

Meituan (3690 HK)

An upbeat 2Q with enhanced full-year earnings outlook

Meituan reported (28 Aug) its 2Q24 results: revenue was RMB82.3bn, up 21.0% YoY, 2% higher than both our estimate and Bloomberg consensus estimate. Adjusted net profit during 2Q24 reached RMB13.6bn, 20%/32% better than our estimate/consensus, due to both better-than-expected operating profit (OP) generated from core local commerce (CLC) business, aided by subsidy optimization for food delivery (FD) business and more benign-than-expected competition for in-store business, and narrower-than-expected loss generated from new business, aided by better-than-expected operating efficiency improvement. Although facing macro headwinds, leveraging the loyal and sticky core user base, Meituan is able to drive more cross-sell opportunities for Instashopping and in-store business, and is able to continuously optimize subsidies to improve profitability, which in our view has enhanced full-year earnings growth outlook. Also, Meituan is enhancing shareholder return: it has repurchased 3.6% of total shares outstanding YTD, and unveiled a new US\$1bn share repurchase program, which should provide support for valuation. Our DCF-based TP is unchanged at HK\$157.8; maintain BUY.

■ **Better core business earnings growth outlook despite macro headwinds.** CLC segment revenue/OP was RMB60.7bn/15.2bn in 2Q24, up 19%/37% YoY, 1%/24% better than consensus. Segmental operating margin was also 4.2/4.5ppt better than our forecast/consensus, thanks to: 1) lower delivery related costs as percentage of revenues of food delivery and Meituan Instashopping businesses; 2) a change of revenue mix; and 3) lower transacting user incentives as percentage of revenues. Leveraging the sticky core user base, Meituan is able to create more cross-sell opportunities, and could further optimize user subsidies, which should enhance full-year earnings growth outlook amid macro headwinds. We lift 24E CLC OP forecast by 15% to RMB49.2bn. For 3Q24, we forecast CLC segment to ink revenue/OP of RMB68.7bn/13.7bn, up 19%/36% YoY, which translates into an OPM of 20.0% (3Q23: 17.5%).

■ **New initiatives are seeing continuous operating efficiency improvement.** Revenue generated from new initiatives was RMB21.6bn in 2Q24, up 29% YoY, driven by robust revenue growth of Xiaoxiang Supermarket and Kuailv, which was 4/5% ahead of our forecast/consensus estimates. Operating loss for the segment was RMB1.3bn, narrower than our/consensus estimates of RMB2.0bn/2.1bn, implying a loss margin of 6.1% (2Q23: loss margin of 31.0%), driven by better-than-expected earnings generation from both retail business and other business (such as bike sharing) on favourable seasonality. Operating loss generated from Meituan Select was RMB2.0bn, narrowed from RMB5.0bn/RMB2.9bn in 2Q23/1Q24, and was better than our estimate at RMB2.1bn. In 3Q24, we forecast Meituan Select to see further loss reduction to RMB1.8bn (3Q23: RMB5.0bn), and other new businesses to sustain a breakeven level in a relatively low season. On a combined basis, we forecast total new businesses' segmental operating loss of RMB1.8bn (3Q23: RMB5.1bn) in 3Q24E. Although we have accounted for the impact for international expansion of FD business into the Middle East in the coming 4Q, full-year total operating loss of new initiatives of RMB8.1bn will likely be still better than our previous forecast of RMB8.9bn. Our 2024E non-GAAP net profit forecast for Meituan is lifted by 9% to RMB42.1bn.

