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August 30, 2026 08:02 PM GMT

Meitu Inc | Asia Pacific

CFO & CPO Group Call Takeaways

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WHAT'S CHANGED

Meitu Inc (1357.HK)	From	To
Price Target	HK$10.50	**HK$10.20**

Management views Meitu's product strategy as vertically focused and content creator-oriented, and expects productivity revenue to surpass leisure revenue in 2–3 years. 2026 adjusted net profit guidance remains Rmb1.35bn. Reiterate OW.

Product strategy: content creator life-cycle management. Meitu is repositioning its stack around the full content lifecycle—creation → distribution → asset accumulation—rather than a set of standalone editors. Creation already spans Meitu's photo, video and design apps. The next steps: extend into distribution, then allow user-created images, videos, music and IP to accumulate as reusable assets. Once Meitu participates in distribution, it can observe which content performs and feed those signals into app development. In our view, this strengthens Meitu's product differentiation. Management stressed that distribution extends existing creator needs rather than new business, with near-term efforts focused on productized distribution.

Productivity mix is shifting toward higher-value users: The revenue growth slowdown primarily stemmed from DesignKit, which contributes c.50-60% of productivity ARR and is transitioning from traditional shelf-commerce design toward social/content commerce as merchants shift spend to seeded posts, short video and livestream clips. Management expects the product to reach a more satisfactory stage by year-end. Meanwhile, newer vertical products are diversifying growth: Kaipai reached c.18% paying ratio, Vmake Labs reached roughly US$5mn ARR, and Picchi and MVLAND are also growing rapidly. Management sees future productivity growth becoming increasingly ARPPU-led rather than MAU/paying user-led: AI-credit consumption removes the ceiling imposed by subscription tiers. Management continues to expect productivity to become Meitu's main revenue engine and potentially exceed lifestyle revenue in 2-3 years, with overseas developed markets and creator-heavy markets such as Brazil representing the larger incremental TAM.

Costs and expenses—gross margin pressure near term, but operating discipline intact: 1H26 GM fell 2.1ppt, mainly on faster growth of earlier-stage AI-native productivity apps with higher API costs and lower high-margin advertising mix. Management is prioritizing product-market fit over gross-margin optimization at incubation, but sees better unit economics as usage patterns mature; it indicated 70%+ as stabilized gross margin level. It plans to step up paid marketing in 4Q—particularly for successful new AI products and overseas expansion—but remains clear that spending will follow revenue and target paying-user acquisitions rather than subsidized free-user growth, suggesting continued operating leverage.

Meitu Inc (1357.HK, 1357 HK)

Greater China IT Services and Software | China

Stock Rating	**Overweight**
Industry View	**In-Line**
Price target	HK$10.20
Up/downside to price target (%)	113
Shr price, close (Aug 28, 2026)	HK$4.78
52-Week Range	HK$12.01-3.56
Sh out, dil, curr (mn)	4,611
Mkt cap, curr (mn)	Rmb18,911
Avg daily trading value (mn)	HK$477

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (Rmb)**	0.21	0.29	0.37	0.48
Prior EPS (Rmb)**	-	0.3	0.4	0.5
Revenue, net (Rmb mn)	3,859	4,754	6,055	7,701
EBITDA (Rmb mn)	915	1,390	1,915	2,510
ModelWare net inc (Rmb mn)	965	1,357	1,685	2,236
P/E	29.8	13.9	11.2	8.5
P/BV	5.1	2.9	2.4	2.0
ROE (%)	19.2	23.9	25.4	28.7
EV/EBITDA	25.7	8.9	5.7	3.6
FCF yld ratio (%)**	5.1	8.3	10.3	13.4

framework
** = Based on consensus methodology

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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Financial Summary

Exhibit 1: Financial summary

INCOME STATEMENT

Years Ending December 31 Rmb mn	2025	2026E	2027E	2028E
Total consolidated revenue	**3,859**	**4,754**	**6,055**	**7,701**
Cost of revenue	1,020	1,297	1,685	2,176
Gross profit	**2,839**	**3,457**	**4,370**	**5,525**
S&M expenses	600	704	899	1,146
G&A expenses	451	451	497	630
R&D expenses	945	983	1,131	1,314
Total operating expenses	**1,996**	**2,138**	**2,526**	**3,090**
Operating profit	**842**	**1,319**	**1,844**	**2,435**
Adjusted operating profit (VAT refund)	**862**	**1,343**	**1,874**	**2,473**
EBITDA	971	1,583	1,958	2,573
Profit before tax	905	1,519	1,894	2,507
Net profit	698	1,367	1,705	2,256
Net profit (normalized)	**965**	**1,357**	**1,685**	**2,236**
Basic EPS (reported)	0.15	0.30	0.37	0.49
Diluted EPS (reported)	0.15	0.29	0.37	0.48
MW EPS	0.15	0.29	0.37	0.48
EPS (normalized)	**0.21**	**0.29**	**0.37**	**0.48**

