

Meituan (3690 HK)

Staying vigilant in long-lasting competition

Meituan reported (24 Aug) its 2Q23 results: revenue was RMB68.0bn, up 33% YoY, 2%/1% higher than our forecast/consensus estimate. Adjusted net profit during 2Q23 reached RMB7.7bn, better than our forecast and consensus at both RMB4.5bn, due to better-than-expected operating profit generated from core local commerce business. Industry competition has become more disciplined. Meituan's targeted promotional campaigns drove revenue growth, and it ensured the campaigns are not at profit-destructive mode, which lead to improved profitability outlook. We expect Meituan will stay vigilant in the likely long-lasting competition, maintain aggressive investment to retain market share in a reasonable range. We lift our DCF-based TP to HK\$178.0 to account for better-than-expected UE expansion of food delivery (FD) business and better than feared margin outlook for in-store business. Maintain BUY.

- **Stay vigilant in the likely long-lasting competition.** Core local commerce (CLC) segment revenue/OP was RMB51.2/11.1bn in 2Q23, up 39%/35% YoY. It was 3%/16% higher than our estimate, thanks to: 1) better-than-expected unit economics (UE) expansion of food delivery business; 2) better-than-expected OPM for in-store hotel and travel (ISHT) business aided by a more benign than expected industry competition in the near term, and Meituan's strong execution capability to drive revenue growth in an efficient way. Meituan's investment in driving for better consumer mindshare and merchants ROI has delivered early-stage results, in our view. However, facing constant competition from Bytedance, we expect Meituan to maintain aggressive investment to retain market share in a reasonable range. We forecast Meituan's ISHT business GMV/revenue to grow 90%/33% YoY on aggressive investment, and to ink 32.9% OPM in 3Q23E (2Q23: 35.8%).
- **UE expansion of food delivery business better than expectation in 2Q23.** We estimate Meituan's FD business within CLC segment has achieved per order operating profit of RMB1.45 in 2Q23, up from RMB1.34 in 2Q22, and better than our estimate at RMB1.34, thanks to: 1) decline in per order rider cost aided by more abundant rider supply and 2) increase in revenue contribution from online marketing services. For 3Q23, with the wear off of low base effect, as well as taking into account the impact from macro headwind and recovery in offline activities, we forecast FD revenue growth of 18% YoY, driven by 19% YoY growth in order volume, and per order OP of RMB1.1 (3Q22: RMB1.05), driven by optimization in rider cost.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	179,128	219,955	273,801	333,436	399,550
YoY growth (%)	56.0	22.8	24.5	21.8	19.8
Net profit (RMB mn)	(23,538.2)	(6,686.1)	13,240.1	30,711.9	45,516.2
Adjusted net profit (RMB mn)	(15,571.5)	2,827.2	22,805.7	38,297.3	53,359.3
EPS (Adjusted) (RMB)	(2.54)	0.46	3.67	6.10	8.41
P/E (x)	na	na	61.0	26.6	18.1
ROE (%)	(21.1)	(5.3)	9.8	19.1	22.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$178.00
(Previous TP)	HK\$172.00)
Up/Downside	27.1%
Current Price	HK\$140.00

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)	861,923.3
Avg 3 mths t/o (HK\$ mn)	3,377.2
52w High/Low (HK\$)	190.80/110.20
Total Issued Shares (mn)	6156.6

Source: FactSet

Shareholding Structure

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

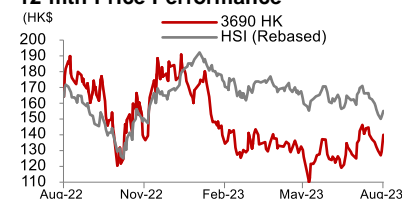
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.0%	14.8%
3-mth	7.4%	12.7%
6-mth	4.2%	14.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

■ **Meituan Select: business adjustment to find healthier path towards profitability.** Revenue generated from new initiatives was RMB16.8bn in 2Q23, up 18% YoY, broadly inline with our estimate. Operating loss for the segment was RMB5.2bn, better than our estimate at RMB5.3bn, implying a loss margin of 31% (2Q22: 48%), driven by operating efficiency improvement across business lines. Management noted a slowdown in industry growth of community group buy business due to macro headwind, and is making business adjustment for Meituan Select to find a healthier path towards profitability. Management remains committed to invest on driving business development given its positive view that the business is able to make profit on standalone basis, while it guided to drive for operating efficiency improvement in 2H23. The macro headwind and continuous investment on Meituan Select likely indicate a slower than our previously expected loss reduction track for new business in 2023E, while we expect the more positive outlook on core local commerce profitability could provide buffer for the investment. We forecast new business operating loss to remain flat at RMB5.2bn QoQ in 3Q23E.

