

COMPANY UPDATE

Meituan (3690 HK)

2Q24 Results Preview: ISHT Margin To Stabilise; Narrowing Losses In New Initiative

The current market focus for Meituan is mainly on in-store industry competition and margin recovery, food delivery growth, and narrowing new initiative losses. We opine the resilient summer holiday travel momentum would lead to marginally easing competition with Douyin, thereby stabilising ISHT margin. We expect the rising popularity of Pinhaofan against a cautious consumption backdrop would fuel Meituan's UE and profitability of low AOV orders. Maintain BUY with a target price of HK\$139.00.

WHAT'S NEW

- Reorganisation and focus on integrating local commerce to drive growth in 2024.** Meituan aims to enhance the collaboration between in-store and non-demand delivery, and achieve cost synergies after the reorganisation. While macro factors could impact order volume growth and average order value (AOV) in the coming quarters, Meituan plans to adjust subsidies for new user acquisition and focus on cultivating mid- to high-frequency user behaviours by encouraging greater use of Meituan Instashopping. With a less susceptible nature to macro, the online penetration of on-demand retail remains low. Meituan Instashopping is investing more in the supply side with Instamarts and continues to diversify its SKU offerings. Meituan is confident in maintaining its leading position in the on-demand retail market and will prioritise growth at this stage.
- Partnership with Kuaishou and Focus Media; ramped up efforts to defend against competition with Douyin.** Kuaishou and Meituan's partnership is extending to a nationwide Hundred Cities, Thousand Stores initiative for the next three years and providing Kuaishou with an expanded range of offerings. In June this year, gross merchandise value (GMV) of Meituan merchants on the Kuaishou platform surged by more than 38x yoy, and order volume elevated 10x yoy. Meituan has also reached a preliminary cooperation with Focus Media and is accelerating the development and operation of elevator video media, primarily targeting lower-tier cities. In the meantime, Douyin's internal GMV target for 2024 is maintained at Rmb4t, implying around 50% yoy surge. With Douyin raising the commission for in-store merchants to 8% and market shares between Meituan and Douyin approaching 2:1, we anticipate the marginal competition to ease, resulting in upside on Meituan's in-store, hotel and travel (ISHT) margins.
- Pinhaofan model to seize market shares but impede monetisation.** The new Pinhaofan model would enhance unit economics (UE) of low average order value (AOV) orders, optimising order volume structure for the long term. The growth in price-sensitive new users also contributes meaningfully to profitability for low AOV orders and promotes per-order UE growth. However, monetisation will be pressured and saw lower per-order rider costs for Pinhaofan as 2-4 people share a single delivery fee. By 2025, Pinhaofan orders are estimated to account for 10-11% of Meituan food delivery (FD) orders, contributing Rmb4.3b-8.5b profitability improvement to FD.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	219,955	276,745	326,414	378,941	429,595
EBITDA	15,432	36,238	52,835	69,507	90,165
Operating profit	24,691	43,988	61,262	78,882	99,414
Net profit (rep./act.)	23,826	44,430	59,806	77,307	97,467
Net profit (adj.)	2,827	23,253	35,368	50,287	68,449
EPS (Fen)	45.9	374.3	568.1	806.2	1,091.9
PE (x)	241.0	29.6	19.5	13.7	10.1
P/B (x)	5.3	4.5	3.9	3.2	2.6
EV/EBITDA (x)	41.3	17.6	12.1	9.2	7.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	10.8	16.1	18.3	20.4	22.7
Net debt/(cash) to equity (%)	(0.8)	(8.8)	(23.6)	(38.3)	(51.2)
Interest cover (x)	15.9	59.8	115.7	n.a.	n.a.
ROE (%)	18.7	31.6	36.2	39.1	40.2
Consensus net profit	-	-	35,882	48,736	61,085
UOBKH/Consensus (x)	-	-	0.99	1.03	1.12

Source: Meituan, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$119.10
Target Price	HK\$139.00
Upside	+16.7%
(Previous TP)	HK\$130.00

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):	5,545.3
Market cap (HK\$m):	731,495.6
Market cap (US\$m):	93,698.6
3-mth avg daily t'over (US\$m):	526.5