BALANCE SHEET

Years Ending December 31 Rmb mn	2025	2026E	2027E	2028E
Cash and cash equivalents	3,515	4,553	5,985	7,872
Trade and other receivables	523	696	957	1,315
Inventories	7	9	12	16
Contract assets	179	221	282	358
Other	2,045	2,079	2,116	2,154
Current assets	**6,269**	**7,559**	**9,351**	**11,714**
PP&E	459	504	543	602
Right-of-use assets	54	36	32	30
Intangible assets	397	515	513	512
Investments accounted for using the equity method	2,020	2,020	2,020	2,020
Other assets	89	89	89	89
Non-current assets	**3,019**	**3,165**	**3,198**	**3,252**
Total assets	**9,288**	**10,724**	**12,549**	**14,967**
ST borrowings	20	20	20	20
Contract liabilities	849	1,109	1,479	1,948
Trade and other payables	733	932	1,211	1,563
Other ST liabilities	1,753	1,753	1,753	1,753
Current liabilities	**3,355**	**3,814**	**4,463**	**5,284**
LT debt	-	-	-	-
Other LT liabilities	296	310	324	338
Non-current liabilities	**296**	**310**	**324**	**338**
Total liabilities	**3,651**	**4,124**	**4,787**	**5,622**
Share capital	0	0	0	0
Share premium	6,238	6,238	6,238	6,238
Reserves	1,158	1,158	1,158	1,158
Minority interests	(30)	(30)	(30)	(30)
Total shareholders' equity	**5,638**	**6,600**	**7,762**	**9,345**
Total liabilities and equity	**9,288**	**10,724**	**12,549**	**14,967**

CASH FLOW STATEMENT

Years Ending December 31 Rmb mn	2025	2026E	2027E	2028E
Net profit	697	1,367	1,705	2,256
Depreciation and amortization	72	71	72	75
Net change in working capital	279	208	288	345
Other non-cash adjustments	209	0	0	-
Operating cash flow	**1,257**	**1,646**	**2,065**	**2,677**
Capex	(58)	(71)	(91)	(116)
Net of acquisition/disposal of subsidiaries	-	-	-	-
Net change in investment	607	-	-	-
Other investing cash flow	(343)	-	-	-
Investing cash flow	**206**	**(71)**	**(91)**	**(116)**
Net change in debt	1,775	-	-	-
Net change in equity	(866)	-	-	-
Dividend paid	(689)	(405)	(543)	(674)
Other financing cash flow	548	-	-	-
Financing cash flow	**768**	**(405)**	**(543)**	**(674)**
Other adjustments	(17)	(131)	-	-
Net change in cash	**2,213**	**1,039**	**1,431**	**1,887**
Beginning cash balance	1,301	3,515	4,553	5,985
Ending cash balance	3,515	4,553	5,985	7,872

KPI & FINANCIAL RATIOS

Years Ending December 31 Rmb mn	2025	2026E	2027E	2028E
Growth % YoY				
Total consolidated revenue	28.8%	23.2%	27.3%	27.2%
Operating profit	70.8%	56.5%	39.8%	32.1%
Adjusted operating profit (VAT refund)	74.5%	55.8%	39.6%	32.0%
Normalized net profit	64.7%	40.5%	24.2%	32.7%
Margin				
Gross margin				
Blended				
Gross margin	73.6%	72.7%	72.2%	71.7%
EBITDA margin	25.2%	33.3%	32.3%	33.4%
Operating margin	21.8%	27.7%	30.4%	31.6%
Operating margin (VAT refund)	22.3%	28.2%	30.9%	32.1%
Pretax margin	23.4%	31.9%	31.3%	32.6%
Net margin	18.1%	28.7%	28.2%	29.3%
R&D spending as % revenue	24.5%	20.7%	18.7%	17.1%
ROE	**18.4%**	**22.2%**	**23.5%**	**26.1%**
FCF	**1,199**	**1,575**	**1,974**	**2,561**
% change	73.1%	31.3%	25.4%	29.7%
% of revenue	31.1%	33.1%	32.6%	33.3%

