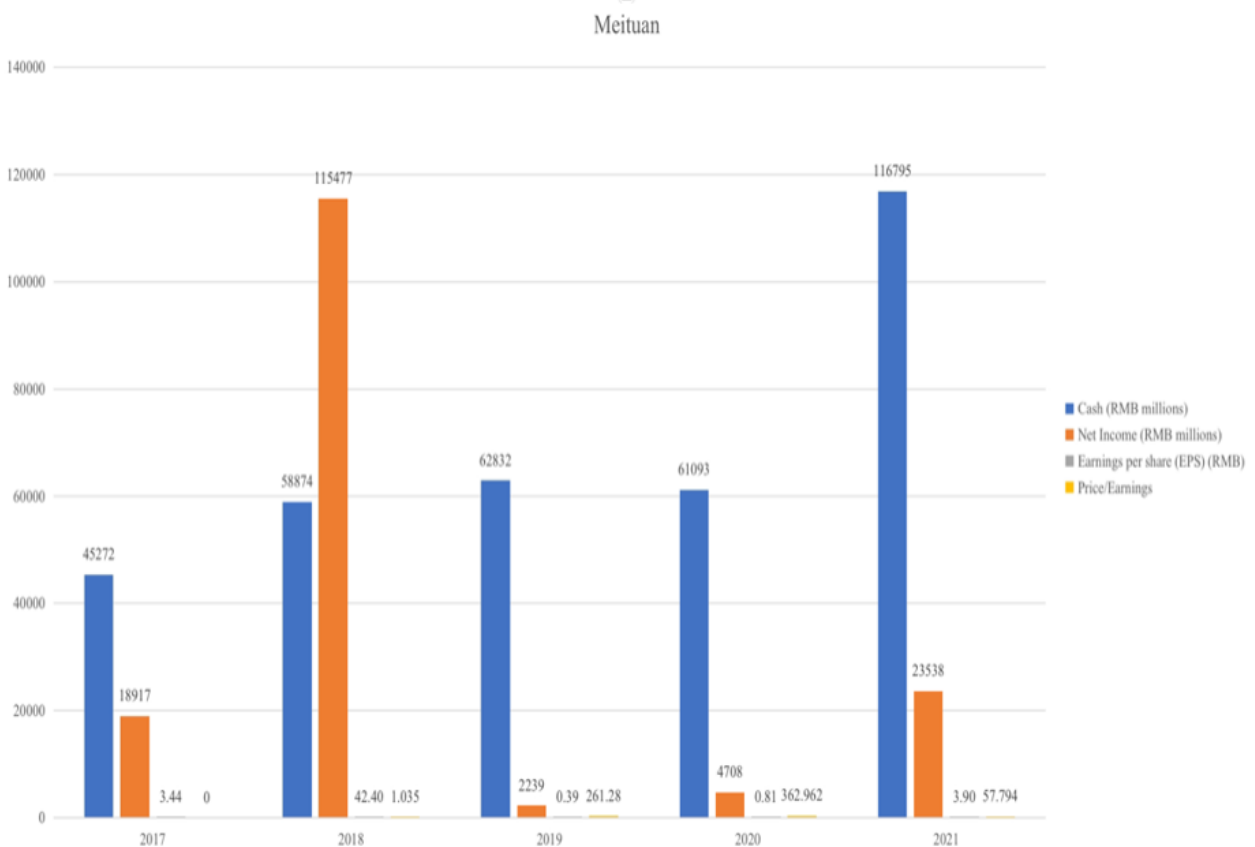


Figure 2. Cash, Net Income, EPS and P/E of Meituan.