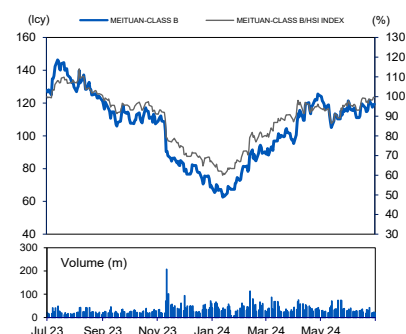
Price Performance (%)

52-week high/low	HK\$146.30/HK\$62.55			
1mth	3mth	6mth	1yr	YTD
2.0	22.1	73.2	(10.1)	45.4

Major Shareholders

	%
Crown Holdings Asia	8.7
BlackRock Inc	5.6
Baillie Gifford & Co	4.8
FY24 NAV/Share (Rmb)	28.73
FY24 Net Cash/Share (Rmb)	6.77

PRICE CHART



Source: Bloomberg

ANALYST(S)

Julia Pan Meng Yao
+8621 5404 7225 ext 808
juliapan@uobkayhian.com

Soong Ming San
+603 21471912
mingsan@uobkayhian.com

STOCK IMPACT

- **Well positioned to benefit from Swift Summer Holiday Travel.** According to Meituan data, in the past two weeks, the scale of cultural and tourism consumption nationwide jumped by more than 20% mom. Meituan data also shows that in the past two weeks, cultural and tourism consumption in cities below Tier 3 and county-level areas experienced rapid growth with popular destinations generating 60% mom growth.
- **2Q24/2024 outlook.** We forecast Meituan's 2Q24 revenue growth to moderate to 17% yoy (vs 2Q23: 33% yoy). In 2Q24, we expect core local commerce revenue to rise 18% yoy to Rmb60.4b, while operating profit of core local commerce to grow 20% yoy to Rmb12.2b. We project non-GAAP net margin to expand by 3ppt/3ppt sequentially to 13.2%/11.2% in 2Q24/2024 respectively.
 - On-demand (FD + Meituan Instashopping)** order volume growth should moderate to 14-15% yoy in 2Q24, with FD order volume growth at low teens yoy. On-demand revenue growth in 2Q24 will outpace order volume growth by 1ppt. EBIT per order is estimated at Rmb1.60 (from Rmb1.49 in 2Q23), attributable to strong seasonality in 2Q24. The AOV decline in 2Q24 narrowed sequentially due to a decrease in delivery costs per order, with UE growing by Rmb0.10 yoy. 2Q24 Meituan Instashopping delivery order volume should rise 35% yoy. EBIT per order is estimated to turn positive in 2024, although it remains unprofitable to spur growth. For the full year, on-demand revenue is expected to grow 18-20% yoy while order volume is estimated to expand in the mid-to-high teens, and operating profit to increase by high teens to 20% yoy.
 - ISHT** revenue and gross transaction value (GTV) growth are projected to grow 23% and 44% respectively in 2Q24, bolstered by strong travel momentum. Under soft macro conditions, the AOV of Meituan's ISHT has declined yoy across various vertical categories. We expect EBIT margin to remain flattish sequentially at 30%, which hinges on the competitive landscape. Full-year 2024 ISHT revenue growth is estimated at 22% yoy. Operating profit margin is expected to drop 3ppt yoy, due to the company's focus on growth in frequency and price sensitivity.
- **New initiatives (NIO).** We expect NIO revenue to grow 15% yoy, while adjusted EBIT losses are estimated at -Rmb2b, narrowing meaningfully from -Rmb2.8b in 1Q24 and -Rmb5.2b in 2Q23. Meituan Select's loss is expected to reach Rmb2.5b while other new initiatives are expected to breakeven in 2Q24. Revenue from new initiatives is projected to grow by high teens to 20% yoy in 2024. Full-year EBIT loss is estimated at -Rmb9.5b.
- **Continuous shareholder returns.** Following the announcement of a US\$1b buyback plan in late-Nov 23, Meituan has proposed another massive buyback plan of US\$2b (2% of market cap) in Jun 24, offering investors a return of 2%. Meituan has spent about US\$995m (1% of market cap) on share repurchase in 2024.