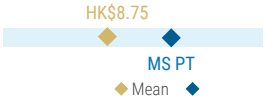
Risk Reward – Meitu Inc (1357.HK)

Productivity Apps: Unlock 3rd Growth Curve

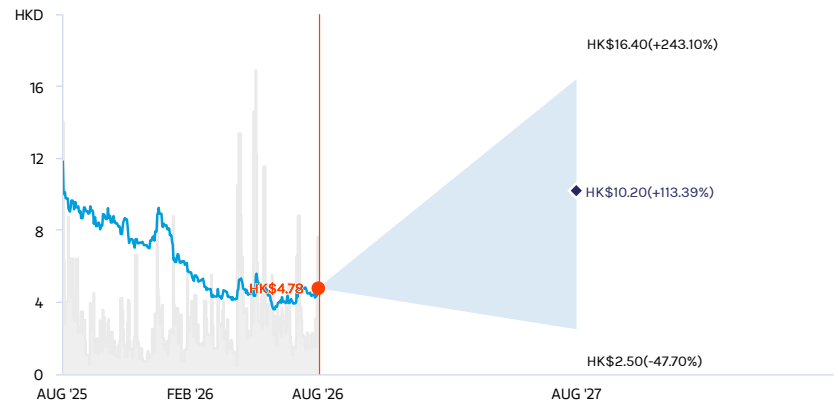
PRICE TARGET HK$10.20

We value Meitu using a 10-year DCF model as a more stable approach to capture long-term benefits amid the company's transition to a subscription-based model. Our key DCF assumptions include a 11.5% WACC and a 12.4% cost of equity (2.0% risk free rate, 1.6 beta, and 6.5% risk premium), a cost of debt of 4.0%, a debt weighting of 10%, and a terminal growth rate of 3%.

Consensus Price Target Distribution



RISK REWARD CHART

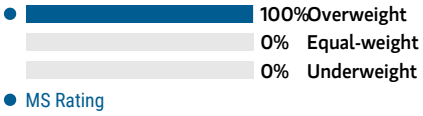


Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

OVERWEIGHT THESIS

- Although leisure has maintained fast growing momentum, we see Meitu entering a new growth phase driven by productivity apps with agent-led monetization.
- For the longer term, we see upside optionality from verticalized agents and overseas expansion, with execution pace the key swing factor.
- Our PT implies 24x 2027E P/E or 1x 2027E PEG, lower than its average 1-year forward P/E of 30x.

Consensus Rating Distribution



Risk Reward Themes

New Data Era:	*Positive*
Secular Growth:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE HK$16.40

1.1x 2027E PEG

MAU growth: 3.0%, 4.0% and 4.0% in 2026-28E, respectively.

Paying user penetration: 8.2%, 9.7% and 10.7% in 2026-28E, respectively.

R&D expense growth: 4%, 14% and 15.2% in 2026-28E, respectively.

BASE CASE HK$10.20

1x 2027E PEG

MAU growth: 2.0%, 3.0% and 3.0% in 2026-28E, respectively.

Paying user penetration: 7.2%, 8.7% and 9.7% in 2026-28E, respectively.

R&D expense growth: 4%, 15% and 16.2% in 2026-28E, respectively.

BEAR CASE HK$2.50

0.7x 2027E PEG

MAU growth: 2.0%, 3.0% and 2.0% in 2026-28E, respectively.

Paying user penetration: 6.7%, 7.7% and 8.7% in 2026-28E, respectively.

R&D expense growth: 4%, 15.5% and 16.7% in 2026-28E, respectively.

