

COMPANY RESULTS

Meituan (3690 HK)

2Q24: Solid Earnings Beat; Margin Improvement On Stabilised Competition

Meituan delivered better-than-expected 2Q24 results. Total revenue grew 21% yoy to Rmb82.3b, in line with our and the street's estimate. Non-IFRS net profit was Rmb13.6b, with net profit margin expanding 5ppt yoy to 17%, above consensus estimate. For 2024, we are optimistic on Meituan as it should: a) be on track to achieve its Rmb1t GTV target for 2024, b) be primarily focused on profitability, and c) see solid travel demand momentum. Maintain BUY with a higher target price of HK\$169.00.

2Q24 RESULTS

Year to 31 Dec (Rmbm)	2Q23	1Q24	2Q24	qoq %	yoy %	UOB	Var	Cons	Var
Total Revenue	67,965	73,276	82,251	12%	21%	79,660	3.3%	80,417	2%
Core local commerce	51,200	54,626	60,682	11%	19%	60,415	0.4%		
New initiatives	16,765	18,650	21,569	16%	29%	19,245	12.1%		
Cost of revenue	(42,567)	(47,579)	(48,361)	2%	14%	(48,220)	0.3%		
Gross profit	25,398	25,697	33,890	32%	33%	31,440	7.8%	30,731	10%
OPEX	(22,099)	(21,187)	(22,867)	8%	3%	(25,666)	(10.9%)		
S&M	(14,553)	(13,888)	(14,832)	7%	2%	(17,780)	(16.6%)		
R&D	(5,407)	(5,000)	(5,340)	7%	(1%)	(5,497)	(2.9%)		
G&A	(2,139)	(2,298)	(2,695)	17%	26%	(2,390)	12.8%		
Non IFRS OP	5,748	6,228	12,988	109%	126%	9,633	34.8%		
Non-IFRS OPM	8%	8%	16%	7 ppt	7 ppt	12%	4 ppt		
Net profit	4,689	5,369	11,352	111%	142%	6,860	65.5%		
Non-IFRS net profit	7,660	7,488	13,606	82%	78%	10,436	30.4%	10,343	32%
GPM	37%	35%	41%	6 ppt	4 ppt	39%	2 ppt	38%	3 ppt
Non-IFRS NPM	11%	10%	17%	6 ppt	5 ppt	13%	3 ppt	13%	4 ppt

Source: Meituan, UOB Kay Hian

RESULTS

• **Core local commerce momentum remains intact.** In 2Q24, Meituan's core local commerce segment recorded revenue of Rmb60.7b, implying a moderated growth 19% yoy (1Q24: +27% yoy). Core local commerce commission delivered a decelerated growth of 11% yoy in 2Q24 vs 19% in 1Q24. Food delivery's (FD average order value (AOV) delivered a softer 3ppt yoy decline, with FD revenue growth estimated at 13% yoy in 2Q24. The on-demand delivery order volume reached 6.2b in 2Q24, implying an average of 68m orders per day. in-store hotel and travel (ISHT) order volume surged 60% yoy in 2Q24. FD operating profit grew 12% yoy with EBIT per order at Rmb1.50. In 2Q24, ISHT gross transaction value (GTV) surged 54% yoy, with revenue growth of 22% yoy. ISHT operating margin edged up 1ppt sequentially to 30% due to stabilised competition with Douyin.

• **NIO segment.** The new initiatives and others (NIO) segment delivered accelerated revenue growth of 29% yoy to Rmb21.6b in 2Q24 (1Q24: +19% yoy), mainly bolstered by the heightened price per item and price mark-up ratios of Meituan Select. Operating loss narrowed significantly by 75% yoy to Rmb1.3b, while operating margin improved 9ppt sequentially to -6%, attributable to enhanced operating efficiency of Meituan Select.

• **Share repurchases.** During the six months ended 30 Jun 24, Meituan repurchased a total of 222.1m Class B Shares at an aggregate consideration of HK\$23.3b (3.7% of market cap) before expenses. In 2Q24, Meituan approved an additional US\$1b share repurchase plan.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	219,955	276,745	338,188	383,195	436,603
EBITDA	15,432	36,238	80,534	97,904	114,415
Operating profit	24,691	43,988	88,987	107,278	123,713
Net profit (rep./act.)	23,826	44,430	85,408	103,620	120,231
Net profit (adj.)	2,827	23,253	53,730	73,646	86,111
EPS (Fen)	45.9	374.3	863.1	1,180.6	1,373.6
PE (x)	204.5	25.1	10.9	8.0	6.8
P/B (x)	4.5	3.8	2.9	2.2	1.8
EV/EBITDA (x)	32.7	13.9	6.3	5.2	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	10.8	16.1	25.3	27.0	27.5
Net debt/(cash) to equity (%)	(0.8)	(8.8)	(33.6)	(49.8)	(60.5)
Interest cover (x)	15.9	59.8	176.4	n.a.	n.a.
ROE (%)	18.7	31.6	48.1	44.3	40.1
Consensus net profit	-	-	35,597	48,311	60,293
UOBKH/Consensus (x)	-	-	1.51	1.52	1.43

