

Meituan (3690 HK)

Expect significant loss reduction for new businesses

Meituan reported (22 Mar) its 4Q23 results: revenue was RMB73.7bn, up 23% YoY, 1% higher than Bloomberg consensus estimate. Adjusted net profit during 4Q23 reached RMB4.4bn, better than consensus at RMB2.9bn, due to both better-than-expected operating profit (OP) generated from core local commerce (CLC) business, and narrower-than-expected loss generated from new business. Management highlighted that it will make strategic changes and refine business model of Meituan Select in 2024, aiming to significantly reduce the operating loss, which we believe should drive c.49% YoY non-IFRS net profit growth in 2024E. Although competition in local consumer services market has not seen a structural improvement yet, and Meituan is likely to stay vigilant in business operation, the strategic move to focus more on paid GMV share should help drive business development in a more efficient way, in our view. We trim our DCF-based TP by 4% to HK\$155.2 (was HK\$161.5), translating into 24.9x 2024E P/E (non-IFRS); maintain BUY.

■ **Focusing more on paid GMV share should drive more efficient in-store business growth.** CLC segment revenue/OP was RMB55.1bn/8.0bn in 4Q23, up 27%/11% YoY, 2%/5% better than consensus. Segmental operating margin was also 0.5ppt better than consensus, which we attribute to narrower-than-expected loss generated from Meituan Instashopping, aided by better-than-expected sales and marketing cost savings. Development of both food delivery and in-store business was broadly in line with our previous expectation. For 1Q24, the impact from converting business operating model for in-store business in some of the lower-tier cities from the third-party model to the first-party model to gain better business operation control is likely to remain a drag on in-store operating margin, while the strategic shift to focus more on paid GMV share should drive more efficient in-store business growth over the medium term, in our view. For food delivery business, although it faces a high base in unit economics in 1Q24, the move to drive subsidy optimization, as well as increased ads monetization should partly offset the headwinds, in our view. We forecast CLC segment revenue/OP of RMB52.1bn/8.4bn in 1Q24.

■ **Overall new business to see significant loss reduction.** Revenue generated from new initiatives was RMB18.6bn in 4Q23, up 11% YoY, 1% ahead of consensus estimates. Operating loss for the segment was RMB4.8bn, 4% narrower than consensus, implying a loss margin of 26% (4Q22: loss margin of 38%), driven by both narrower-than-expected loss generated from Meituan Select and other new businesses. Operating loss generated from Meituan Select was RMB4.4bn, narrower both YoY and QoQ. Management highlighted that it is set to achieve significant loss reduction for Meituan Select in 2024, and will target to achieve breakeven for other new business on a combined basis in 2024. In 1Q24, we forecast total new businesses' segmental operating loss of RMB3.2bn (1Q23: RMB5.0bn), among which we expect Meituan Select to generate a loss of RMB3.1bn (1Q23: RMB4.5bn). The loss reduction for new businesses along the way in 2024 should in our view improve market sentiment for Meituan.

BUY (Maintain)

Target Price HK\$155.20
 (Previous TP) HK\$161.50
Up/Downside 75.9%
Current Price HK\$88.25

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	543,319.5
Avg 3 mths t/o (HK\$ mn)	3,241.5
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%

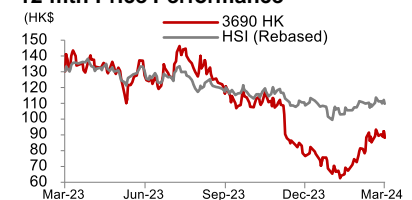
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.7%	12.3%
3-mth	15.2%	14.1%
6-mth	-26.9%	-20.0%

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	324,645	373,378	417,507
YoY growth (%)	22.8	25.8	17.3	15.0	11.8
Net profit (RMB mn)	(6,686.1)	13,856.1	25,968.6	39,123.5	49,615.1
Adjusted net profit (RMB mn)	2,827.2	23,253.4	34,657.9	48,334.2	59,468.3
YoY growth (%)	na	722.5	49.0	39.5	23.0
Adj. NP (consensus; RMBmn)			29,908	44,903	73,409
EPS (Adjusted) (RMB)	0.46	3.74	5.52	7.63	9.29
P/E (x)	ns	51.9	19.7	13.2	10.5
ROE (%)	(5.3)	9.9	16.0	19.9	19.8

