

# Meituan (3690 HK)

## 1Q results pointed to a better full-year earnings growth outlook

Meituan reported (6 Jun) its 1Q24 results: revenue was RMB73.3bn, up 25% YoY, 4/6% higher than our estimate/Bloomberg consensus estimate. Adjusted net profit during 1Q24 reached RMB7.5bn, better than our estimate/consensus at RMB5.5bn/5.8bn, due to both better-than-expected operating profit (OP) generated from core local commerce (CLC) business, aided by better-than-expected order volume growth of on-demand delivery business, and narrower-than-expected loss generated from new business, in particular the narrower-than-expected loss generated from Meituan Select. We are more positive on Meituan's 2024E net profit growth prospects, given its likely better unit economics (UE) outlook for on-demand delivery business with the optimization of subsidies and increase in monetization from advertising business, as well as potentially greater loss reduction from Meituan Select. We lift our DCF-based TP by 2% to HK\$157.8 (was HK\$155.2), translating into 22.8x 2024E P/E (non-IFRS); maintain BUY.

■ **Increase in ads monetization and user subsidy optimization likely to drive better-than-expected on-demand delivery OP growth.** CLC segment revenue/OP was RMB54.6bn/9.7bn in 1Q24, up 27%/3% YoY, 8%/15% better than consensus. Segmental operating margin was also 1.3/1.1ppt better than our forecast/consensus, thanks to: 1) a beat on on-demand delivery transaction volume; 2) better-than-expected UE of both food delivery and Instashopping, aided by increased ads monetization and user subsidy optimization; 3) a beat on in-store OP aided by more benign-than-expected industry competition in 1Q. To account for the ongoing user subsidy optimization and increased ads monetization, we lift 2024E CLC OP forecast by 2% to RMB45.0bn. For 2Q24, we forecast CLC segment to ink revenue/OP of RMB59.8bn/12.5bn, up 17%/12% YoY, which translates into an OPM of 20.9% (2Q23: 21.8%).

■ **Meituan Select loss reduction exceeding expectation and better full-year outlook.** Revenue generated from new initiatives was RMB18.7bn in 1Q24, up 19% YoY, 2% ahead of both our forecast and consensus estimates. Operating loss for the segment was RMB2.8bn, narrower than both consensus and our estimate of RMB3.2bn, implying a loss margin of 14.8% (1Q23: loss margin of 32.0%), driven by narrower-than-expected loss generated from Meituan Select, thanks to increases in average order value, reduction of user subsidy, and shutdown of underperforming warehouses, as well as better-than-expected OP contribution from other new businesses. Operating loss generated from Meituan Select was RMB2.9bn, narrowed from RMB4.5bn/RMB4.4bn in 1Q23/4Q23, and was better than our estimate at RMB3.1bn. For 2Q24, we forecast Meituan Select to see further loss reduction both on QoQ and YoY basis to RMB2.1bn (2Q23: RMB5.0bn), and other new businesses to maintain operating profitability. On a combined basis, we forecast total new businesses' segmental operating loss of RMB2.0bn (2Q23: RMB5.2bn) in 2Q24E. For the full year, we are now forecasting Meituan Select to book operating loss of RMB9.6bn (previous forecast: RMB10.9bn), which points to an overall better full-year earnings growth outlook. We are now forecasting Meituan to achieve 66% YoY growth (previous forecast: 49%) in non-IFRS net income to RMB38.5bn for 2024E, driven by solid OP growth of CLC, and loss reduction of Meituan Select.

**BUY (Maintain)**

**Target Price** **HK\$157.80**  
 (Previous TP) HK\$155.20  
**Up/Downside** **40.0%**  
**Current Price** **HK\$112.70**

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### Stock Data

Mkt Cap (HK\$ mn)	693,848.3
Avg 3 mths t/o (HK\$ mn)	3,990.3
52w High/Low (HK\$)	146.30/62.55
Total Issued Shares (mn)	6156.6

Source: FactSet

### Shareholding Structure

Huai River Investment Limited	10.1%
Crown Holdings Asia Limited	7.9%

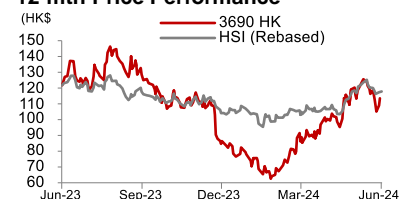
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.3%	-5.8%
3-mth	27.1%	13.0%
6-mth	30.4%	16.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Earnings Summary**

<b>(YE 31 Dec)</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
<b>Revenue (RMB mn)</b>	219,955	276,745	332,703	387,219	437,008
YoY growth (%)	22.8	25.8	20.2	16.4	12.9
<b>Net profit (RMB mn)</b>	(6,686.1)	13,856.1	29,941.9	40,207.2	52,745.0
<b>Adjusted net profit (RMB mn)</b>	2,827.2	23,253.4	38,500.0	49,365.6	62,622.6
YoY growth (%)	na	722.5	65.6	28.2	26.9
<b>Adj. NP (consensus; RMB mn)</b>			32,338	46,715	60,415
<b>EPS (Adjusted) (RMB)</b>	0.46	3.74	6.14	7.79	9.78
<b>P/E (x)</b>	ns	46.9	21.9	16.5	12.7
<b>ROE (%)</b>	(5.3)	9.9	18.2	20.0	20.5

