

COMPANY RESULTS

Meituan (3690 HK)

3Q22: Core Profit Exceeds Expectations; Soft Outlook For 4Q22

Meituan's 3Q22 earnings exceeded expectations. Total revenue grew 28% yoy to Rmb62.6b, in line with our and consensus estimates. Core local commerce profit beat expectations with adjusted EBIT rising 123% yoy to Rmb9.3b, vs consensus estimates of Rmb8b, driven by strong food delivery and in-store profitability that resulted in operating margin improving to 20.1%. Non-IFRS net profit was Rmb3.5b, vs a loss of Rmb5.5b in 3Q21, which translated to a non-GAAP net profit margin of 5.6%. Maintain BUY with a lower target price of HK\$200.00.

3Q22 RESULTS

Year to 31 Dec (RMB m)	3Q21	2Q22	3Q22	qoq % chg	yoy % chg	UOB	Var	Cons	Var
Total Revenue	48,829.4	50,938.4	62,618.9	22.9%	28.2%	63,094.0	(0.8%)	62,389.6	0.4%
Core local commerce	35,106.0	36,779.2	46,327.5	26.0%	32.0%	43,881.8	5.6%		
New initiatives & others	13,723.4	14,159.1	16,291.4	15.1%	18.7%	19,212.2	(15.2%)		
Cost of revenue	(38,051.4)	(35,363.9)	(44,114.0)	24.7%	15.9%	(45,963.4)	(4.0%)		
Gross profit	10,778.0	15,574.4	18,504.9	18.8%	71.7%	17,130.6	8.0%	17,994.4	2.8%
Operating expenses	(18,490.9)	(16,693.1)	(18,806.1)	12.7%	1.7%	(18,839.0)	(0.2%)		
Selling and marketing expenses	(11,388.2)	(8,986.0)	(10,886.4)	21.1%	(4.4%)	(9,690.4)	12.3%		
Research and development expenses	(4,715.6)	(5,203.5)	(5,414.4)	4.1%	14.8%	(5,363.0)	1.0%		
General and administrative expenses	(2,387.1)	(2,503.6)	(2,505.3)	0.1%	4.9%	(3,785.6)	(33.8%)		
Non-IFRS Operating profit	(6,245.9)	1,108.1	1,740.0	57.0%	127.9%	649.4	168.0%		
Non-IFRS OPM	-13%	2%	3%	0.6 ppt	15.6 ppt	1%	1.7 ppt		
Net profit	(9,994.4)	(1,116.0)	1,216.8	209.0%	112.2%	(1,783.2)	168.2%		
Non-IFRS net profit	(5,526.9)	2,057.8	3,526.6	71.4%	163.8%	574.6	513.8%	838.4	320.6%
GPM	22.1%	30.6%	29.6%	(1.0 ppt)	7.5 ppt	27.2%	(2.4 ppt)	28.8%	0.7 ppt
Non-IFRS NPM	-11.3%	4.0%	5.6%	1.6 ppt	17.0 ppt	0.9%	(4.7 ppt)	1.3%	4.3 ppt