Source: Company data, Bloomberg, CMBIGM estimates

Revision of forecast and valuation

Figure 1: Meituan: quarterly financial results

(RMB mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	Consensus	Diff (%)
Revenue	46,269	50,938	62,619	60,129	58,617	67,965	76,467	73,696	72,791	1.2%
YoY	25.0%	16.4%	28.2%	21.4%	26.7%	33.4%	22.1%	22.6%		
<u>New segmentation</u>										
CLC	34,180	36,779	46,328	43,473	42,885	51,200	57,691	55,131	54,297	1.5%
YoY		9.2%	24.6%	17.4%	25.5%	39.2%	24.5%	26.8%		
<u>New initiatives</u>	12,089	14,159	16,291	16,656	15,732	16,765	18,776	18,565	18,470	0.5%
YoY		40.7%	39.7%	33.4%	30.1%	18.4%	15.3%	11.5%		
Operating profit	-5,584	-493	988	-732	3,586	4,713	3,359	1,758	1,250	40.6%
<u>New segmentation</u>										
CLC					9,445	11,139	10,096	8,019	7,620	5.2%
<u>New initiatives</u>					-5,029	-5,193	-5,112	-4,833	-5,057	-4.4%
Non-IFRS net profit	-3,586	2,058	3,527	829	5,491	7,660	5,727	4,375	2,899	50.9%
OPM (%)	-12.1%	-1.0%	1.6%	-1.2%	6.1%	6.9%	4.4%	2.4%	1.7%	0.7 ppt
CLC					22.0%	21.8%	17.5%	14.5%	14.0%	0.5 ppt
<u>New initiatives</u>					-32.0%	-31.0%	-27.2%	-26.0%	-27.4%	1.3 ppt
Non-IFRS NPM (%)	-7.8%	4.0%	5.6%	1.4%	9.4%	11.3%	7.5%	5.9%	4.0%	2.0 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	2026E
Revenue	324.6	373.4	417.5	327.2	379.7	-	-0.8%	-1.7%	NA
OP	29.2	45.3	58.7	30.0	47.2	-	-2.9%	-4.2%	NA
Non-IFRS NP	34.7	48.3	59.5	33.6	47.7	-	3.1%	1.3%	NA
OPM	9.0%	12.1%	14.1%	9.2%	12.4%	-	-0.2 ppt	-0.3 ppt	NA
Non-IFRS NPM	10.7%	12.9%	14.2%	10.3%	12.6%	-	0.4 ppt	0.4 ppt	NA

Source: CMBIGM estimates

DCF-based target price of HK\$155.2

Our DCF-based target price is HK\$155.2, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), implying 2.7x 2024E P/S and 24.9x 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	291,623	321,169	295,703	301,650	274,265	242,839	193,395	142,119	71,915
Discounted terminal value	376,843								
Total equity valuation	853,526								
Total equity valuation (HKDmn)	961,372								
No. of shares (diluted, mn)	6,275								
Valuation per share (HKD)	155.2								

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	179,128	219,955	276,745	324,645	373,378	417,507
Cost of goods sold	(136,654)	(158,202)	(179,554)	(201,070)	(227,665)	(252,897)
Gross profit	42,474	61,753	97,191	123,575	145,713	164,609
Operating expenses	(65,601)	(67,573)	(83,776)	(94,412)	(100,460)	(105,948)
SG&A expense	(49,296)	(49,517)	(67,989)	(77,437)	(83,692)	(88,745)
R&D expense	(16,676)	(20,740)	(21,201)	(21,899)	(22,660)	(23,090)
Others	370	2,683	5,414	4,924	5,892	5,887
Operating profit	(23,127)	(5,820)	13,415	29,163	45,253	58,661
Share of (losses)/profits of associates/JV	146	36	1,213	1,213	1,213	1,213
Interest income	546	658	819	901	991	1,334
Interest expense	(1,131)	(1,629)	(1,425)	(1,425)	(1,425)	(1,425)
Others	0	0	0	0	0	0
Pre-tax profit	(23,566)	(6,756)	14,022	29,852	46,032	59,782
Income tax	30	70	(165)	(3,881)	(6,905)	(10,163)
After tax profit	(23,536)	(6,686)	13,857	25,971	39,127	49,619
Minority interest	2	1	1	2	3	4
Net profit	(23,538)	(6,686)	13,856	25,969	39,123	49,615
Adjusted net profit	(15,572)	2,827	23,253	34,658	48,334	59,468