BUY (Maintain)

Target Price HK\$157.80
Up/Downside 53.5%
Current Price HK\$102.80

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Stock Data

Mkt Cap (HK\$ mn)	632,898.0
Avg 3 mths t/o (HK\$ mn)	3,336.7
52w High/Low (HK\$)	137.30/62.55
Total Issued Shares (mn)	6156.6

Source: FactSet

Shareholding Structure

Huai River Investment Limited	10.1%
Crown Holdings Asia Limited	7.9%

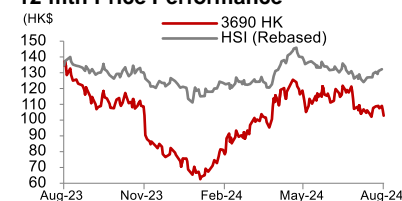
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.5%	-8.1%
3-mth	-13.6%	-8.1%
6-mth	31.2%	22.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	219,955	276,745	336,149	391,399	441,346
YoY growth (%)	22.8	25.8	21.5	16.4	12.8
Net profit (RMB mn)	(6,686.1)	13,856.1	33,906.8	40,601.3	50,148.9
Adjusted net profit (RMB mn)	2,827.2	23,253.4	42,148.8	49,387.0	59,592.9
YoY growth (%)	na	722.5	81.3	17.2	20.7
EPS (Adjusted) (RMB)	0.46	3.74	6.72	7.79	9.31
P/E (x)	ns	42.1	17.4	14.7	12.0
ROE (%)	(5.3)	9.9	20.4	19.8	19.3

Source: Company data, Bloomberg, CMBIGM estimates

Key takeaways from the results

- **OPM of CLC business expanded by 3.3ppts to 25.1%, and was 4.5ppts better than consensus.**
 - Total order volume of food delivery and Meituan Instashopping reached 6.17bn in 2Q24, up 14% YoY but was 1% shy of our forecast and Bloomberg consensus, which in our view can be attributed to the macro headwinds which have weighed on FD order growth.
 - However, OP of CLC segment increased by 37% YoY to RMB15.2bn in 2Q24, and OPM was expanded by 3.3pp, primarily attributable to: 1) lower delivery related costs as percentage of revenues of food delivery and Meituan Instashopping businesses; 2) a of revenue mix; and 3) lower transacting user incentives as percentage of revenues.
- **Loss reduction of new initiatives better than expected.** Operating loss from new initiatives segment narrowed to RMB1.3bn for 2Q24 (2Q23: loss of RMB5.2bn), and operating loss margin narrowed by 24.9ppts to 6.1%, mainly driven by efforts in improving operating efficiency in Meituan Select.
- **Meituan has repurchased 222mn shares in 7M24, c.3.6% of total shares outstanding.** During the six months ended 30 June 2024, Meituan repurchased a total of 222.1mn Class B shares on the stock exchange at the aggregate consideration of HK\$23.3bn before expenses, which equals to c.3.6% of the outstanding shares as of 28 Aug 2024.

Figure 1: Meituan: quarterly financial results and consensus comparison

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Consensus	Diff	CMBI estimates	Diff
Revenue	58,617	67,965	76,467	73,696	73,276	82,251	80,417	2.3%	80,585	2.1%
YoY	26.7%	33.4%	22.1%	22.6%	25.0%	21.0%				
By segment										
CLC	42,885	51,200	57,691	55,131	54,626	60,682	59,902	1.3%	59,797	1.5%
YoY	25.5%	39.2%	24.5%	26.8%	27.4%	18.5%				
New initiatives	15,732	16,765	18,776	18,565	18,650	21,569	20,547	5.0%	20,788	3.8%
YoY	30.1%	18.4%	15.3%	11.5%	18.5%	28.7%				
Operating profit	3,586	4,713	3,359	1,758	5,209	11,257	8,727	29.0%	9,559	17.8%
By segment										
CLC	9,445	11,139	10,096	8,019	9,699	15,234	12,328	23.6%	12,512	21.8%
New initiatives	-5,029	-5,193	-5,112	-4,833	-2,757	-1,314	-2,118	37.9%	-1,998	34.2%
Non-IFRS net profit	5,491	7,660	5,727	4,375	7,488	13,606	10,343	31.5%	11,380	19.6%
OPM (%)	6.1%	6.9%	4.4%	2.4%	7.1%	13.7%	10.9%	2.8 ppt	11.9%	1.8 ppt
CLC	22.0%	21.8%	17.5%	14.5%	17.8%	25.1%	20.6%	4.5 ppt	20.9%	4.2 ppt
New initiatives	-32.0%	-31.0%	-27.2%	-26.0%	-14.8%	-6.1%	-10.3%	4.2 ppt	-9.6%	3.5 ppt
Non-IFRS								3.7 ppt		2.4 ppt
NPM (%)	9.4%	11.3%	7.5%	5.9%	10.2%	16.5%	12.9%	3.7 ppt	14.1%	3.5 ppt