EARNINGS REVISION/RISK

- We raise our 2Q24 earnings by 2% given better margins from ISHT. We forecast 17%/18% revenue growth in 2Q24/2024 respectively. Our 2Q24/2024 non-GAAP net margin forecast is 13%/10.8% respectively.
- **Risks.** a) Intensifying FD competition with Douyin and Ele.me, b) entry of new competitors in various verticals, c) inability to achieve profitability in new business initiatives, and d) tightening of anti-trust/community group purchase regulations.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of HK\$139.00**, seeing a stabilising operating margin for the in-store and hotel business, and continued narrowing loss from NIO on prudent cost control. We assign 14x 2024F core local commerce PE, largely aligning with the 16-18% top-line growth in 2024 and 2025. Our target price also implies 2.2x 2024F EV/sales, below its historical mean of 4.2x.

SHARE PRICE CATALYST

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

12-MONTH FORWARD EV/SALES



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	276,745	326,414	378,941	429,595
EBITDA	36,238	52,835	69,507	90,165
Deprec. & amort.	(7,751)	(8,427)	(9,374)	(9,248)
EBIT	43,988	61,262	78,882	99,414
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	62,139	80,569	102,020
Tax	(165)	(2,334)	(3,262)	(4,553)
Minorities	0	0	0	0
Net profit	44,430	59,806	77,307	97,467
Net profit (adj.)	23,253	35,368	50,287	68,449

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	45,962	36,831	54,198	69,680
Pre-tax profit	44,595	62,139	80,569	102,020
Tax	(165)	(2,334)	(3,262)	(4,553)
Deprec. & amort.	(7,751)	(8,427)	(9,374)	(9,248)
Working capital changes	(4,768)	4,768	0	0
Other operating cashflows	14,050	(19,315)	(13,735)	(18,538)
Investing	(30,390)	(11,675)	(13,392)	(14,938)
Capex (growth)	(8,669)	(9,837)	(11,295)	(12,628)
Investments	0	0	0	0
Proceeds from sale of assets	(19,947)	0	0	0
Others	(1,774)	(1,838)	(2,097)	(2,310)
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	25,156	40,805	54,742
Beginning cash & cash equivalent	20,161	36,921	62,077	102,882
Changes due to forex impact	367	0	0	0
Ending cash & cash equivalent	33,340	62,077	102,882	157,625

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	25,978	24,843	27,295	30,738
Other LT assets	83,936	89,346	93,372	97,172
Cash/ST investment	33,340	62,077	102,882	157,625
Other current assets	149,776	145,208	147,899	150,264
Total assets	293,030	321,475	371,448	435,798
ST debt	19,322	19,322	19,322	19,322
Other current liabilities	81,552	83,152	95,607	107,598
LT debt	610	610	610	610
Other LT liabilities	39,589	39,589	39,589	39,589
Shareholders' equity	152,013	178,859	216,377	268,736
Minority interest	(57)	(57)	(57)	(57)
Total liabilities & equity	293,030	321,475	371,448	435,798

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.1	16.2	18.3	21.0
Pre-tax margin	16.1	19.0	21.3	23.7
Net margin	16.1	18.3	20.4	22.7
ROA	16.5	19.5	22.3	24.1
ROE	31.6	36.2	39.1	40.2
Growth				
Turnover	25.8	17.9	16.1	13.4
EBITDA	134.8	45.8	31.6	29.7
Pre-tax profit	87.7	39.3	29.7	26.6
Net profit	86.5	34.6	29.3	26.1
Net profit (adj.)	722.5	52.1	42.2	36.1
EPS	715.0	51.8	41.9	35.4
Leverage				
Debt to total capital	11.6	10.0	8.4	6.9
Debt to equity	13.1	11.1	9.2	7.4
Net debt/(cash) to equity	(8.8)	(23.6)	(38.3)	(51.2)
Interest cover (x)	59.8	115.7	n.a.	n.a.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W