Source: Meituan, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$102.80
Target Price	HK\$169.00
Upside	+64.4%
(Previous TP)	HK\$139.00

COMPANY DESCRIPTION

Meituan is a Chinese group buying website for locally found food delivery services, consumer products and retail services.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	3690 HK
Shares issued (m):	5,509.1
Market cap (HK\$m):	627,663.1
Market cap (US\$m):	80,471.7
3-mth avg daily t'over (US\$m):	429.9

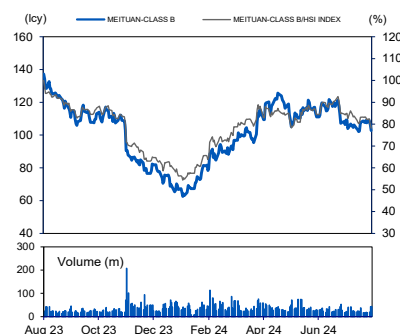
Price Performance (%)

52-week high/low	HK\$146.30/HK\$62.55			
1mth	3mth	1mth	3mth	1mth
(4.5)	(13.6)	31.2	(23.7)	25.5

Major Shareholders

Crown Holdings Asia	8.7
BlackRock Inc	5.9
Baillie Gifford & Co	4.8
FY24 NAV/Share (Rmb)	32.65
FY24 Net Cash/Share (Rmb)	10.99

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- 3Q24 and 2024 outlook.** We forecast 3Q24/2024 revenue to grow 22%/22% yoy respectively and core local commerce to grow 21%/22% yoy. Core local commerce EBIT is expected to see mid-high 30% yoy growth as the increase in unit economics (UE) for on-demand services will not be as significant as in 2Q24. For full-year 2024, core local commerce revenue and EBIT are forecasted to grow at 20%/25% yoy respectively. Meituan is pivoting its focus to overall core local commerce profitability, aiming to achieve its 2025 FD EBIT target of Rmb30b ahead of schedule.
- On-demand (FD + Meituan Instashopping) order volume growth should remain stable at 14-15% yoy in 3Q24,** with FD order volume growth at low teens yoy. On-demand revenue growth in 3Q24 will outpace order volume growth by 3ppt. By following the growth trend of profit > revenue > order volume growth, the increase in UE in 3Q24 will not be as encouraging as in 2Q24, primarily due to: a) 2Q24 benefitted from particularly favourable seasonality, and b) the ad base in 2Q23 was relatively low compared with 3Q23, especially in Meituan Instashopping. Meituan Instashopping is projected to deliver a slight loss in 3Q24 and is expected to breakeven in full-year 2024 due to strong marketing demand from merchants. For the full year, on-demand revenue is expected to grow 18-20% yoy while order volume is estimated to grow in the mid-to-high teens, and EBIT is expected to grow by high-teens to 20% yoy.
- ISHT GTV and revenue are projected to grow at 40% yoy in 3Q24 and mid-20% yoy in 2H24, respectively,** with encouraging momentum during the summer holidays. ISHT EBIT is estimated to grow at high teens yoy in 2H24, reflecting lower EBIT margin. This is attributed to higher contribution from hotel and travel and heightened GTV contribution from first-tier cities which deliver lower margins.
- Revenue from its new initiatives is projected to grow 25% yoy in 3Q24,** while adjusted EBIT losses are estimated at -Rm1.8b, narrowing meaningfully from -Rmb5.2b in 2Q23. In 3Q24, Meituan Select will continue to focus on quality differentiation over market share expansion by investing in cold chain logistics, aiming to achieve a slight reduction in loss. The expected losses of new initiatives in 2H24 will be similar to the losses in 1H24, resulting from investment in overseas expansion in 4Q24, but offset by a continued narrowing of losses in Meituan Select.
- Organisational overhaul to create flattening hierarchy.** On 25 August, Meituan CEO Wang Xing issued an internal email revealing the latest developments in the company's organisational restructuring. According to the email, Meituan's SaaS, bike-sharing, and power bank services will be merged into a new division called Software and Hardware Services, led by Zhang Chuan. The Kuailv, Xiaoxiang, and Youxuan businesses will be combined into the Food and Grocery Retail division, led by Guo Wanhua. The Food and Grocery Retail division will be renamed Keeta and managed by Qiu Guangyu. All these division heads will report directly to Wang Xing. The restructuring mainly focuses on the previous marginalised sub-businesses and emerging overseas markets.