Source: Bloomberg, CMBIGM estimates

Note: CLC: core local commerce

Revision of forecast and valuation

Figure 2: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	336.1	391.4	441.3	332.7	387.2	437.0	1.0%	1.1%	1.0%
OP	34.6	46.5	57.0	32.3	46.2	61.7	7.1%	0.7%	-7.7%
Non-IFRS NP	42.1	49.4	59.6	38.5	49.4	62.6	9.5%	0.0%	-4.8%
OPM	10.3%	11.9%	12.9%	9.7%	11.9%	14.1%	0.6 pp	0.0 pp	-1.2 pp
Non-IFRS NPM	12.5%	12.6%	13.5%	11.6%	12.7%	14.3%	1.0 pp	-0.1 pp	-0.8 pp

Source: CMBIGM estimates

DCF-based target price of HK\$157.8

Our DCF-based target price is unchanged at HK\$157.8, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), implying 2.6x 2024E P/S and 20.9x 2024E P/E (non-IFRS).

Figure 3: Meituan: DCF valuation, WACC of 11.0%, terminal growth of 2.5%

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NPV of FCF	301,108	319,760	289,206	293,607	263,404	234,417	186,045	136,118	68,400
Discounted terminal value	358,424								
Total equity valuation	796,417								
Total equity valuation (HKDmn)	897,048								
No. of shares (diluted, mn)	6,275								
Valuation per share (HKD)	157.8								

Source: Company data, CMBIGM estimates

Note: our TP is based on the weighted average of 4-month valuation in 2024E and 8-month valuation in 2025E.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	179,128	219,955	276,745	336,149	391,399	441,346
Cost of goods sold	(136,654)	(158,202)	(179,554)	(201,659)	(230,894)	(257,202)
Gross profit	42,474	61,753	97,191	134,490	160,505	184,144
Operating expenses	(65,601)	(67,573)	(83,776)	(99,933)	(113,995)	(127,187)
SG&A expense	(49,296)	(49,517)	(67,989)	(80,054)	(94,315)	(105,650)
R&D expense	(16,676)	(20,740)	(21,201)	(21,577)	(23,649)	(25,174)
Others	370	2,683	5,414	1,698	3,970	3,637
Operating profit	(23,127)	(5,820)	13,415	34,557	46,510	56,957
Share of (losses)/profits of associates/JV	146	36	1,213	1,263	1,263	1,263
Interest income	546	658	819	1,228	1,351	2,138
Interest expense	(1,131)	(1,629)	(1,425)	(1,354)	(1,354)	(1,354)
Others	0	0	0	0	0	0
Pre-tax profit	(23,566)	(6,756)	14,022	35,695	47,770	59,004
Income tax	30	70	(165)	(1,785)	(7,166)	(8,851)
After tax profit	(23,536)	(6,685)	13,857	33,910	40,605	50,153
Minority interest	2	1	1	3	4	4
Net profit	(23,538)	(6,686)	13,856	33,907	40,601	50,149
Adjusted net profit	(15,572)	2,827	23,253	42,149	49,387	59,593