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	147,829	143,145	183,116	228,344	304,110	344,308
Cash & equivalents	32,513	20,159	33,340	53,594	95,328	98,879
Restricted cash	13,277	14,606	19,373	21,311	23,442	25,786
Inventories	682	1,163	1,305	1,474	1,594	1,699
Other current assets	101,357	107,218	129,099	151,965	183,747	217,943
Non-current assets	92,825	101,336	109,913	85,302	84,931	91,209
PP&E	22,814	22,201	25,978	26,590	26,781	26,900
Intangibles	31,049	30,643	30,398	31,621	31,947	32,317
Other non-current assets	38,962	48,491	53,538	27,090	26,204	31,992
Total assets	240,653	244,481	293,030	313,646	389,041	435,517
Current liabilities	68,593	76,430	100,874	100,472	127,450	93,135
Short-term borrowings	11,565	17,562	19,322	25,150	25,714	2,621
Account payables	26,117	29,812	46,779	37,058	55,784	45,143
Tax payable	30,911	29,056	34,774	38,265	45,952	45,371
Non-current liabilities	46,504	39,345	40,199	40,216	40,544	62,108
Long-term borrowings	12,220	1,549	610	794	812	22,604
Other non-current liabilities	34,284	37,796	39,589	39,421	39,732	39,504
Total liabilities	115,097	115,775	141,073	140,688	167,993	155,243
Share capital	0	0	0	0	0	0
Capital surplus	311,221	316,743	325,579	320,607	329,567	339,168
Retained earnings	(182,742)	(189,466)	(175,617)	(149,646)	(110,519)	(60,900)
Other reserves	(2,867)	1,484	2,051	2,051	2,051	2,051
Total shareholders equity	125,613	128,762	152,013	173,012	221,099	280,320
Minority interest	(57)	(56)	(57)	(55)	(51)	(47)
Total equity and liabilities	240,653	244,481	293,030	313,646	389,041	435,517

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(23,566)	(6,756)	13,857	25,971	39,127	49,619
Depreciation & amortization	8,928	9,730	7,820	8,528	8,997	9,314
Change in working capital	7,209	(813)	19,557	(15,114)	23,947	(17,058)
Others	3,418	9,250	(713)	8,441	8,961	9,603
Net cash from operations	(4,011)	11,411	40,522	27,825	81,032	51,478
Investing						
Capital expenditure	(9,010)	(5,731)	(9,963)	(9,350)	(9,140)	(9,386)
Net proceeds from disposal of short-term investments	(44,744)	(7,782)	(25,062)	(3,911)	(30,370)	(36,827)
Others	(4,737)	(1,201)	10,361	(325)	(373)	(418)
Net cash from investing	(58,492)	(14,714)	(24,664)	(13,585)	(39,883)	(46,630)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	15,768	(6,859)	821	6,012	582	(1,301)
Proceeds from share issues	45,286	0	0	0	0	0
Others	17,544	(3,131)	(3,602)	2	3	4
Net cash from financing	78,598	(9,990)	(2,781)	6,014	586	(1,297)
Net change in cash						
Cash at the beginning of the year	17,094	32,513	20,159	33,340	53,594	95,328
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	53,594	95,328	98,879
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.0%	22.8%	25.8%	17.3%	15.0%	11.8%
Gross profit	24.7%	45.4%	57.4%	27.1%	17.9%	13.0%
Operating profit	na	na	na	117.4%	55.2%	29.6%
Net profit	na	na	na	87.4%	50.7%	26.8%
Adj. net profit	na	na	722.5%	49.0%	39.5%	23.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	28.1%	35.1%	38.1%	39.0%	39.4%
Operating margin	(12.9%)	(2.6%)	4.8%	9.0%	12.1%	14.1%
Adj. net profit margin	(8.7%)	1.3%	8.4%	10.7%	12.9%	14.2%
Return on equity (ROE)	(21.1%)	(5.3%)	9.9%	16.0%	19.9%	19.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.8)	(1.0)	(1.1)	(1.2)	(1.1)
Current ratio (x)	2.2	1.9	1.8	2.3	2.4	3.7
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	2.3
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	51.9	19.7	13.2	10.5
P/E (diluted)	ns	ns	51.9	19.6	13.1	10.5
P/B	11.6	7.2	4.7	3.0	2.3	1.9
P/CFPS	ns	162.1	23.3	27.2	7.0	11.9
EV	(106,287.5)	(107,526.4)	(144,601.8)	(185,060.0)	(257,892.7)	(301,054.6)
EV/Sales	(0.6)	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.