Source: Meituan, UOB Kay Hian

RESULTS

• **Resilient performance from core local commerce.** During 3Q22, Meituan's core local commerce segment recorded revenue of Rmb46.3b, up 24.6% yoy (2Q22: +16%), despite being negatively impacted by the pandemic. During the quarter, core commerce commission held up rather well, delivering an accelerated growth of 56% yoy (2Q22: 40%; 3Q21: 27%). Online marketing reported robust growth of 165% vs 3Q21's 39% yoy. Growth of food delivery revenue slightly outpaced order volume's growth of c.14%, while Instashopping order volume rose 15% yoy to reach 451m, with average order volume exceeding Rmb75 in 3Q22. Total order volume of food delivery and Meituan Instashopping businesses increased by 16.2% yoy. Daily order volume of the food delivery business reached a record high and exceeded 60m in early-August. For its in-store business, gross transaction volume (GTV) recovered to 15% yoy in Jul and Aug 22, and further accelerated to 30% in September, while the hotel segment was impacted by the pandemic, with its room nights remaining flat yoy.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	114,795	179,128	216,999	270,538	336,535
EBITDA	8,909	(14,695)	3,240	7,036	26,965
Operating profit	4,330	(23,127)	(6,214)	(2,808)	16,862
Net profit (rep./act.)	4,707	(23,536)	(6,996)	(2,069)	14,650
Net profit (adj.)	3,121	(15,572)	2,238	8,407	28,262
EPS (Fen)	52.0	(257.9)	36.9	137.9	461.1
PE (x)	241.2	n.m.	340.0	91.0	27.2
P/B (x)	7.7	6.0	5.7	5.2	4.4
EV/EBITDA (x)	87.8	n.m.	241.3	111.1	29.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	4.1	(13.1)	(3.2)	(0.8)	4.4
Net debt/(cash) to equity (%)	(8.9)	(6.9)	4.5	3.1	(1.8)
Interest cover (x)	57.0	(25.1)	3.7	n.a.	n.a.
ROE (%)	5.0	n.a.	n.a.	n.a.	9.1
Consensus net profit	-	-	(274)	12,783	28,644
UOBKH/Consensus (x)	-	-	n.m.	0.66	0.99

Source: Meituan, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$136.60
Target Price	HK\$200.00
Upside	+46.4%
(Previous TP)	HK\$225.00)

COMPANY DESCRIPTION

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

STOCK DATA

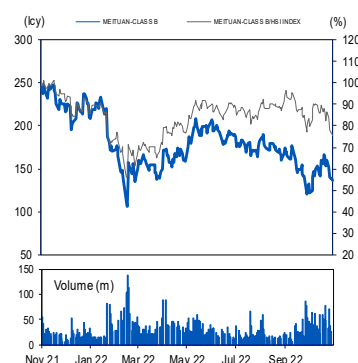
GICS sector	Consumer Discretionary
Bloomberg ticker:	3690 HK
Shares issued (m):	5,510.8
Market cap (HK\$m):	845,426.4
Market cap (US\$m):	108,211.8
3-mth avg daily t'over (US\$m):	630.9
Price Performance (%)	

52-week high/low HK\$263.60/HK\$106.00

1mth	3mth	6mth	1yr	YTD
10.6	(23.0)	(14.5)	(50.2)	(39.4)

Major Shareholders	%
Tencent Holdings Ltd	19.1
Baillie Gifford & Co	4.9
BlackRock Inc	4.8
FY22 NAV/Share (Rmb)	21.94
FY22 Net Debt/Share (Rmb)	1.00

PRICE CHART



Source: Bloomberg

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- **New initiatives and others (NIO).** The NIO segment's revenue grew 39.7% yoy to Rmb16.3b in 3Q22. Operating loss narrowed slightly on a sequential basis to Rmb6.8b, while operating margin improved to -41.6%, primarily attributable to an improvement in operating efficiency from the goods retail businesses. For Meituan Select, management guided that this segment will continue to focus on high-quality growth by upgrading its brand positioning and enhancing its core competence in the industry.