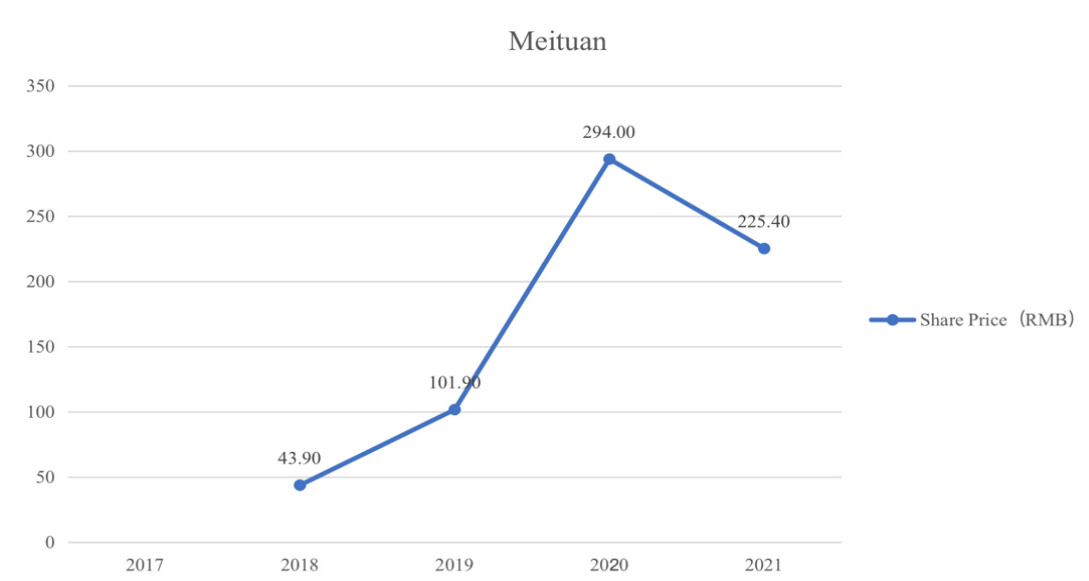


Figure 3. The Share Price of Meituan.

From 2017 to 2020, the market value of Meituan shows an upward trend. A high market value indicates that the stock is stable, the performance of Meituan is stable, and investors bear fewer risks. Since 2020, the market value of Meituan has been declining due to the impact of the epidemic. Low market value indicates poor stock stability, unstable performance and high investment risk.

Meituan net income in 2018 was the highest, because in 2018 takeout industry belongs to the popular development-oriented industry, consumers are beginning to try this type set delivery mode, but in 2019 to 2020, due to the impact of the epidemic, also hit Meituan take-away, in order to contain the outbreak, China policies lead to a drop in Meituan take-away, As a result, meituan's overall net income declined. By 2021, the epidemic in China was gradually brought under control and Meituan began to resume normal business, thus increasing a lot compared to the past two years.

The stock price of meituan increased from 43.90RMB per share in 2018 to 294RMB per share in 2020, indicating that investors believed that meituan had a good development prospect and they were willing to invest. However, in 2021, due to the impact of the epidemic, the stock price of meituan began to decline. Part of the reason is that meituan's development has been hindered in this environment.

Meituan's P/E ratio is much higher than its peers, at 170.78. The high P/E ratio of Meituan indicates that meituan is a high-growth company, and its revenue and profit are in the stage of rapid growth. Therefore, I think Meituan still has a lot of room for growth in the future.

4. The SWOT analysis of Meituan

4.1 Strengths

Meituan has a high level of brand awareness as the leading e-commerce platform for lifestyle services in China. Meituan's product, Meituan Online Group Buying, has a wide range of products, which is 6-10 times more than the number of other ordinary group buys [1]. Positioned as a super integrated O2O lifestyle service platform, Meituan relies on the Group's T-shaped strategic layout and Tencent Ltd's social advantages and has considerable customers with relatively low acquisition costs [2]. For example, since 2018, Meituan's takeaway market share has been higher than the combined share of Eleme and Baidu Takeaway, making it the head platform in the takeaway market [3]. In addition, with years of construction in the retail sector, Meituan now has a good service and data system and has technical advantages in efficiently responding to business changes and intelligent customer management. After the outbreak of COVID-19, Meituan also experimented with pick-up-free delivery [4].