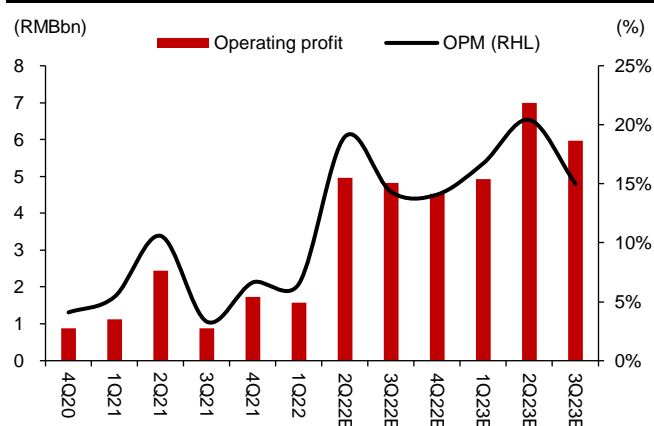
Key results update

Core local commerce (75.3% of 2Q23 revenue)

CLC business segment, which mainly comprises former FD and in-store and hotel business, as well as Meituan Instashopping, alternative accommodations, and transportation ticketing, saw revenue growth of 39% YoY to RMB51.2bn. Among which we estimate FD revenue has grown 31% YoY, and ISHT revenue has increased by 59% YoY. Segmental operating profit of RMB11.1bn is 16% ahead of our forecast, which implies an OPM of 21.8% (2Q22: 22.5%), mainly thanks to better-than-expected unit economics generated from FD business, and better than feared industry competition. We estimate per order operating profit of FD has reached RMB1.45 in 2Q23 (2Q22: RMB1.34), driven by the optimization of rider cost, and increase in revenue contribution from advertising business.

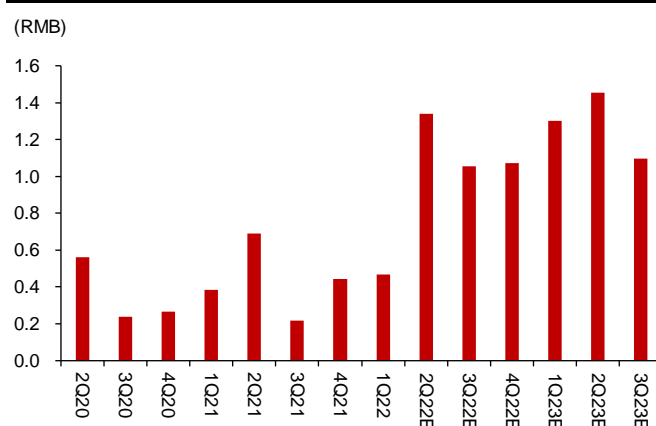
Looking into 3Q23, after taking into account near term macro headwind, we forecast 19%/18% YoY growth in FD order/revenue growth, and estimate operating profit of RMB6.0bn for 3Q23, indicating per order operating profit of RMB1.09.

Figure 1: Meituan: FD operating profit and OPM (Qtr)



Source: Company data, CMBIGM estimates

Figure 2: Meituan: OP per order for FD business



Source: Company data, CMBIGM estimates

For ISHT business, we forecast 3Q23 revenue of RMB12.9bn, up 33% YoY, thanks to strong GMV growth of 90% YoY, driven by Meituan's continuous aggressive investment to enhance merchants' online penetration and ROI. We forecast OPM of 32.9% for ISHT business in 3Q23, down from 35.8% in 2Q23, owing to Meituan's aggressive competitive

strategy to maintain GMV share, which will have a full quarter impact on 3Q financials versus around 2-month impact in 2Q.

