

## COMPANY UPDATE

### Meituan (3690 HK)

4Q23 Preview: Pressured Margin Given Persisting Headwinds And Competition

Despite the solid consumption momentum of Spring Festival 2024, we remain cautious on Meituan moving into 2024, as we see a few potential downside risks including: a) shrinking operating margin in ISHT due to aggressive competition from Douyin, b) moderating FD order volume growth, and c) a lukewarm macro environment. We saw a shift in the valuation methodology for Meituan from SOTP to PE due to an overall slower revenue growth. Downgrade to HOLD and lower our target price to HK\$70.00.

#### WHAT'S NEW

- **Competition unlikely to ease in 2024.** We think the fierce industry competition is likely to continue in 2024. Douyin's consumer services have expanded in to over 370 cities and transaction value had reached about Rmb400b in 2023, of which gross transaction value (GTV) of Douyin's local life is estimated to be close to one-third of Meituan's GTV. During the Chinese New Year holidays (9 Feb-15 Feb 24), the daily consumption scale of local consumer services of Douyin surged by 153% yoy vs Meituan who recorded growth of 34% yoy. We expect Douyin's local life strategy to stay aggressive into 2024. In addition, other players like Pinduoduo and Kuaishou did not slower their steps into this high-margin in-store business as well. We believe the increasing competition will continue to lower Meituan's profitability. Therefore, we forecast Meituan's in-store revenue to grow 16% in 2024 and in-store adjusted operating margin to 34% in 2024 from 38% in 2023.
- **Slower order growth and falling ASP of food delivery business.** Due to consumption downgrade and higher revenue contribution from lower-average order value (AOV) initiatives such as Pinhaofan, we estimate AOV to continue to drop by 3% yoy in 2024. We forecast FD volumes to grow 16% in 2024, or 61m daily orders with unit EBIT of Rmb1.03 compared with Rmb1.1 in 2023 a result of increasing rider cost and subsidy. We expect FD revenue to jump 16% yoy while operating profit to remain flattish yoy in 2024.
- **4Q23/2024 profitability to remain under pressure.** We forecast Meituan's 4Q23 revenue growth to moderate to 19% yoy (vs 4Q22: 21% yoy). In 4Q23, we expect core local commerce revenue to rise 24% yoy to Rmb53.9b, and operating profit of core local commerce to drop 4% yoy to Rmb7b. We foresee non-GAAP net margin narrowing by 3ppt/1ppt sequentially to 4.5%/8.3% in 4Q23/2024 respectively.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	179,128	219,955	274,657	318,072	364,294
EBITDA	(14,695)	3,438	22,367	25,056	38,181
Operating profit	(23,127)	(5,820)	14,808	16,652	28,805
Net profit (rep./act.)	(23,535)	(6,685)	13,808	14,535	25,106
Net profit (adj.)	(15,572)	2,827	24,487	26,396	39,268
EPS (Fen)	(257.9)	45.9	396.9	427.0	634.0
PE (x)	n.m.	145.8	16.9	15.7	10.6
P/B (x)	3.2	3.2	2.9	2.6	2.3
EV/EBITDA (x)	n.m.	109.8	16.9	15.1	9.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(13.1)	(3.0)	5.0	4.6	6.9
Net debt/(cash) to equity (%)	(6.9)	(0.8)	(15.1)	(25.7)	(37.6)
Interest cover (x)	(25.1)	3.5	30.6	n.a.	n.a.
ROE (%)	n.a.	n.a.	10.2	9.7	14.8
Consensus net profit	-	-	21,808	29,961	44,909
UOBKH/Consensus (x)	-	-	1.12	0.88	0.87

Source: Meituan, Bloomberg, UOB Kay Hian

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

## HOLD

(Downgraded)

Share Price	HK\$72.75
Target Price	HK\$70.00
Upside	-3.8%
(Previous TP)	HK\$125.00)

#### 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):	5,640.5
Market cap (HK\$m):	454,324.6
Market cap (US\$m):	58,086.6
3-mth avg daily t'over (US\$m):	444.0