4.2 Weaknesses

Compared with other companies, Meituan started late in the warehousing segment, especially the capabilities such as cross-city transportation and origin sourcing lag behind. Secondly, in order to increase its market share, Meituan has made great efforts to attract merchants to its stores, but its uneven quality has also brought about service and monopoly problems [5]. In addition, Meituan also abused its dominant position in the market for online food and beverage takeaway platform services in China and engaged in monopolistic and illegal practices. On 8 October 2021, the General Administration of Market Regulation of China issued an administrative penalty decision against Meituan in accordance with the law [6]. Currently, Meituan has not developed a unique and consistently profitable business model based on technology and lacks innovation.

4.3 Opportunities

With the application of IoT and smart services, the group buying penetration rate is still low, and there is much room for future development. The O2O development model requires providing more lifestyle services, and technological developments could help Meituan to be able to explore new markets [1]. COVID-19 has intensified market competition while bringing new opportunities, such as community group purchases during the epidemic lockdown period. The pandemic has increased competition in the market and created new opportunities, such as the demand for community-based group purchases during the pandemic closure [6]. With its strong merchant management capabilities, Meituan has already accumulated a large number of partners and has relatively high quality and low price selection of goods. This will attract significant investment as capital focuses on the group-buying market [7].

4.4 Threats

Due to the low threshold of the industry and the uncertainty of COVID-19, there is a further reduction in market share [8]. Meituan not only faces a threat from the original industry competitors but also faces the threat of new entrants to the industry [9]. In the post-group-buying era, many large B2C or C2C companies do not aim to make direct profits but focus on the associated sales of goods to squeeze the group-buying market [5]. Moreover, China's group-buying industry has a single profit model and is less attractive to capital. Meituan has always been a trading platform and has not been particularly successful in community operations. In terms of policy regulation, China is still lacking in terms of industry regulations [7]. As more and more group-buying companies enter into operation, there is a disorder in the market.

Table 1. The SWOT analysis of Meituan.

<p>S</p> <ul style="list-style-type: none"> ● High level of brand awareness ● Wide range of products ● Group's T-shaped strategic layout ● Tencent Ltd's support ● Considerable customers ● Good service and data system ● Technical advantages 	<p>W</p> <ul style="list-style-type: none"> ● Start late in the warehousing segment ● Service problems ● Monopoly competition punishment ● Lack of unique and consistently profitable business model ● Lack of innovation
<p>O</p> <ul style="list-style-type: none"> ● O2O model development ● Technology development ● Community group-buying increasing under COVID-19 ● Capital investment 	<p>T</p> <ul style="list-style-type: none"> ● Low threshold of the industry ● The uncertainty of COVID-19 ● Large B2C or C2C companies' competition ● The single profit model is less attractive to capital ● Policy regulation

5. Conclusions

In conclusion, on the one hand, Meituan's financial position remained stable and kept growing continuously before the epidemic period. While the stock market was hit by the covid to a certain extent during the period between 2021 and 2022. In addition to the decline of Meituan's stock price, the recovery of Meituan's business remains uncertainty. Not only the epidemic affects the demand of food delivery service, but also the Chinese covid prevention regulations plays a crucial role in whether the take away service could be provided on the platform as its expectation. On the other hand, although there is no doubt that Meituan is still an influential brand in domestic market, with its distinct advantage on brand awareness, mature system to respond business challenges. Meanwhile, the epidemic occasion and self-regulation policy by Chinese government raise the demand of community group consumption. However, the threats of Meituan derives from two main aspects. The first threat could be identified as the company's own defects, such as the single profit model, capital structure and lack of innovation. Secondly, the threat derives from external environment. With the regulation of Chinese government becoming more strict, and the epidemic is unpredicted not only hits the core business and the expansion of its new business, but also affects the confidence of investors. In short, although Meituan's financial position is still stronger than its peers, the future of its stock market is less likely to be optimistic. Therefore, investors should be cautious with their investment on Meituan.

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