New initiatives (24.7% of 2Q23 revenue)

Revenue generated from new initiatives was RMB16.8bn in 2Q23, up 18.4% YoY, broadly inline with our estimate. Operating loss for the segment was RMB5.2bn (our estimate: RMB5.3bn), implying a loss margin of 31.0% (2Q22: 48.0%), which we attribute to operating efficiency improvement across business lines.

We forecast new initiatives revenue to grow 18% YoY to RMB19.2bn in 3Q23, and an operating loss of RMB5.2bn, flat QoQ, as Meituan Select is undergoing business adjustment, and is leveraging more user subsidies to drive for better revenue growth prospectus amid current macro headwind.

Revision of forecast and valuation

Figure 3: Meituan: quarterly financial results

(RMB mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	CMBI estimates	Diff (%)	Consensus	Diff (%)
Revenue	46,269	50,938	62,619	60,129	58,617	67,965	66,719	1.9%	67,200	1.1%
YoY	25.0%	16.4%	28.2%	21.4%	26.7%	33.4%				
<u>New segmentation</u>										
CLC	34,180	36,779	46,328	43,473	42,885	51,200	49,706	3.0%	49,836	2.7%
YoY		9.2%	24.6%	17.4%	25.5%	39.2%				
New initiatives	12,089	14,159	16,291	16,656	15,732	16,765	17,013	-1.5%	16,827	-0.4%
YoY		40.7%	39.7%	33.4%	30.1%	18.4%				
<u>Previous segmentation (CMBI estimates)</u>										
Food delivery					29,471	34,232	34,023	0.6%		
ISHT					9,348	11,106	11,064	0.4%		
New initiatives					19,798	22,626	21,631	4.6%		
Operating profit	-5,584	-493	988	-732	3,586	4,713	2,926	61.0%	2,568	83.6%
<u>New segmentation</u>										
CLC					9,445	11,139	9,631	15.6%	9,651	15.4%
New initiatives					-5,029	-5,193	-5,282	-1.7%	-5,182	0.2%
<u>Prior segmentation (CMBI estimates)</u>										
Food delivery					4,929	6,988	6,464	8.1%		
ISHT					4,487	4,886	3,518	38.9%		
New initiatives					-5,020	-6,082	-5,634	8.0%		
Non-IFRS net profit	-3,586	2,058	3,527	829	5,491	7,660	4,472	71.3%	4,507	70.0%
OPM (%)	-12.1%	-1.0%	1.6%	-1.2%	6.1%	6.9%	4.4%	2.5 ppt	3.8%	3.1 ppt
Non-IFRS							4.6%	4.6 ppt		4.6 ppt
NPM (%)	-7.8%	4.0%	5.6%	1.4%	9.4%	11.3%	6.7%	1.7 ppt	6.7%	1.3 ppt

Note: CLC: core local commerce

Source: CMBIGM estimates

Figure 4: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	273.8	333.4	399.6	273.9	336.9	403.4	-0.1%	-1.0%	-1.0%
OP	14.9	35.9	54.1	12.9	31.7	48.6	16.1%	13.4%	11.2%
Non-IFRS NP	22.8	38.3	53.4	18.2	34.7	48.8	25.4%	10.4%	9.3%
OPM	5.5%	10.8%	13.5%	4.7%	9.4%	12.1%	0.8 pp	1.4 pp	1.5 pp
Non-IFRS NPM	8.3%	11.5%	13.4%	6.6%	10.3%	12.1%	1.7 pp	1.2 pp	1.3 pp

Source: CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB bn	CMBIGM estimates			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	273.8	333.4	399.6	278.3	343.1	411.6	-1.6%	-2.8%	-2.9%
OP	14.9	35.9	54.1	11.2	23.6	38.5	33.0%	51.9%	40.6%
Non-IFRS NP	22.8	38.3	53.4	19.0	31.7	47.3	20.1%	20.7%	12.7%
OPM	5.5%	10.8%	13.5%	4.0%	6.9%	9.3%	1.4 pp	3.9 pp	4.2 pp
Non-IFRS NPM	8.3%	11.5%	13.4%	6.8%	9.2%	11.5%	1.5 pp	2.2 pp	1.9 pp

Source: Bloomberg, CMBIGM estimates

DCF-based target price of HK\$178.0

Our DCF-based target price is HK\$178.0, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), akin to 3.6x 2023E PS.