#### Price Performance (%)

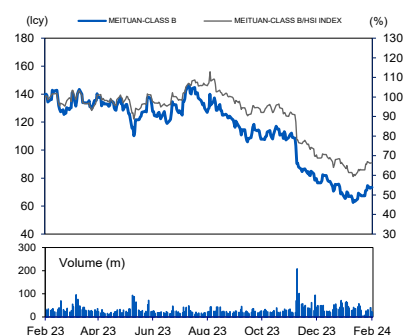
52-week high/low HK\$146.30/HK\$62.55

1mth	3mth	6mth	1yr	YTD
6.0	(32.2)	(44.0)	(49.5)	(11.2)

#### Major Shareholders

	%
Crown Holdings Asia	8.7
BlackRock Inc	5.6
Baillie Gifford & Co	4.8
FY24 NAV/Share (Rmb)	25.21
FY24 Net Cash/Share (Rmb)	6.32

#### 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

- a) **Food delivery (FD).** Meituan expects 4Q23 FD revenue growth to decelerate slightly from 3Q23, pressured by increased subsidies and a yoy decline in AOV due to full recovery of SME merchants and decline in long-distance and family orders. FD operating profit per transaction is guided to elevate at high single-digit yoy in 4Q23 while FD operating profit yoy growth will decelerate marginally from 3Q23.
- b) **Instashopping revenue and order volume growth guided to remain flattish yoy in 4Q23.** Two-year CAGR is forecasted at 45% in 4Q23, moderating marginally from 50% due to a decline in order volume and AOV, partially offset by heightened ad monetisation rate. Meanwhile, operating loss is expected to broaden yoy due to increased investment in the distribution channel to capture demand which translates to a sequential decline in ISHT's operating profit margin.
- c) **In-store, hotel, travel (ISHT).** ISHT's revenue in 4Q23 is expected to surge 60% yoy, on the back of solid tourism demand. ISHT's lower revenue growth vs GTV growth is attributed to moderated ad recovery and a lower monetisation rate. ISHT's GTV in 4Q23 is expected to soar 50% yoy, moderating from 90% yoy in 3Q23. ISHT's operating profit is estimated to grow by high single digits yoy during 4Q23, translating to a sequential decline in operating margin due to increased investment. We forecast ISHT's operating margin to narrow 11ppt/12ppt yoy in 4Q23/1Q24 respectively as the persisting competition will impose pricing pressure on Meituan.

#### STOCK IMPACT

- **New initiatives (NIO).** We expect NIO revenue to grow 6% yoy in 4Q23, mainly dragged by removal of 1P model of the car-hailing business, while its adverse impact is expected to sustain into 1H24. Meanwhile, operating loss should remain at Rmb5b, mainly attributed to Meituan Select. However, Meituan Select's operating loss is expected to contract sequentially to 1Q23 levels.
- **Solid 1Q24 anchored by resilient Spring Festival travel data.** According to Ministry of Culture and Tourism (MCT), during the eight-day Spring Festival period, the number of domestic tourists expanded 34.4% yoy and 19% vs 2019's level to 474m. Domestic tourism revenue rose 47.3% yoy and 7.7% vs 2019's level to Rmb632.7b. The average expenditure per domestic tourist during the festival grew 9.4% yoy to Rmb1,334.8. According to VAT invoice data from China's State Taxation Administration, during the Spring Festival, accommodation and catering services revenue jumped by 25% and 32% yoy, respectively.
- **Share repurchase plan up to US\$1b; organisational overhaul.** On 29 November, Meituan announced that starting from 1 Dec 23, it will repurchase its shares for US\$1b. On 2 Feb 24, Meituan's CEO Wang Xing announced a new organisational restructuring plan to integrate core local commerce, with major adjustments including the integration of the Home Delivery Business Group, In-Store Business Group, Meituan Platform, and Basic Research and Development, all reporting to Meituan's Senior Vice President Wang Puzhong.

#### EARNINGS REVISION/RISK

- We lowered our 4Q23/2024 revenue estimates by 1%/4% respectively resulting from increased subsidies and decline in AOV given weaker rider supply during the winter season. We forecast 25%/16% revenue growth in 2023/24 respectively. Our 2023/24 non-GAAP net margin forecast is 9%/8.3%.
- **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

- **Downgrade to HOLD with target price of HK\$70.00** based 15x 2024 PE valuation, in line with our covered internet peers. Our target price also implies 1x 2024 forward EV/sales, below its three-year historical mean of 4.5x. Meituan is currently trading at 0.9x 12-month forward EV/sales, 1.5SD below its historical mean.

