

Meituan (3690 HK)

1Q results pointed to a better full-year earnings growth outlook

Meituan reported (6 Jun) its 1Q24 results: revenue was RMB73.3bn, up 25% YoY, 4/6% higher than our estimate/Bloomberg consensus estimate. Adjusted net profit during 1Q24 reached RMB7.5bn, better than our estimate/consensus at RMB5.5bn/5.8bn, due to both better-than-expected operating profit (OP) generated from core local commerce (CLC) business, aided by better-than-expected order volume growth of on-demand delivery business, and narrower-than-expected loss generated from new business, in particular the narrower-than-expected loss generated from Meituan Select. We are more positive on Meituan's 2024E net profit growth prospects, given its likely better unit economics (UE) outlook for on-demand delivery business with the optimization of subsidies and increase in monetization from advertising business, as well as potentially greater loss reduction from Meituan Select. We lift our DCF-based TP by 2% to HK\$157.8 (was HK\$155.2), translating into 22.8x 2024E P/E (non-IFRS); maintain BUY.

■ **Increase in ads monetization and user subsidy optimization likely to drive better-than-expected on-demand delivery OP growth.** CLC segment revenue/OP was RMB54.6bn/9.7bn in 1Q24, up 27%/3% YoY, 8%/15% better than consensus. Segmental operating margin was also 1.3/1.1ppt better than our forecast/consensus, thanks to: 1) a beat on on-demand delivery transaction volume; 2) better-than-expected UE of both food delivery and Instashopping, aided by increased ads monetization and user subsidy optimization; 3) a beat on in-store OP aided by more benign-than-expected industry competition in 1Q. To account for the ongoing user subsidy optimization and increased ads monetization, we lift 2024E CLC OP forecast by 2% to RMB45.0bn. For 2Q24, we forecast CLC segment to ink revenue/OP of RMB59.8bn/12.5bn, up 17%/12% YoY, which translates into an OPM of 20.9% (2Q23: 21.8%).

■ **Meituan Select loss reduction exceeding expectation and better full-year outlook.** Revenue generated from new initiatives was RMB18.7bn in 1Q24, up 19% YoY, 2% ahead of both our forecast and consensus estimates. Operating loss for the segment was RMB2.8bn, narrower than both consensus and our estimate of RMB3.2bn, implying a loss margin of 14.8% (1Q23: loss margin of 32.0%), driven by narrower-than-expected loss generated from Meituan Select, thanks to increases in average order value, reduction of user subsidy, and shutdown of underperforming warehouses, as well as better-than-expected OP contribution from other new businesses. Operating loss generated from Meituan Select was RMB2.9bn, narrowed from RMB4.5bn/RMB4.4bn in 1Q23/4Q23, and was better than our estimate at RMB3.1bn. For 2Q24, we forecast Meituan Select to see further loss reduction both on QoQ and YoY basis to RMB2.1bn (2Q23: RMB5.0bn), and other new businesses to maintain operating profitability. On a combined basis, we forecast total new businesses' segmental operating loss of RMB2.0bn (2Q23: RMB5.2bn) in 2Q24E. For the full year, we are now forecasting Meituan Select to book operating loss of RMB9.6bn (previous forecast: RMB10.9bn), which points to an overall better full-year earnings growth outlook. We are now forecasting Meituan to achieve 66% YoY growth (previous forecast: 49%) in non-IFRS net income to RMB38.5bn for 2024E, driven by solid OP growth of CLC, and loss reduction of Meituan Select.

BUY (Maintain)

Target Price **HK\$157.80**
 (Previous TP) HK\$155.20
Up/Downside **40.0%**
Current Price **HK\$112.70**

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Stock Data

Mkt Cap (HK\$ mn)	693,848.3
Avg 3 mths t/o (HK\$ mn)	3,990.3
52w High/Low (HK\$)	146.30/62.55
Total Issued Shares (mn)	6156.6

Source: FactSet

Shareholding Structure

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

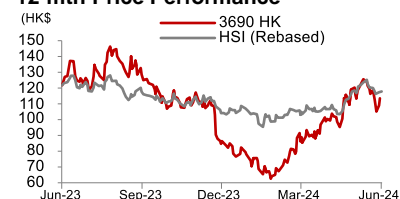
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.3%	-5.8%
3-mth	27.1%	13.0%
6-mth	30.4%	16.2%

