

COMPANY RESULTS

Meituan (3690 HK)

2Q23: Earnings Beat; ISHT As Key Growth Pillar In 3Q23

Meituan's 2Q23 earnings exceeded expectations. Total revenue grew 33.4% yoy to Rmb68b, in line with consensus estimates. Non-IFRS net profit was Rmb7.7b, which translated to a non-GAAP net profit margin of 11.3%. For 3Q23, Meituan expects growth in food delivery volume to alleviate due to tempered macro recovery and unfavourable weather conditions. We expect ISHT to maintain its rapid recovery trajectory in 3Q23 given strong seasonality. Maintain BUY with a higher target price of HK\$210.00.

2023 RESULTS

Year to 31 Dec (RMB m)	2022	1Q23	2Q23	qoq %	yoy %	UOB	Var	Cons	Var
TOTAL REVENUE	50,938	58,617	67,965	15.9%	33.4%	69,765	(2.6%)	67,200	1.1%
Core local commerce	36,779	42,885	51,200	19.4%	39.2%	52,920	(3.3%)		
New initiatives & others	14,159	15,732	16,765	6.6%	18.4%	16,845	(0.5%)		
Cost of revenue	(35,364)	(38,800)	(42,567)	9.7%	20.4%	(46,459)	(8.4%)		
Gross profit	15,574	19,817	25,398	28.2%	63.1%	23,306	9.0%	22,450	13.1%
OPEX	(16,693)	(17,475)	(22,099)	26.5%	32.4%	(21,781)	1.5%		
S&M	(8,986)	(10,433)	(14,553)	39.5%	62.0%	(12,014)	21.1%		
R&D	(5,204)	(5,047)	(5,407)	7.1%	3.9%	(6,279)	(13.9%)		
G&A	(2,504)	(1,995)	(2,139)	7.2%	(14.6%)	(3,488)	(38.7%)		
Non-IFRS OP	1,546	4,328	5,748	32.8%	271.7%	4,797	19.8%		
Non-IFRS OPM	3%	7%	8%	1.1 ppt	5.4 ppt	7%	1.6 ppt		
Net profit	(1,116)	3,358	4,689	39.6%	520.1%	3,220	45.6%		
Non-IFRS net profit	2,058	5,491	7,660	39.5%	272.2%	5,157	48.5%	4,507	70.0%
GPM	30.6%	33.8%	37.4%	3.6 ppt	6.8 ppt	33.4%	4.0 ppt	33.4%	4.0 ppt
Non-IFRS NPM	4.0%	9.4%	11.3%	1.9 ppt	7.2 ppt	7.4%	3.9 ppt	6.7%	4.6 ppt

Source: Meituan, UOB Kay Hian

RESULTS

- Solid performance from core local commerce.** In 2Q23, Meituan's core local commerce segment recorded revenue of Rmb51.2b, up 39.2% yoy (1Q23: +35% yoy), higher than management's previously guided 35-36% yoy. Core local commerce commission delivered an accelerated growth of 36.7% yoy in 2Q23 (1Q23: 25%; 2Q22: 16%), mainly attributable to a 120% yoy surge in gross transaction volume (GTV) of the in-store business, and recovery of ARPU for food delivery. Meituan Instashopping maintained robust growth trajectory, with daily order volume peaking at 11m for the second time in May while annual active merchants elevated by over 30% yoy. Online marketing revenue ramped up 41% yoy.
- New initiatives and others (NIO).** The NIO segment's revenue grew 18% yoy to Rmb16.8b in 2Q23. Operating loss narrowed by 21% yoy on a sequential basis to Rmb5b, while operating margin improved to -32%, primarily attributable to optimised pricing and product management capabilities.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	179,128	219,955	271,241	339,388	400,480
EBITDA	(14,695)	7,298	15,978	22,596	49,099
Operating profit	(23,127)	(1,961)	6,719	13,855	36,845
Net profit (rep./act.)	(23,536)	(2,826)	6,936	13,787	38,530
Net profit (adj.)	(15,572)	8,392	26,340	35,447	55,402
EPS (Fen)	(257.9)	136.3	425.7	570.0	886.5
PE (x)	n.m.	95.3	30.5	22.8	14.7
P/B (x)	6.2	6.2	5.2	4.2	3.5
EV/EBITDA (x)	n.m.	110.0	50.2	35.5	16.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.1)	(1.3)	2.6	4.1	9.6
Net debt/(cash) to equity (%)	(6.9)	(0.8)	(5.5)	(7.0)	(6.5)
Interest cover (x)	(25.1)	7.5	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	4.9	8.0	18.4
Consensus net profit	-	-	18,985	31,728	47,332
UOBKH/Consensus (x)	-	-	1.39	1.12	1.17