Figure 6: Meituan: DCF valuation, WACC of 11.0%, terminal growth of 2.5%

(RMBmn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NPV of FCF	366,888	391,037	402,957	394,611	378,032	348,156	302,770	247,782	178,261	97,303
Discounted terminal value	459,380									
Total equity valuation	930,636									
Total equity valuation (HK\$mn)	1,048,226									
No. of shares (diluted, mn)	6,218									
Valuation per share (HK\$)	178.0									

Source: Company data, CMBIGM estimates

■ Valuation cross-check: reversed SOTP valuation

We build a reverse SOTP valuation to cross-check our valuation for Meituan. We assign 20x 2025E PE for Meituan's FD business, and discount back to 2023E. For ISHT business, we assign 18.0x 2023E PE, which we view 21.0% 2022-2025E operating profit CAGR as support.

Our target price of HK\$178.0 per share implies a total valuation of HK\$1.1tn for Meituan, and after deducting valuation for FD, In-store, hotel and travel (ISHT), and net cash, the valuation left for new initiatives and others was RMB84.5bn, which translates into 0.9x 2023E PS.

Figure 7: Valuation cross-check: reversed SOTP valuation

(RMBmn)	2022- 2025E revenue CAGR (%)	2022- 2025E OP CAGR	Valuation method	2023/2025E NP	Target PE	Implied 2023E PS	2023E valuation	As % of total valuation
			2025E PE, discount back	31,006	20.0	3.6	503,375	51.2
FD	18.9%	31.9%						
ISHT	27.4%	21.0%	2023E PE	14,626	18.0	6.0	263,267	26.8
New initiatives and others	24.4%					0.9	84,482	8.6
Cash and short- term investment (2023E)							131,362	13.4
Total valuation (RMBmn)							982,486	
Total valuation (HK\$ mn)							1,106,627	
Valuation per share (HK\$)							178	

Note: business segment listed above are based on previous segmentation given by Meituan
Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	114,795	179,128	219,955	273,801	333,436	399,550
Cost of goods sold	(80,744)	(136,654)	(158,202)	(179,158)	(212,340)	(247,974)
Gross profit	34,050	42,474	61,753	94,643	121,096	151,576
Operating expenses	(29,720)	(65,601)	(67,573)	(79,704)	(85,175)	(97,500)
SG&A expense	(26,477)	(49,296)	(49,517)	(62,664)	(65,343)	(74,397)
R&D expense	(10,893)	(16,676)	(20,740)	(22,247)	(25,149)	(28,877)
Others	7,649	370	2,683	5,206	5,317	5,774
Operating profit	4,330	(23,127)	(5,820)	14,939	35,921	54,076
Share of (losses)/profits of associates/JV	264	146	36	73	73	73
Interest income	214	546	658	855	941	1,035
Interest expense	(370)	(1,131)	(1,629)	(1,629)	(1,629)	(1,629)
Others	0	0	0	0	0	0
Pre-tax profit	4,438	(23,566)	(6,756)	14,238	35,305	53,555
Income tax	270	30	70	(997)	(4,590)	(8,033)
After tax profit	4,708	(23,536)	(6,686)	13,242	30,716	45,522
Minority interest	(1)	2	1	2	4	6
Net profit	4,708	(23,538)	(6,686)	13,240	30,712	45,516
Adjusted net profit	3,121	(15,572)	2,827	22,806	38,297	53,359
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	88,306	147,829	143,145	148,626	189,461	251,217
Cash & equivalents	17,094	32,513	20,159	23,423	61,239	120,085
Restricted cash	12,776	13,277	14,606	16,066	17,673	19,440
Inventories	466	682	1,163	1,041	1,535	1,429
Other current assets	57,970	101,357	107,218	108,095	109,014	110,264
Non-current assets	78,269	92,825	101,336	128,837	135,042	140,193
PP&E	13,917	22,814	22,201	25,347	26,191	26,695
Intangibles	31,676	31,049	30,643	31,294	31,534	31,838
Other non-current assets	32,675	38,962	48,491	72,195	77,317	81,659
Total assets	166,575	240,653	244,481	277,463	324,503	391,410
Current liabilities	51,148	68,593	76,430	95,382	104,173	117,883
Short-term borrowings	6,395	11,565	17,562	24,806	24,829	25,721
Account payables	21,382	26,117	29,812	32,264	39,885	42,789
Tax payable	23,371	30,911	29,056	38,311	39,459	49,373
Non-current liabilities	17,793	46,504	39,345	40,006	40,201	40,281
Long-term borrowings	1,957	12,220	1,549	2,188	2,190	2,269
Other non-current liabilities	15,835	34,284	37,796	37,818	38,011	38,012
Total liabilities	68,941	115,097	115,775	135,387	144,374	158,164
Share capital	0	0	0	0	0	0
Capital surplus	263,155	311,221	316,743	325,504	332,838	340,428
Retained earnings	(159,201)	(182,742)	(189,466)	(184,859)	(154,143)	(108,622)
Other reserves	(6,262)	(2,867)	1,484	1,484	1,484	1,484
Total shareholders equity	97,693	125,613	128,762	142,129	180,179	233,291
Minority interest	(59)	(57)	(56)	(54)	(51)	(45)
Total equity and liabilities	166,575	240,653	244,481	277,463	324,503	391,410