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	332,703	387,219	437,008
YoY growth (%)	22.8	25.8	20.2	16.4	12.9
Net profit (RMB mn)	(6,686.1)	13,856.1	29,941.9	40,207.2	52,745.0
Adjusted net profit (RMB mn)	2,827.2	23,253.4	38,500.0	49,365.6	62,622.6
YoY growth (%)	na	722.5	65.6	28.2	26.9
Adj. NP (consensus; RMB mn)			32,338	46,715	60,415
EPS (Adjusted) (RMB)	0.46	3.74	6.14	7.79	9.78
P/E (x)	ns	46.9	21.9	16.5	12.7
ROE (%)	(5.3)	9.9	18.2	20.0	20.5

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

Figure 1: Meituan: quarterly financial results and consensus comparison

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	Consensus	Diff (%)
Revenue	58,617	67,965	76,467	73,696	73,276	68,996	6.2%
YoY	26.7%	33.4%	22.1%	22.6%	25.0%		
<u>By segment</u>							
CLC	42,885	51,200	57,691	55,131	54,626	50,743	7.7%
YoY	25.5%	39.2%	24.5%	26.8%	27.4%		
New initiatives	15,732	16,765	18,776	18,565	18,650	18,227	2.3%
YoY	30.1%	18.4%	15.3%	11.5%	18.5%		
Operating profit	3,586	4,713	3,359	1,758	5,209	3,975	31.1%
<u>By segment</u>							
CLC	9,445	11,139	10,096	8,019	9,699	8,440	14.9%
New initiatives	(5,029)	(5,193)	(5,112)	(4,833)	(2,757)	(3,230)	-14.7%
Non-IFRS net profit	5,491	7,660	5,727	4,375	7,488	5,786	29.4%
OPM (%)	6.1%	6.9%	4.4%	2.4%	7.1%	5.8%	1.3 ppt
CLC	22.0%	21.8%	17.5%	14.5%	17.8%	16.6%	1.1 ppt
New initiatives	-32.0%	-31.0%	-27.2%	-26.0%	-14.8%	-17.7%	2.9 ppt
Non-IFRS NPM (%)	9.4%	11.3%	7.5%	5.9%	10.2%	8.4%	1.8 ppt

Source: CMBIGM estimates

Note: CLC - core local commerce

Figure 2: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	
Revenue	332.7	387.2	437.0	324.6	373.4	417.5	2.5%	3.7%	4.7%
OP	32.3	46.2	61.7	29.2	45.3	58.7	10.6%	2.1%	5.3%
Non-IFRS NP	38.5	49.4	62.6	34.7	48.3	59.5	11.1%	2.1%	5.3%
OPM	9.7%	11.9%	14.1%	9.0%	12.1%	14.1%	0.7 pp	-0.2 pp	0.1 pp
Non-IFRS NPM	11.6%	12.7%	14.3%	10.7%	12.9%	14.2%	0.9 pp	-0.2 pp	0.1 pp

Source: CMBIGM estimates

DCF-based target price of HK\$157.8

Our DCF-based target price is HK\$157.8, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), implying 2.6x 2024E P/S and 22.8x 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	303,183	326,445	300,671	302,877	275,230	241,730	194,122	141,293	73,675
Discounted terminal value	386,063								
Total equity valuation	825,115								
Total equity valuation (HKDmn)	929,371								
No. of shares (diluted, mn)	6,275								
Valuation per share (HKD)	157.8								