Source: Meituan, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	HK\$140.00
Target Price	HK\$210.00
Upside	+50.0%
(Previous TP)	HK\$205.00)

COMPANY DESCRIPTION

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

STOCK DATA

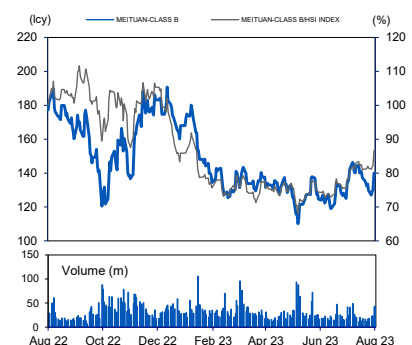
GICS sector	Consumer Discretionary
Bloomberg ticker:	3690 HK
Shares issued (m):	5,637.6
Market cap (HK\$m):	873,900.0
Market cap (US\$m):	111,449.8
3-mth avg daily t'over (US\$m):	421.4
Price Performance (%)	

52-week high/low HK\$190.80/HK\$110.20

1mth	3mth	6mth	1yr	YTD
12.0	7.4	4.2	(14.7)	(19.9)

Major Shareholders	%
BlackRock Inc	5.9
Baillie Gifford & Co	4.8
Vanguard Group Inc	4.6
FY23 NAV/Share (Rmb)	25.17
FY23 Net Cash/Share (Rmb)	1.65

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

Takeaways from post-earnings call with management:

- In 3Q23, core local commerce revenue is guided to surge 22-23% yoy to Rmb56.5b-57b**, while operating margin of its core local commerce segment should be at 17-18%, primarily attributable to a decline in delivery costs.
 - Meituan expects FD revenue to see high-teens yoy growth in 3Q23** and operating margin to remain stable. FD revenue growth is guided to be 2ppt lower than FD order volume growth, as pressured by increased subsidies and a yoy decline in average order value (AOV), but is partially offset by yoy growth in ad monetisation rate. FD operating margin is guided to remain flattish yoy in 3Q23.
 - Meituan Instashopping revenue and order volume growth is guided to remain flattish yoy in 2Q23**. Meanwhile, operating loss is expected to broaden yoy to Rmb250m, due to increased investment in the distribution channel to capture demand emerging from strong seasonality. As Meituan saw 3m order volume on Chinese Valentine's Day, the company is confident in achieving the target of an average monthly order volume of 10m by 2025.
- ISHT revenue is expected to see low-thirties yoy revenue growth in 3Q23**, as bolstered by the release of pent-up demand. In-store, hotel & travel (ISHT) GTV is expected to surge 90% yoy and is worth noting that two-year CAGR will accelerate meaningfully from 28% in 2Q23 to 50% in 3Q23. ISHT's lower revenue growth vs GTV growth is attributed to moderated ad recovery and a lower monetisation rate led by the implementation of various strategies. Operating margin of the ISHT segment is forecasted to remain flattish sequentially at 30-35% during 3Q23.
- Meituan expects NIO revenue to grow 18% yoy in 2Q23**. Meanwhile, operating loss should maintain at Rmb5.2b. Meituan Select's operating loss is expected to remain flattish sequentially at Rmb5b.

FORWARD EV/SALES BAND



Source: UOB Kay Hian, Bloomberg

EARNINGS REVISION/RISK

- We maintain our 2023 revenue forecasts largely unchanged. We expect Meituan to deliver adjusted net profit of Rmb26.3b in 2023, or 9.7% net margin.
- Risks:** a) Challenging macro environment, b) stiffer competition with Douyin and Ele.me, and c) achieving profitability at a slower-than-expected rate in new business initiatives.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of HK\$210.00**, given that we roll our valuation forecast base to the next 12 months and higher profitability. Our target price implies 3.9x 2023F forward EV/sales, below its three-year historical mean of 4.7x. We remain cautiously optimistic for Meituan given robust recovery trajectory in the ISHT segment coupled with stiffer business competition in the FD business with its competitive rival Douyin.