#### 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)	2022	2023F	2024F	2025F
Net turnover	219,955	274,657	318,072	364,294
EBITDA	3,438	22,367	25,056	38,181
Deprec. & amort.	9,259	7,559	8,404	9,376
EBIT	(5,820)	14,808	16,652	28,805
Total other non-operating income	0	0	0	0
Associate contributions	36	(200)	(200)	(200)
Net interest income/(expense)	(971)	(732)	255	932
<b>Pre-tax profit</b>	<b>(6,756)</b>	<b>13,876</b>	<b>16,707</b>	<b>29,536</b>
Tax	70	(68)	(2,172)	(4,430)
Minorities	0	0	0	0
<b>Net profit</b>	<b>(6,685)</b>	<b>13,808</b>	<b>14,535</b>	<b>25,106</b>
Net profit (adj.)	2,827	24,487	26,396	39,268

**BALANCE SHEET**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	22,201	23,321	24,573	26,679
Other LT assets	79,134	81,868	85,743	89,244
Cash/ST investment	20,159	40,687	59,532	87,563
Other current assets	122,987	124,092	125,340	127,568
<b>Total assets</b>	<b>244,481</b>	<b>269,969</b>	<b>295,187</b>	<b>331,055</b>
ST debt	17,562	17,562	17,562	17,562
Other current liabilities	58,868	70,548	81,231	91,992
LT debt	1,549	1,549	1,549	1,549
Other LT liabilities	37,796	37,796	37,796	37,796
Shareholders' equity	128,762	142,569	157,105	182,211
Minority interest	(56)	(56)	(56)	(56)
<b>Total liabilities &amp; equity</b>	<b>244,481</b>	<b>269,969</b>	<b>295,187</b>	<b>331,055</b>

**CASH FLOW**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>11,411</b>	<b>30,484</b>	<b>30,335</b>	<b>41,017</b>
Pre-tax profit	(6,756)	13,876	16,707	29,536
Tax	70	(68)	(2,172)	(4,430)
Deprec. & amort.	9,259	7,559	8,404	9,376
Working capital changes	(813)	8,272	6,556	6,214
Other operating cashflows	9,651	845	840	321
<b>Investing</b>	<b>(14,714)</b>	<b>(10,324)</b>	<b>(11,491)</b>	<b>(12,985)</b>
Capex (growth)	(5,731)	(8,614)	(9,591)	(10,892)
Investments	(187,401)	0	0	0
Proceeds from sale of assets	176,788	0	0	0
Others	1,631	(1,710)	(1,900)	(2,093)
<b>Financing</b>	<b>(9,990)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	25,845	0	0	0
Loan repayment	(32,704)	0	0	0
Others/interest paid	(3,131)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(13,292)</b>	<b>20,160</b>	<b>18,844</b>	<b>28,032</b>
Beginning cash & cash equivalent	32,516	20,161	40,687	59,532
Changes due to forex impact	938	367	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>20,159</b>	<b>40,687</b>	<b>59,532</b>	<b>87,563</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	1.6	8.1	7.9	10.5
Pre-tax margin	(3.1)	5.1	5.3	8.1
Net margin	(3.0)	5.0	4.6	6.9
ROA	n.a.	5.4	5.1	8.0
ROE	n.a.	10.2	9.7	14.8
<b>Growth</b>				
Turnover	22.8	24.9	15.8	14.5
EBITDA	n.a.	550.5	12.0	52.4
Pre-tax profit	n.a.	n.a.	20.4	76.8
Net profit	n.a.	n.a.	5.3	72.7
Net profit (adj.)	n.a.	766.1	7.8	48.8
EPS	n.a.	764.4	7.6	48.5
<b>Leverage</b>				
Debt to total capital	12.9	11.8	10.8	9.5
Debt to equity	14.8	13.4	12.2	10.5
Net debt/(cash) to equity	(0.8)	(15.1)	(25.7)	(37.6)
Interest cover (x)	3.5	30.6	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