STOCK IMPACT

- **Takeaway from post-earnings call with management:**

- **For 4Q22, core local commerce revenue is guided to grow 17% yoy to Rmb40.8b-41.6b.** Management guided for operating profit of its core local commerce segment to increase c.15% yoy to Rmb6.5b-6.9b.
- **Food delivery.** Meituan expects food delivery order volume to deliver a mid-single digit growth yoy for 4Q22. Consumption sentiment is under pressure as many shops ceased operations in October and November, especially in high-tier cities. Management guided that yoy growth was slightly higher than 6% for food delivery for the month of October and the first three weeks of November, as many shops had ceased operations due to a resurgence in daily COVID-19 cases. For food delivery, EBIT per order should decrease qoq to Rmb0.95-1.00 due to increased subsidies provided to riders and food delivery in 4Q22 compared to 4Q21. Since Meituan is expected to reduce seasonal incentives for food delivery, food delivery revenue yoy growth should be 12ppt higher than that of order volume growth in 4Q22.
- **Meituan Instashopping** is expected to deliver a yoy growth similar to 2Q22 and 3Q22 amid the challenging environment. This is because Meituan expects demand for categories such as supermarket and pet care to maintain the growth trajectory based on the positive contribution seen during the Golden Week.
- **ISHT.** Meituan expects revenue of in-store, hotel and travel (ISHT) segment to decline about 15% yoy to Rmb7.4b-7.6b in 4Q22, mainly hampered by ongoing lockdown restrictions. Operating profit margin of the ISHT segment is guided to decline yoy to 42%, mainly due to operating deleverage and higher costs from continuous promotion and marketing activities.
- **NIO.** Meituan expects NIO's revenue to grow 31-33% yoy to Rmb16.3b-16.6b in 4Q22. Meanwhile, operating loss should expand qoq to Rmb8b due to seasonality and continuous promotion and advertising efforts in 4Q22 for events such as 11.11 and the FIFA World Cup. Management guided for Meituan Select's operating loss to narrow yoy to Rmb5b.
- **High growth momentum of Meituan Instashopping.** This will be anchored by the accelerated yoy growth in user base, purchase frequency, and retention rate contributed by rising demand from consumers and the optimised supply on its platform. Note that daily order volume reached a new high of 9.7m on the Chinese Valentine's Day in August. During 4Q22, Meituan continued to strengthen its collaborations with mainstream brands and continued to form new strategic partnerships. Subsequently, both the number of active merchants and number of newly-onboarded merchants grew by 30% yoy.
- **Competition with Douyin.** Douyin's in-store business has been ramping up rapidly. However, Meituan believes: a) Douyin's GTV is still of a relatively smaller size, b) the high level of incentives given out by Douyin should be only for a short term, c) Meituan is upgrading its merchant coverage and traffic channels with higher ROI for merchants, and d) despite the local life industry being large enough, Meituan is still seeing a single-digit online penetration rate for this market, and Meituan will continue to lead industry growth.

EARNINGS REVISION/RISK

- **We have lowered our 4Q22 revenue forecasts** by 14% to factor in the negative impact from COVID-19 containment measures which hindered the ISHT segment's growth. We estimate Meituan to deliver adjusted net profit of Rmb240m in 4Q22 with NIO adjusted EBIT loss narrowing to Rmb8b on the back of improving operating efficiency.

FORWARD EV/Sales BAND



Source: UOB Kay Hian, Bloomberg

- **Risks:** a) Challenging macro environment (ie weak consumer spending power, lockdown measures, slowing China catering sales); b) increase in food delivery competition with Ele.me; c) entry of new competitors in various verticals; and d) achieving profitability at a slower-than-expected rate in new business initiatives.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$200.00.** Our target price implies 3.6x 2023F forward EV/sales, slightly below its three-year historical mean of 5x. We remain cautiously optimistic as Meituan will be the key proxy on recovery of domestic consumption pending relaxation of lockdown measures.

SHARE PRICE CATALYST

- a) Uplift of lockdown measures; b) continued market share expansion in the food delivery segment and increase in the penetration rate in the fresh groceries segment; and c) increase in synergies with core businesses and new initiatives.