SHARE PRICE CATALYST

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

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

2023-24F SOTP Valuation	2023-24F Rev. (US\$m)	2023-24F NOPAT (US\$m)	Implied EV / Rev.	PE	Valuation to Meituan 2023-24F (US\$m)	2023-24F Val. (HK\$m)	2023-24F Val.Per share (HK\$)
Food Delivery	23,576	2,211	2x	23x	50,856	411,525	67
In-store, hotel & travel	7,031	2,092	7x	25x	52,296	423,175	68
New initiatives	11,870	1,602	3x	24x	37,987	307,391	50
Associates/investments affiliates					4,929	39,885	6
Net cash					19,414	157,099	25
NAV					165,481	1,339,076	216
Less: holdco discount			10%		4,929	39,885	6
Fully diluted shares outstanding (m)			6,187				
					160,553	1,299,191	210

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	219,955	271,241	339,388	400,480
EBITDA	7,298	15,978	22,596	49,099
Deprec. & amort.	9,259	9,258	8,741	12,253
EBIT	(1,961)	6,719	13,855	36,845
Total other non-operating income	0	0	0	0
Associate contributions	36	36	36	36
Net interest income/(expense)	(971)	342	342	2,435
Pre-tax profit	(2,896)	7,097	14,232	39,316
Tax	70	(160)	(446)	(786)
Minorities	0	0	0	0
Net profit	(2,826)	6,936	13,787	38,530
Net profit (adj.)	8,392	26,340	35,447	55,402

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	22,201	62,469	96,067	135,567
Other LT assets	79,134	75,805	79,572	82,454
Cash/ST investment	20,159	27,518	32,489	33,926
Other current assets	122,987	150,299	164,438	175,515
Total assets	244,481	316,091	372,567	427,462
ST debt	17,562	17,562	17,562	17,562
Other current liabilities	58,868	83,381	103,023	119,388
LT debt	1,549	1,549	1,549	1,549
Other LT liabilities	37,796	37,696	37,696	37,696
Shareholders' equity	128,762	153,862	190,697	229,227
Minority interest	(56)	(56)	(56)	(56)
Total liabilities & equity	244,481	316,091	372,567	427,462

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	11,411	28,654	35,272	54,296
Pre-tax profit	(2,896)	7,097	14,232	39,316
Tax	70	(160)	(446)	(786)
Deprec. & amort.	9,259	9,258	8,741	12,253
Working capital changes	(4,541)	212	2,659	3,513
Other operating cashflows	9,520	12,247	10,085	0
Investing	(14,714)	(36,294)	(45,300)	(52,859)
Capex (growth)	(35,267)	(43,463)	(50,832)	(59,358)
Investments	0	0	0	0
Proceeds from sale of assets	(7,591)	0	0	0
Others	28,145	7,169	5,532	6,499
Financing	(9,990)	15,000	15,000	0
Dividend payments	0	0	0	0
Issue of shares	5,522	15,000	15,000	0
Proceeds from borrowings	(4,674)	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(10,839)	0	0	0
Net cash inflow (outflow)	(13,292)	7,359	4,971	1,436
Beginning cash & cash equivalent	32,513	20,159	27,518	32,489
Changes due to forex impact	938	0	0	0
Ending cash & cash equivalent	20,159	27,518	32,489	33,926

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	3.3	5.9	6.7	12.3
Pre-tax margin	(1.3)	2.6	4.2	9.8
Net margin	(1.3)	2.6	4.1	9.6
ROA	n.a.	2.5	4.0	9.6
ROE	n.a.	4.9	8.0	18.4
Growth				
Turnover	22.8	23.3	25.1	18.0
EBITDA	n.a.	118.9	41.4	117.3
Pre-tax profit	n.a.	n.a.	100.6	176.2
Net profit	n.a.	n.a.	98.8	179.5
Net profit (adj.)	n.a.	213.9	34.6	56.3
EPS	n.a.	212.3	33.9	55.5
Leverage				
Debt to total capital	12.9	11.1	9.1	7.7
Debt to equity	14.8	12.4	10.0	8.3
Net debt/(cash) to equity	(0.8)	(5.5)	(7.0)	(6.5)
Interest cover (x)	7.5	n.a.	n.a.	n.a.

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