Risk Reward – Meitu Inc (1357.HK)

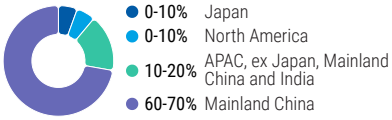
KEY EARNINGS INPUTS

Drivers	Dec 2025	Dec 2026e	Dec 2027e	Dec 2028e
MAUs (mn)	276	282	290	299
Paying user penetration (%)	0.0	0.0	0.0	0.0
ARPPU (Rmb, mn)	200	207	226	249

INVESTMENT DRIVERS

- MAU growth
- Paying user penetration
- ARPPU improvement

GLOBAL REVENUE EXPOSURE



View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster paying user penetration increase owing to AI adoption and overseas market share gain
- Higher-than-expected ARPPU driven by AI token consumption
- Better opex control

RISKS TO DOWNSIDE

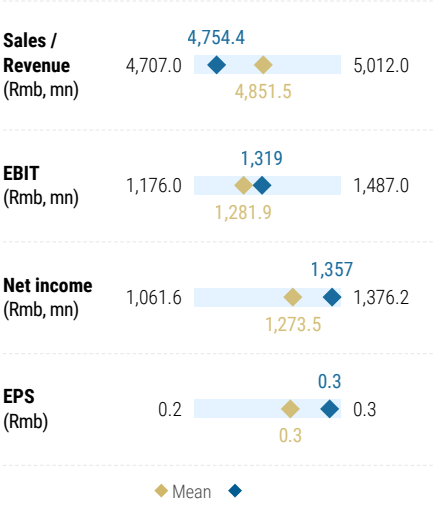
- Feature overlaps with AI foundation model players resulting to weaker operating metrics performance
- Higher-than-expected third-party AI model API costs
- Execution risks in overseas productivity market

OWNERSHIP POSITIONING

Inst. Owners, % Active 53.3%

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



What's Changed

Estimate revisions

Incorporating 1H26 results, we lower our revenue estimates by 3.8%, 4.8% and 1.3% for 2026, 2027, and 2028, respectively, due to the transition of DesignKit. Our adjusted operating profit forecasts fall by 11.2%, 3.4% and 1.4% as we also lower our gross margin assumptions, partially offset by lower opex estimates. As a result, our normalized EPS forecasts rise fractionally for 2026 but drop 3.4% for 2027 and 1.4% for 2028.

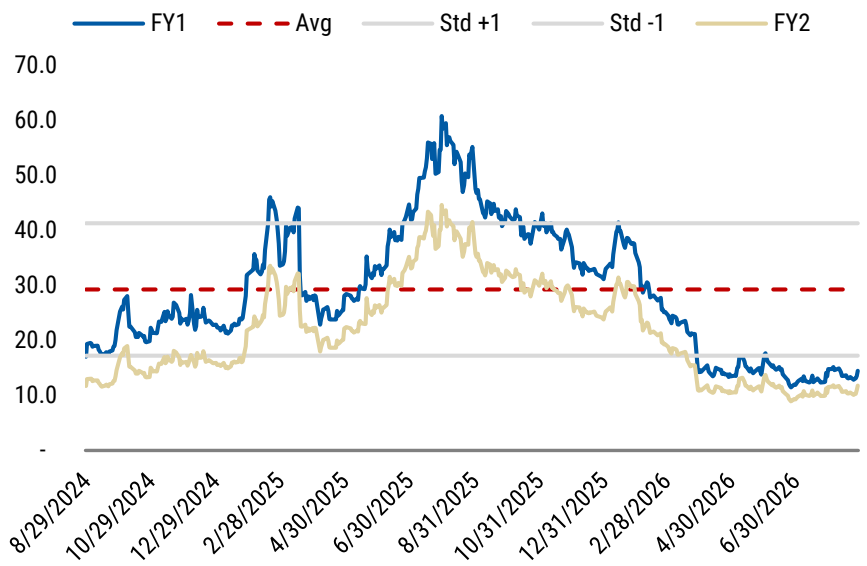
Exhibit 2: Estimates revisions

Years Ending December 31	New			Old			% Change		
Rmb mn	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Total consolidated revenue	4,754	6,055	7,701	4,943	6,359	7,802	-3.8%	-4.8%	-1.3%
Gross profit	3,457	4,370	5,525	3,727	4,759	5,815	-7.2%	-8.2%	-5.0%
Operating profit	1,319	1,844	2,435	1,487	1,907	2,470	-11.3%	-3.3%	-1.4%
Adjusted operating profit (VAT refund)	1,343	1,874	2,473	1,512	1,939	2,509	-11.2%	-3.4%	-1.4%
EBITDA	1,583	1,958	2,573	1,583	2,024	2,609	0.0%	-3.2%	-1.4%
Profit before tax	1,519	1,894	2,507	1,518	1,959	2,542	0.0%	-3.3%	-1.4%
Net profit	1,367	1,705	2,256	1,366	1,763	2,288	0.0%	-3.3%	-1.4%
Net profit (normalized)	1,357	1,685	2,236	1,356	1,743	2,268	0.0%	-3.4%	-1.4%
Basic EPS (reported)	0.30	0.37	0.49	0.30	0.39	0.50	0.0%	-3.3%	-1.4%
Normalized EPS	0.29	0.37	0.48	0.29	0.38	0.49	0.0%	-3.4%	-1.4%
Price target (HKD)		**10.2**			**10.5**			**-2.9%**	