Source: Company data, CMBIGM estimates

Risks

- 1) Slower-than-expected on-demand order volume growth;
- 2) Industry competition to intensify;
- 3) Slower than expected loss reduction for new business.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	179,128	219,955	276,745	332,703	387,219	437,008
Cost of goods sold	(136,654)	(158,202)	(179,554)	(204,904)	(234,377)	(260,566)
Gross profit	42,474	61,753	97,191	127,799	152,842	176,442
Operating expenses	(65,601)	(67,573)	(83,776)	(95,542)	(106,660)	(114,701)
SG&A expense	(49,296)	(49,517)	(67,989)	(77,505)	(87,774)	(93,995)
R&D expense	(16,676)	(20,740)	(21,201)	(22,773)	(25,046)	(26,788)
Others	370	2,683	5,414	4,736	6,160	6,083
Operating profit	(23,127)	(5,820)	13,415	32,257	46,182	61,741
Share of (losses)/profits of associates/JV	146	36	1,213	1,263	1,263	1,263
Interest income	546	658	819	1,106	1,216	1,904
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	33,272	47,307	63,554
Income tax	30	70	(165)	(3,327)	(7,096)	(10,804)
After tax profit	(23,536)	(6,685)	13,857	29,945	40,211	52,750
Minority interest	2	1	1	3	4	5
Net profit	(23,538)	(6,686)	13,856	29,942	40,207	52,745
Adjusted net profit	(15,572)	2,827	23,253	38,500	49,366	62,623
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	147,829	143,145	183,116	215,243	291,772	337,519
Cash & equivalents	32,513	20,159	33,340	39,601	82,509	90,809
Restricted cash	13,277	14,606	19,373	21,311	23,442	25,786
Inventories	682	1,163	1,305	1,543	1,639	1,808
Other current assets	101,357	107,218	129,099	152,788	184,183	219,115
Non-current assets	92,825	101,336	109,913	106,214	105,261	111,371
PP&E	22,814	22,201	25,978	26,822	27,323	27,817
Intangibles	31,049	30,643	30,398	31,629	31,969	32,358
Other non-current assets	38,962	48,491	53,538	47,762	45,969	51,196
Total assets	240,653	244,481	293,030	321,456	397,033	448,889
Current liabilities	68,593	76,430	100,874	104,309	130,352	97,519
Short-term borrowings	11,565	17,562	19,322	25,719	26,298	2,698
Account payables	26,117	29,812	46,779	38,656	56,923	47,065
Tax payable	30,911	29,056	34,774	39,934	47,131	47,756
Non-current liabilities	46,504	39,345	40,199	40,272	40,610	62,844
Long-term borrowings	12,220	1,549	610	812	830	23,269
Other non-current liabilities	34,284	37,796	39,589	39,460	39,780	39,575
Total liabilities	115,097	115,775	141,073	144,582	170,962	160,363
Share capital	0	0	0	0	0	0
Capital surplus	311,221	316,743	325,579	320,550	329,532	339,233
Retained earnings	(182,742)	(189,466)	(175,617)	(145,672)	(105,462)	(52,712)
Other reserves	(2,867)	1,484	2,051	2,051	2,051	2,051
Total shareholders equity	125,613	128,762	152,013	176,929	226,122	288,572
Minority interest	(57)	(56)	(57)	(54)	(51)	(46)
Total equity and liabilities	240,653	244,481	293,030	321,456	397,033	448,889

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(23,566)	(6,756)	13,857	29,945	40,211	52,750
Depreciation & amortization	8,928	9,730	7,820	8,528	9,026	9,378
Change in working capital	7,209	(813)	19,557	(13,004)	23,502	(16,146)
Others	3,418	9,250	(713)	8,384	8,983	9,702
Net cash from operations	(4,011)	11,411	40,522	33,853	81,723	55,683
Investing						
Capital expenditure	(9,010)	(5,731)	(9,963)	(9,582)	(9,479)	(9,824)
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	(333)	(387)	(437)
Net cash from investing	(58,492)	(14,714)	(24,664)	(34,193)	(39,416)	(46,226)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	15,768	(6,859)	821	6,599	597	(1,161)
Proceeds from share issues	45,286	0	0	0	0	0
Others	17,544	(3,131)	(3,602)	3	4	5
Net cash from financing	78,598	(9,990)	(2,781)	6,602	601	(1,157)
Net change in cash						
Cash at the beginning of the year	17,094	32,513	20,159	33,340	39,601	82,509
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	39,601	82,509	90,809
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.0%	22.8%	25.8%	20.2%	16.4%	12.9%
Gross profit	24.7%	45.4%	57.4%	31.5%	19.6%	15.4%
Operating profit	na	na	na	140.5%	43.2%	33.7%
Net profit	na	na	na	116.1%	34.3%	31.2%
Adj. net profit	na	na	722.5%	65.6%	28.2%	26.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	28.1%	35.1%	38.4%	39.5%	40.4%
Operating margin	(12.9%)	(2.6%)	4.8%	9.7%	11.9%	14.1%
Adj. net profit margin	(8.7%)	1.3%	8.4%	11.6%	12.7%	14.3%
Return on equity (ROE)	(21.1%)	(5.3%)	9.9%	18.2%	20.0%	20.5%
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	2.2	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	2.5	2.4	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	46.9	21.9	16.5	12.7
P/E (diluted)	ns	ns	46.9	21.8	16.4	12.6
P/B	5.1	5.0	4.3	3.7	2.9	2.3
P/CFPS	ns	113.3	21.1	26.5	8.9	14.0
EV	(75,904.1)	(73,919.0)	(109,990.8)	(135,868.8)	(209,859.5)	(257,630.6)
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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