SOTP-BASED VALUATION (BASED ON 12-MONTH FORWARD)

2023E SOTP Valuation	2023F Rev. (US\$m)	2023F NOPAT (US\$m)	Implied EV/Rev.	PE	Valuation to Meituan 2023F (US\$m)	2023F Val. (HK\$m)	2023F Val. Per share (HK\$)
Food Delivery	27,663	2,249	2x	22x	49,476	400,360	66
In-store, hotel & travel	5,356	2,004	9x	25x	50,107	405,468	67
New initiatives	12,341	858	2x	35x	30,227	244,600	40
Associates/investments affiliates					4,929	39,885	7
Net cash					20,167	163,188	27
NAV					154,906	1,253,501	207
Less: holdco discount			10%		4,929	39,885	7
Fully diluted shares outstanding (m)			6,068				
					149,977	1,213,617	200

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	179,128	216,999	270,538	336,535
EBITDA	(14,695)	3,240	7,036	26,965
Deprec. & amort.	8,432	9,454	9,844	10,104
EBIT	(23,127)	(6,214)	(2,808)	16,862
Total other non-operating income	0	0	0	0
Associate contributions	146	32	32	32
Net interest income/(expense)	(585)	(888)	342	342
Pre-tax profit	(23,566)	(7,070)	(2,435)	17,235
Tax	30	74	365	(2,585)
Minorities	0	0	0	0
Net profit	(23,536)	(6,996)	(2,069)	14,650
Net profit (adj.)	(15,572)	2,238	8,407	28,262

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	22,814	36,664	55,255	80,209
Other LT assets	70,010	72,579	75,324	78,407
Cash/ST investment	32,513	32,733	34,307	41,960
Other current assets	115,315	133,152	143,488	155,972
Total assets	240,653	275,129	308,374	356,547
ST debt	11,565	11,565	11,565	11,565
Other current liabilities	57,028	68,992	83,809	102,333
LT debt	12,220	27,220	27,220	27,220
Other LT liabilities	34,284	34,284	34,284	34,284
Shareholders' equity	125,613	133,125	146,056	175,705
Minority interest	(57)	(57)	(57)	(57)
Total liabilities & equity	240,653	275,129	308,374	356,547

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	(4,011)	1,780	17,943	37,635
Pre-tax profit	(23,566)	(7,070)	(2,435)	17,235
Tax	30	74	365	(2,585)
Deprec. & amort.	8,432	9,454	9,844	10,104
Working capital changes	8,126	(7,208)	2,492	3,880
Other operating cashflows	2,966	6,531	7,677	9,002
Investing	(58,492)	(31,069)	(36,866)	(44,983)
Capex (growth)	(28,936)	(35,205)	(43,147)	(50,276)
Investments	(409,062)	0	0	0
Proceeds from sale of assets	364,495	0	0	0
Others	15,011	4,136	6,281	5,293
Financing	78,598	35,006	15,000	15,000
Dividend payments	0	0	0	0
Issue of shares	0	20,000	15,000	15,000
Proceeds from borrowings	25,346	15,000	0	0
Loan repayment	(9,578)	0	0	0
Others/interest paid	62,830	6	0	0
Net cash inflow (outflow)	16,095	5,717	(3,923)	7,652
Beginning cash & cash equivalent	17,094	32,513	38,231	34,307
Changes due to forex impact	(675)	0	0	0
Ending cash & cash equivalent	32,513	32,733	34,307	41,960

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	(8.2)	1.5	2.6	8.0
Pre-tax margin	(13.2)	(3.3)	(0.9)	5.1
Net margin	(13.1)	(3.2)	(0.8)	4.4
ROA	n.a.	n.a.	n.a.	4.4
ROE	n.a.	n.a.	n.a.	9.1
Growth				
Turnover	56.0	21.1	24.7	24.4
EBITDA	(265.0)	n.a.	117.1	283.3
Pre-tax profit	(631.0)	n.a.	n.a.	n.a.
Net profit	(600.0)	n.a.	n.a.	n.a.
Net profit (adj.)	(599.0)	n.a.	275.7	236.2
EPS	(596.2)	n.a.	273.8	234.5
Leverage				
Debt to total capital	15.9	22.6	21.0	18.1
Debt to equity	18.9	29.1	26.6	22.1
Net debt/(cash) to equity	(6.9)	4.5	3.1	(1.8)
Interest cover (x)	(25.1)	3.7	n.a.	n.a.

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