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	147,829	143,145	183,116	217,188	294,779	335,010
Cash & equivalents	32,513	20,159	33,340	41,166	85,483	87,942
Restricted cash	13,277	14,606	19,373	21,311	23,442	25,786
Inventories	682	1,163	1,305	1,573	1,643	1,838
Other current assets	101,357	107,218	129,099	153,140	184,211	219,444
Non-current assets	92,825	101,336	109,913	106,917	106,455	113,271
PP&E	22,814	22,201	25,978	27,392	28,482	29,569
Intangibles	31,049	30,643	30,398	31,633	31,977	32,370
Other non-current assets	38,962	48,491	53,538	47,892	45,997	51,332
Total assets	240,653	244,481	293,030	324,105	401,234	448,281
Current liabilities	68,593	76,430	100,874	103,276	130,856	96,201
Short-term borrowings	11,565	17,562	19,322	26,250	26,725	2,704
Account payables	26,117	29,812	46,779	37,303	56,855	45,790
Tax payable	30,911	29,056	34,774	39,723	47,276	47,708
Non-current liabilities	46,504	39,345	40,199	40,305	40,636	62,912
Long-term borrowings	12,220	1,549	610	829	844	23,321
Other non-current liabilities	34,284	37,796	39,589	39,477	39,792	39,591
Total liabilities	115,097	115,775	141,073	143,581	171,492	159,114
Share capital	0	0	0	0	0	0
Capital surplus	311,221	316,743	325,579	320,233	328,843	338,110
Retained earnings	(182,742)	(189,466)	(175,617)	(141,707)	(101,102)	(50,949)
Other reserves	(2,867)	1,484	2,051	2,051	2,051	2,051
Total shareholders equity	125,613	128,762	152,013	180,578	229,792	289,213
Minority interest	(57)	(56)	(57)	(54)	(50)	(46)
Total equity and liabilities	240,653	244,481	293,030	324,105	401,234	448,281

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(23,566)	(6,756)	13,857	33,910	40,605	50,153
Depreciation & amortization	8,928	9,730	7,820	8,057	8,539	8,882
Change in working capital	7,209	(813)	19,557	(15,063)	25,591	(17,977)
Others	3,418	9,250	(713)	8,068	8,611	9,268
Net cash from operations	(4,011)	11,411	40,522	34,972	83,346	50,327
Investing						
Capital expenditure	(9,010)	(5,731)	(9,963)	(9,681)	(9,581)	(9,921)
Net proceeds from disposal of short-term investments	(44,744)	(7,782)	(25,062)	(24,278)	(29,550)	(35,965)
Others	(4,737)	(1,201)	10,361	(336)	(391)	(441)
Net cash from investing	(58,492)	(14,714)	(24,664)	(34,296)	(39,523)	(46,328)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	15,768	(6,859)	821	7,147	490	(1,544)
Proceeds from share issues	45,286	0	0	0	0	0
Others	17,544	(3,131)	(3,602)	3	4	4
Net cash from financing	78,598	(9,990)	(2,781)	7,150	494	(1,540)
Net change in cash						
Cash at the beginning of the year	17,094	32,513	20,159	33,340	41,166	85,483
Exchange difference	(675)	938	104	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	32,513	20,159	33,340	41,166	85,483	87,942
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.0%	22.8%	25.8%	21.5%	16.4%	12.8%
Gross profit	24.7%	45.4%	57.4%	38.4%	19.3%	14.7%
Operating profit	na	na	na	157.6%	34.6%	22.5%
Net profit	na	na	na	144.7%	19.7%	23.5%
Adj. net profit	na	na	722.5%	81.3%	17.2%	20.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	28.1%	35.1%	40.0%	41.0%	41.7%
Operating margin	(12.9%)	(2.6%)	4.8%	10.3%	11.9%	12.9%
Adj. net profit margin	(8.7%)	1.3%	8.4%	12.5%	12.6%	13.5%
Return on equity (ROE)	(21.1%)	(5.3%)	9.9%	20.4%	19.8%	19.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)	(0.9)
Current ratio (x)	2.2	1.9	1.8	2.1	2.3	3.5
Receivable turnover days	2.8	3.1	3.1	2.7	2.5	2.4
Inventory turnover days	1.5	2.1	2.5	2.6	2.5	2.4
Payable turnover days	35.7	37.0	40.5	40.5	40.5	40.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	42.1	17.4	14.7	12.0
P/E (diluted)	ns	ns	42.1	17.3	14.6	11.9
P/B	4.6	4.5	3.8	3.3	2.6	2.1
P/CFPS	ns	101.8	18.9	22.9	7.8	14.3
EV	(75,904.1)	(73,919.0)	(109,990.8)	(136,885.6)	(212,392.9)	(254,705.9)
EV/Sales	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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