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,438	(23,566)	(6,685)	13,242	30,716	45,522
Depreciation & amortization	5,194	8,928	9,335	8,135	8,853	9,372
Change in working capital	1,896	7,209	(236)	8,857	4,077	8,986
Others	(3,053)	3,418	8,997	8,762	7,336	7,591
Net cash from operations	8,475	(4,011)	11,411	38,995	50,980	71,471
Investing						
Capital expenditure	(11,223)	(9,010)	(9,898)	(9,857)	(9,603)	(9,781)
Net proceeds from disposal of short-term investments	2,679	(44,744)	(11,078)	(33,485)	(3,257)	(3,420)
Others	(12,688)	(4,737)	6,262	(274)	(333)	(400)
Net cash from investing	(21,232)	(58,492)	(14,714)	(43,616)	(13,193)	(13,600)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	5,452	15,768	(4,674)	7,883	25	970
Proceeds from share issues	0	45,286	0	0	0	0
Others	11,966	17,544	(5,316)	2	4	6
Net cash from financing	17,418	78,598	(9,990)	7,885	29	976
Net change in cash						
Cash at the beginning of the year	13,396	17,094	32,513	20,159	23,423	61,239
Exchange difference	(964)	(675)	938	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	17,094	32,513	20,159	23,423	61,239	120,085
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	17.7%	56.0%	22.8%	24.5%	21.8%	19.8%
Gross profit	5.4%	24.7%	45.4%	53.3%	28.0%	25.2%
Operating profit	61.6%	na	na	na	140.4%	50.5%
Net profit	110.4%	na	na	na	132.0%	48.2%
Adj. net profit	(33.0%)	na	na	706.6%	67.9%	39.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	29.7%	23.7%	28.1%	34.6%	36.3%	37.9%
Operating margin	3.8%	(12.9%)	(2.6%)	5.5%	10.8%	13.5%
Adj. net profit margin	2.7%	(8.7%)	1.3%	8.3%	11.5%	13.4%
Return on equity (ROE)	5.0%	(21.1%)	(5.3%)	9.8%	19.1%	22.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.8)	(0.8)	(0.7)	(0.8)	(0.9)
Current ratio (x)	1.7	2.2	1.9	1.6	1.8	2.1
Receivable turnover days	2.7	2.8	3.1	2.8	2.4	2.2
Inventory turnover days	1.7	1.5	2.1	2.2	2.2	2.2
Payable turnover days	41.8	35.7	37.0	37.0	37.0	37.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	207.2	na	na	61.0	26.6	18.1
P/E (diluted)	207.2	na	na	60.7	26.4	18.0
P/B	10.0	11.6	7.2	5.7	4.5	3.5
P/CFPS	na	na	608.4	27.4	19.3	13.0
EV	(65,516.1)	(106,287.5)	(107,526.4)	(104,368.2)	(143,765.4)	(203,408.5)
EV/Sales	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)

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

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CMB International Global Markets Limited

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

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