Valuation

We lower our PT by 2.9% to HK$10.2, primarily driven by lower financial forecasts. We value Meitu using a 10-year DCF model as a more stable approach to capture long-term benefits amid the company's transition to a subscription-based model. Our key DCF assumptions include a 11.5% WACC and a 12.4% cost of equity (2.0% risk free rate, 1.6 beta, and 6.5% risk premium), a cost of debt of 4.0%, a debt weighting of 10%, and a terminal growth rate of 3%. We also roll our valuation horizon period forward by six months to June 2027. Our PT implies 24x 2027e P/E based on MSe, lower than the historical average one-year forward P/E of 30x. Meitu is currently trading at P/Es of 14x 2026e and 11x 2027e based on MSe, which we consider undervalued.

Exhibit 3: Meitu historical P/E band



Source: Factset

Exhibit 4: DCF valuation

Years Ending December 31	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	
				Scenario	0											
Rmb mn																
FCF																
FCF	183	361	693	1,199	1,575	1,974	2,561	3,087	3,516	4,100	4,841	5,685	6,484	6,720	7,255	
% change	*-125.6%*	*97.3%*	*91.8%*	*73.1%*	*31.3%*	*25.4%*	*29.7%*	*20.5%*	*13.9%*	*16.6%*	*18.1%*	*17.4%*	*14.1%*	*3.6%*	*8.0%*	
% of revenue	8.8%	13.4%	20.7%	31.1%	33.1%	32.6%	33.3%	32.9%	31.8%	31.4%	31.1%	30.7%	29.7%	26.2%	24.2%	
Discounted FCF						**0.50**	**1.50**	**2.50**	**3.50**	**4.50**	**5.50**	**6.50**	**7.50**	**8.50**	**9.50**	**10-year**
				12.5%		1,861	2,146	2,299	2,327	2,411	2,530	2,641	2,677	2,465	2,366	23,723
				11.5%		1,869	2,175	2,351	2,401	2,510	2,658	2,799	2,862	2,660	2,575	24,859
				10.5%		1,878	2,204	2,404	2,478	2,614	2,793	2,967	3,062	2,871	2,805	26,077

WACC			12.5%			11.5%			10.5%		
Cost of debt	4.0%	**Terminal growth**	**2.5%**	**3.0%**	**3.5%**	**2.5%**	**3.0%**	**3.5%**	**2.5%**	**3.0%**	**3.5%**
Tax rate	10.0%	10Y CF	2,366	2,366	2,366	2,575	2,575	2,575	2,805	2,805	2,805
After-tax cost of debt	3.6%	Terminal value	24,199	25,594	27,144	29,261	31,130	33,231	35,850	38,420	41,356
Debt weighting	10.0%	**Enterprise value**	**26,565**	**27,960**	**29,510**	**31,836**	**33,705**	**35,806**	**38,655**	**41,225**	**44,161**
		Net cash/(debt)	5,426	5,426	5,426	5,426	5,426	5,426	5,426	5,426	5,426
Risk-free rate	2.0%	Minority interest	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Equity risk premium	6.5%	Investment	2,020	2,020	2,020	2,020	2,020	2,020	2,020	2,020	2,020
Beta	1.60	**Equity value**	**33,982**	**35,377**	**36,927**	**39,253**	**41,121**	**43,223**	**46,072**	**48,642**	**51,578**
Cost of equity	12.4%	No. of shares	4,578	4,578	4,578	4,578	4,578	4,578	4,578	4,578	4,578
Equity weighting	90.0%	FX rate (Rmb/HK$)	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88
WACC	**11.5%**	**Price target**	8.4	8.8	9.2	9.7	**10.2**	10.7	11.4	12.1	12.8
		PE 2026e	25.0	26.1	27.2	28.9	30.3	31.9	34.0	35.9	38.0
		PE 2027e	20.2	21.0	21.9	23.3	24.4	25.7	27.3	28.9	30.6
		PEG 2026e	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.3	1.4
		PEG 2027e	0.8	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.2



Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf