Regional Industry Focus

China Internet Sector

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DBS Group Research . Equity 15 Jul 2025

Accumulate Alibaba amid food delivery war

HSI: 24,203

- **Aggressive food delivery subsidy brings in record-high orders for Alibaba, JD, Meituan, but earnings concern causes 10-21% share price drop since Feb**
- **Expect competition to sustain through 3Q25 with summer being peak traffic season; Prefer Alibaba over Meituan/JD near-term on deepest pocket**
- **Our base-case expects subsidy scale-back in 4Q25; Meituan stands to see the most upside should this happen given c.50% FD revenue contribution**
- **Alibaba is currently trading at only 11x forward adj. PE (0.5 SD below hist avg), a good level to accumulate with near-term AI-related catalysts in place**

Food delivery players under pressure due to fierce competition. Share prices of Alibaba/JD/Meituan saw a 10%/21%/16% decline respectively since JD joined food delivery (FD) back in Feb 2025, largely underperforming the broader market (HSI +11%) due to concerns of intense FD competition. With RMB10bn-50bn committed investment this year for each player, and further increase in subsidy in Jul 2025, daily orders (FD + instant commerce) have reached record-high of 80mn/25mn/150mn for Alibaba/JD/Meituan, with the aim of channelling their FD traffic into other businesses. However, the aggressive subsidy has raised concerns for near-term earnings capability, leading to overall share price weakness.

Meituan sees biggest earnings upside if subsidy scales back, but competition likely ongoing till 3Q25. Our current base case assumption suggests FD competition will continue past 3Q25, and may scale back in 4Q25 due to factors such as decline in cross-selling efficiency or government intervention. We currently project Alibaba/ JD/ Meituan to invest RMB27bn/15bn/17bn in FD in 2H25. Given market share of c.60% in the FD industry and c.50% FD revenue contribution, we believe Meituan has the biggest earnings upside if subsidy scales back in 4Q25, but near-term catalyst remains limited due to on-going competition.

Good time to start accumulating Alibaba after recent decline. After recent share price retreat, Alibaba is only trading at 11x forward 12-months adj. PE (c.0.5 SD below historical average). With near-term catalysts in its other business segment in place (i.e. Nvidia to resume H20 AI chip sales to China to ease supply chain concerns for Alibaba's AI business and potential upward revision in cloud revenue growth), we believe Alibaba offers best risk-to-reward at current level, supported by estimated earnings CAGR of 7% in FY3/25-28F and shareholder returns (c.2% dividend yield and c.USD22bn share buyback plan for FY3/26 (c.8% of market cap)). We suggest investors to start accumulating Alibaba now, but wait for better entry timing for Meituan.

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Recommendation & valuation

Company		Closing Price Local$	Target Price Local$	Recom	Market Cap US$m
Alibaba (9988 HK)	HKD	106.10	156	BUY	258,020
JD.com (9618 HK)	HKD	122.40	164	BUY	49,579
Meituan (3690 HK)	HKD	120.90	171	BUY	94,100

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

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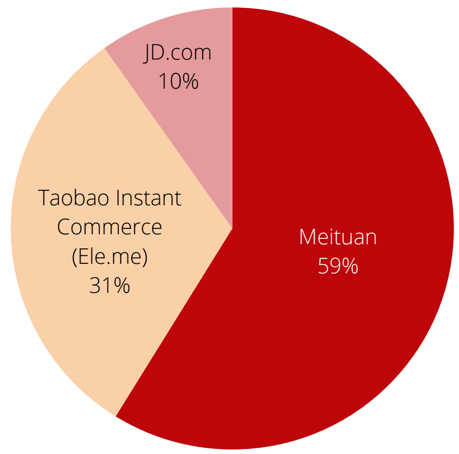
Latest development in the food delivery industry

As of July 2025, China's instant commerce and food delivery sectors are seeing intense competition, with Meituan, Alibaba, and JD.com recording unprecedented order volumes. Meituan reported a record 150mn daily orders on 12-Jul, predominantly in food delivery, solidifying its market leadership with a c.60% share. Alibaba's combined Taobao Instant Commerce and Ele.me platforms achieved 80mn daily orders in early-Jul, supported by a RMB50bn subsidy programme to capture share in high-frequency categories. The company has also announced this week a long-term target of achieving 80mn orders per day. JD.com, a newer entrant in the food delivery space since Feb 2025, has rapidly scaled to 25mn daily orders, positioning itself as a formidable challenger. This surge in activity has led to daily orders in the industry reaching c.250mn currently, fuelled by aggressive subsidies and strategic expansion.

Rationale behind JD's entry into food delivery. Meituan's "InstaShopping" has expanded beyond food into categories such as supermarkets, electronics, and home appliances, achieving c.50% share in instant commerce (ex. FD) and overlaps with JD's on-demand retail offerings. JD's entry into food delivery business, is backed by its "Double Hundred Plan" announced last week with over RMB10bn in committed investments. The plan aims to tap into strong merchant demand for alternative delivery platforms and offset the slowing growth in JD's core e-commerce business.

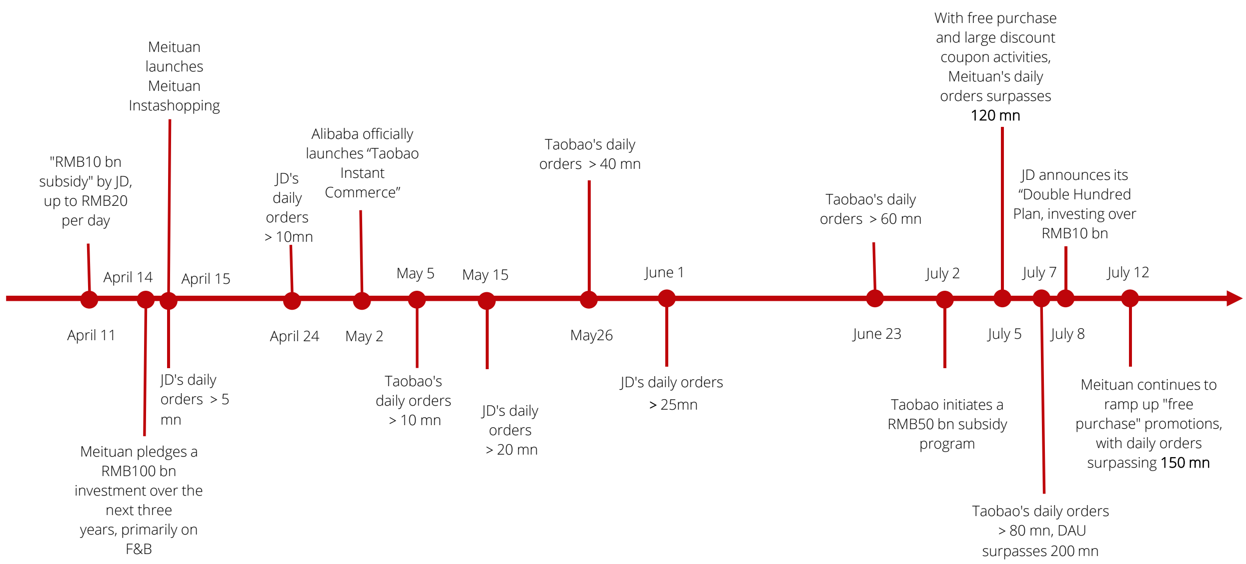
Implied market share of instant commerce, Jul 2025



Source: Channel Check, Weixin, Company, DBS

Diverse business strategies JD's rapid ascent in food delivery, despite Meituan's entrenched dominance, is driven by a strategic focus on high-margin, high-frequency beverage categories, which benefits from strong brand recognition, elastic demand, and streamlined supply chains. By prioritizing volume growth over short-term profitability and leveraging its established logistics infrastructure, JD has effectively scaled its operations. However, the aggressive subsidy-driven price war has drawn regulatory scrutiny, with the State Administration for Market Regulation emphasising compliance with competition and labour laws.

Timeline of key events in the food delivery competition landscape



Source: Company, DBS

Development and implications

Expect competition to linger beyond the summer holidays. We believe **instant retail and traditional e-commerce are not separate businesses but have a natural complementary relationship.** E-commerce players aim to leverage high-frequency FD/instant commerce to drive low-frequency traditional e-commerce, as seen in both Alibaba and JD integrating food delivery entry points into their main e-commerce apps. According to Quest Mobile's June data, JD's daily active users have grown by 30%+ y/y, indicating successful cross-selling from FD to the e-commerce platform.

Given that summer holiday is typically a peak season for FD/instant commerce traffic, we believe all players will prioritise expanding their subsidies during this time to drive more traffic flow on their apps, **suggesting competition will remain intense at least through the summer holiday.**

Longer-term impact: Will players scale back their subsidies? The million-dollar question is when the three internet giants will scale back their subsidies. We created two scenarios to illustrate the potential financial impact on Alibaba, Meituan and JD, depending on whether they scale back subsidy spending post-summer.

Scenario 1 (base case scenario): Companies scale back subsidies in 4Q25
We assume FD companies will see order volumes peak during summer holidays, and expect the margin gain from increased traffic to diminish per user. We project 3Q25 to be the quarter with the highest investments and expect 4Q25 investment levels to return to 2Q levels. Overall, we expect subsidy level to be at RMB4/7/3 for Alibaba/JD/Meituan in 2H25, and daily orders (inc. instant commerce) at 60mn/18mn/100mn, resulting in investment amounts of c.RMB27/15/17bn for 2H25.

Scenario 2 (bear case scenario): Competition to continue post 4Q25. We assume FD companies will continue to offer aggressive subsidies past the summer holidays to boost traffic, and the marginal gain from cross-selling activities have yet to reach a turning point. Efforts are likely to continue through the Double-11 shopping festival. As such, we expect subsidy levels to be RMB6/9/5 for Alibaba/JD/Meituan in 2H25, and daily orders (inc. instant commerce) at 80mn/30mn/130mn, implying investments of c.RMB53/33/36bn for 2H25.

Scenario analysis on FD segment per company in 2H25

Scenario	Scenario 1: Companies scale back subsidies			Scenario 2: Competition linger past 2025		
Description	Expect companies to start reducing subsidy amount to pre-summer levels control loss			Expect companies to provide extra subsidy through summer holiday to boost traffic flow on their apps		
Company	Alibaba	JD	Meituan	Alibaba	JD	Meituan
2H25 subsidy per order (RMB)	4	7	3	6	9	5
Subsidy borne on company per order (RMB)	2.4	4.5	0.9	3.6	6	1.5
Daily orders (mn)	60	18	100	80	30	130
2H25 FD investment per company (RMB bn)	26.5	14.9	16.6	53.0	33.1	35.9
% of FY25 Earnings impact	12.2	26.2	24.8	24.4	58.2	53.7

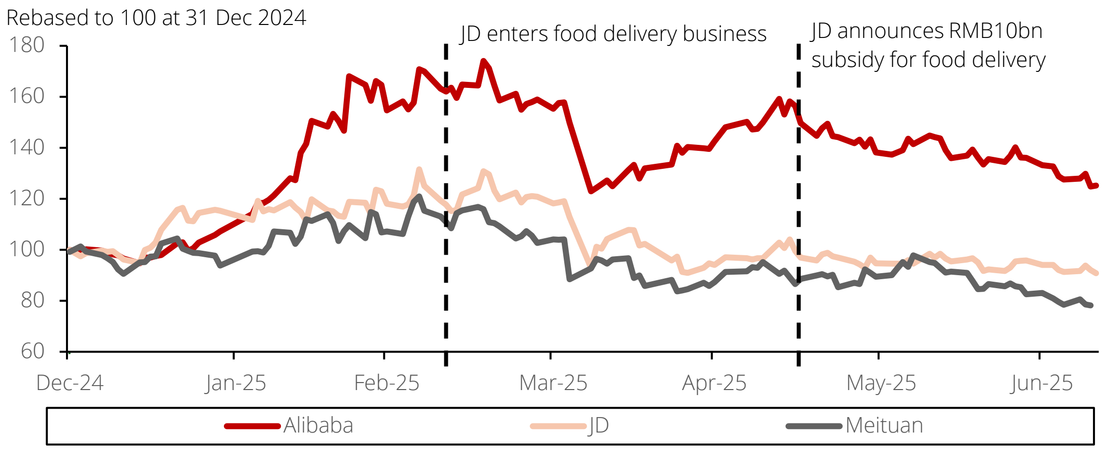
Source: Company, DBS

Key determining factors: We believe subsidy will scale back to pre-summer levels if any one of the three factors occurs: (1) Government intervention: Subsidies may be reduced if the government regulates excessive competition (i.e. not allowing takeaway prices lower than dine-in); (2) Scale back in consumption subsidies: JD's current FD investment is supported by strong JD retail growth from consumption subsidies. Investment may decline if the government reduces these subsidies; (3) Marginal gain from cross-selling begins to diminish, leading to natural slowdown in FD competition. Given that summer is a peak season for online traffic, we currently project companies will likely scale back subsidies post-summer (Scenario 1) given the lower marginal gain per subsidy.

Good time to accumulate Alibaba. With Alibaba's shares down by 10% since Feb-2025, we believe the stock is downside-protected even if the food delivery competition lingers given the relatively small scale of c.7% revenue contribution from food delivery business. With potential re-rating opportunities in other business segments like AI (i.e. Nvidia B40 chip launch for Alibaba's AI business and potential upward revision in cloud revenue growth), we believe Alibaba has more catalysts for a near-term re-rating. Alibaba is trading at an attractive valuation of 11x forward adj. PE (c.0.5 SD below historical average). We believe this is a good time to start accumulating Alibaba.

Long Meituan once subsidy scale-back is seen. Meituan's shares have fallen by 16% since Feb-2025, with consensus lowering FY25F adj. earnings by 24% to c.RMB40bn, factoring in increased competition in the FD segment. Given its scale advantage and market share dominance of over 50%, we remain confident that Meituan will be a long-term winner, and every RMB1 saved on subsidies per order can lower its investment amount by c.RMB6bn 2H25, compared to its c.RMB40bn adj. earnings for FY25F. We believe Meituan will be the biggest beneficiary of any subsidy scale-back. With Meituan trading at an undemanding 15x forward adj. PE, (c. 1 SD below historical average), we recommend investors to go long once subsidy scale-back is seen, as we believe Meituan will be the biggest beneficiary among the three players.

YTD share price performances of Alibaba, JD and Meituan



Source: Company, DBS

Peers table

Company Name	Code	Currency	Price Local$	Mkt Cap US$m	Fiscal Yr	PE 25F x	PE 26F x	P/S 25F x	P/S 26F x	EV/EBITDA 25F x	EV/EBITDA 26F x	ROE 25F %	ROE 26F %
China internet platform													
Alibaba Group*#	9988 HK	HKD	106.10	258,020	Mar	12.5	10.8	1.7	1.6	8.6	7.3	13.6	14.4
Baidu 'A'*	9888 HK	HKD	84.15	3,708	Dec	11.9	11.6	1.6	1.6	6.2	5.3	6.6	6.2
JD.com*	9618 HK	HKD	122.40	49,579	Dec	7.6	6.7	0.3	0.2	3.4	2.5	17.3	17.5
Meituan*	3690 HK	HKD	120.90	94,100	Dec	19.5	14.7	1.8	1.5	10.9	6.0	18.0	19.0
Pinduoduo*	PDD US	USD	102.41	145,386	Dec	11.9	8.9	2.5	2.1	5.0	2.2	23.8	24.4
Tencent Holdings*	700 HK	HKD	500.00	583,800	Dec	20.3	18.0	5.8	5.4	14.0	11.6	19.6	18.7
Tongcheng-Elong*	780 HK	HKD	21.25	6,336	Dec	16.0	12.5	2.3	2.0	8.4	6.3	12.9	14.4
Trip Com Group*	9961 HK	HKD	489.0	40,715	Dec	17.5	15.2	5.0	4.4	13.9	11.5	11.1	11.2
Weibo	9898 HK	HKD	77.6	2,502	Dec	5.6	5.5	1.4	1.3	1.6	1.5	11.7	10.9
Average						13.5	11.6	2.5	2.3	8.1	6.4	15.8	15.5

 # FY25: FY26; FY26: FY27

*Source: Thomson Reuters, *DBS*

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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