EARNINGS REVISION/RISK

- We raise our 3Q24/2024 revenue estimates by 3%/2% respectively after factoring in the on-track 2024 ISHT GTV target of Rmb1t. We raise our 3Q24/2024 adjusted net profit forecasts by 86%/56% respectively, in view of the new primary focus on profitability.
- Risks:** a) Challenging macro environment, b) increased competition with Douyin and Ele.me, and c) new initiatives achieving profitability at a slower-than-expected rate

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$169.00,** due to the improvement in operating margin for the in-store and hotel business, and a continued narrowing of losses from NIO on prudent cost control. We assign 12x 2025F PE for the core local commerce segment and 16x 2025F PE for the new initiatives segment. Our target price implies 13.2x 2025F PE against 15% 2025-28F EPS CAGR.

SHARE PRICE CATALYST

- a) Continued market share expansion in the FD segment and increase in penetration rate in the fresh groceries segment, and b) synergies with core businesses and new initiatives.

FORWARD EV/SALES BAND



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	276,745	338,188	383,195	436,603
EBITDA	36,238	80,534	97,904	114,415
Deprec. & amort.	(7,751)	(8,453)	(9,374)	(9,299)
EBIT	43,988	88,987	107,278	123,713
Total other non-operating income	0	0	0	0
Associate contributions	1,213	1,334	1,467	1,467
Net interest income/(expense)	(606)	(457)	220	1,139
Pre-tax profit	44,595	89,864	108,966	126,319
Tax	(165)	(4,457)	(5,345)	(6,089)
Minorities	0	0	0	0
Net profit	44,430	85,408	103,620	120,231
Net profit (adj.)	23,253	53,730	73,646	86,111

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	25,978	25,125	27,652	31,227
Other LT assets	83,936	88,344	91,892	96,347
Cash/ST investment	33,340	88,329	151,798	222,535
Other current assets	149,776	144,500	146,731	149,516
Total assets	293,030	346,297	418,074	499,625
ST debt	19,322	19,322	19,322	19,322
Other current liabilities	81,552	83,561	93,869	105,399
LT debt	610	610	610	610
Other LT liabilities	39,589	39,589	39,589	39,589
Shareholders' equity	152,013	203,272	264,741	334,762
Minority interest	(57)	(57)	(57)	(57)
Total liabilities & equity	293,030	346,297	418,074	499,625

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	45,962	63,392	76,974	85,859
Pre-tax profit	44,595	89,864	108,966	126,319
Tax	(165)	(4,457)	(5,345)	(6,089)
Deprec. & amort.	(7,751)	(8,453)	(9,374)	(9,299)
Working capital changes	(4,768)	4,768	0	0
Other operating cashflows	14,050	(18,330)	(17,272)	(25,073)
Investing	(30,390)	(11,985)	(13,504)	(15,122)
Capex (growth)	(8,669)	(10,144)	(11,406)	(12,811)
Investments	0	0	0	0
Proceeds from sale of assets	(19,947)	0	0	0
Others	(1,774)	(1,841)	(2,098)	(2,311)
Financing	821	0	0	0
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	821	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	16,393	51,408	63,470	70,737
Beginning cash & cash equivalent	20,161	36,921	88,329	151,798
Changes due to forex impact	367	0	0	0
Ending cash & cash equivalent	33,340	88,329	151,798	222,535

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.1	23.8	25.5	26.2
Pre-tax margin	16.1	26.6	28.4	28.9
Net margin	16.1	25.3	27.0	27.5
ROA	16.5	26.7	27.1	26.2
ROE	31.6	48.1	44.3	40.1
Growth				
Turnover	25.8	22.2	13.3	13.9
EBITDA	134.8	122.2	21.6	16.9
Pre-tax profit	87.7	101.5	21.3	15.9
Net profit	86.5	92.2	21.3	16.0
Net profit (adj.)	722.5	131.1	37.1	16.9
EPS	715.0	130.6	36.8	16.3
Leverage				
Debt to total capital	11.6	8.9	7.0	5.6
Debt to equity	13.1	9.8	7.5	6.0
Net debt/(cash) to equity	(8.8)	(33.6)	(49.8)	(60.5)
Interest cover (x)	59.8	176.4	n.a.	n.a.

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