Source: Company data, Bloomberg, CMBIGM estimates

## Revision of forecast and valuation

Figure 1: Meituan: quarterly financial results and consensus comparison

(RMB mn)	1Q23	2Q23	3Q23	4Q23	1Q24	Consensus	Diff (%)
<b>Revenue</b>	<b>58,617</b>	<b>67,965</b>	<b>76,467</b>	<b>73,696</b>	<b>73,276</b>	<b>68,996</b>	<b>6.2%</b>
YoY	26.7%	33.4%	22.1%	22.6%	25.0%		
<u>By segment</u>							
CLC	42,885	51,200	57,691	55,131	54,626	50,743	7.7%
YoY	25.5%	39.2%	24.5%	26.8%	27.4%		
New initiatives	15,732	16,765	18,776	18,565	18,650	18,227	2.3%
YoY	30.1%	18.4%	15.3%	11.5%	18.5%		
<b>Operating profit</b>	<b>3,586</b>	<b>4,713</b>	<b>3,359</b>	<b>1,758</b>	<b>5,209</b>	<b>3,975</b>	<b>31.1%</b>
<u>By segment</u>							
CLC	9,445	11,139	10,096	8,019	9,699	8,440	14.9%
New initiatives	(5,029)	(5,193)	(5,112)	(4,833)	(2,757)	(3,230)	-14.7%
<b>Non-IFRS net profit</b>	<b>5,491</b>	<b>7,660</b>	<b>5,727</b>	<b>4,375</b>	<b>7,488</b>	<b>5,786</b>	<b>29.4%</b>
OPM (%)	6.1%	6.9%	4.4%	2.4%	7.1%	5.8%	1.3 ppt
CLC	22.0%	21.8%	17.5%	14.5%	17.8%	16.6%	1.1 ppt
New initiatives	-32.0%	-31.0%	-27.2%	-26.0%	-14.8%	-17.7%	2.9 ppt
Non-IFRS NPM (%)	9.4%	11.3%	7.5%	5.9%	10.2%	8.4%	1.8 ppt

Source: CMBIGM estimates

Note: CLC - core local commerce

Figure 2: Meituan: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	
Revenue	332.7	387.2	437.0	324.6	373.4	417.5	2.5%	3.7%	4.7%
OP	32.3	46.2	61.7	29.2	45.3	58.7	10.6%	2.1%	5.3%
Non-IFRS NP	38.5	49.4	62.6	34.7	48.3	59.5	11.1%	2.1%	5.3%
OPM	9.7%	11.9%	14.1%	9.0%	12.1%	14.1%	0.7 pp	-0.2 pp	0.1 pp
Non-IFRS NPM	11.6%	12.7%	14.3%	10.7%	12.9%	14.2%	0.9 pp	-0.2 pp	0.1 pp

Source: CMBIGM estimates

## DCF-based target price of HK\$157.8

Our DCF-based target price is HK\$157.8, assuming WACC of 11.0% and terminal growth of 2.5% (both unchanged), implying 2.6x 2024E P/S and 22.8x 2024E P/E (non-IFRS).

Figure 3: Meituan: DCF valuation, WACC of 11.0%, terminal growth of 2.5%

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NPV of FCF	303,183	326,445	300,671	302,877	275,230	241,730	194,122	141,293	73,675
Discounted terminal value	386,063								
Total equity valuation	825,115								
Total equity valuation (HKDmn)	929,371								
No. of shares (diluted, mn)	6,275								
Valuation per share (HKD)	157.8								

Source: Company data, CMBIGM estimates

## Risks

- 1) Slower-than-expected on-demand order volume growth;
- 2) Industry competition to intensify;
- 3) Slower than expected loss reduction for new business.

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	179,128	219,955	276,745	332,703	387,219	437,008
Cost of goods sold	(136,654)	(158,202)	(179,554)	(204,904)	(234,377)	(260,566)
<b>Gross profit</b>	<b>42,474</b>	<b>61,753</b>	<b>97,191</b>	<b>127,799</b>	<b>152,842</b>	<b>176,442</b>
Operating expenses	(65,601)	(67,573)	(83,776)	(95,542)	(106,660)	(114,701)
SG&A expense	(49,296)	(49,517)	(67,989)	(77,505)	(87,774)	(93,995)
R&D expense	(16,676)	(20,740)	(21,201)	(22,773)	(25,046)	(26,788)
Others	370	2,683	5,414	4,736	6,160	6,083
<b>Operating profit</b>	<b>(23,127)</b>	<b>(5,820)</b>	<b>13,415</b>	<b>32,257</b>	<b>46,182</b>	<b>61,741</b>
Share of (losses)/profits of associates/JV	146	36	1,213	1,263	1,263	1,263
Interest income	546	658	819	1,106	1,216	1,904
Interest expense	(1,131)	(1,629)	(1,425)	(1,354)	(1,354)	(1,354)
Others	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>(23,566)</b>	<b>(6,756)</b>	<b>14,022</b>	<b>33,272</b>	<b>47,307</b>	<b>63,554</b>
Income tax	30	70	(165)	(3,327)	(7,096)	(10,804)
<b>After tax profit</b>	<b>(23,536)</b>	<b>(6,685)</b>	<b>13,857</b>	<b>29,945</b>	<b>40,211</b>	<b>52,750</b>
Minority interest	2	1	1	3	4	5
<b>Net profit</b>	<b>(23,538)</b>	<b>(6,686)</b>	<b>13,856</b>	<b>29,942</b>	<b>40,207</b>	<b>52,745</b>
<b>Adjusted net profit</b>	<b>(15,572)</b>	<b>2,827</b>	<b>23,253</b>	<b>38,500</b>	<b>49,366</b>	<b>62,623</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>147,829</b>	<b>143,145</b>	<b>183,116</b>	<b>215,243</b>	<b>291,772</b>	<b>337,519</b>
Cash & equivalents	32,513	20,159	33,340	39,601	82,509	90,809
Restricted cash	13,277	14,606	19,373	21,311	23,442	25,786
Inventories	682	1,163	1,305	1,543	1,639	1,808
Other current assets	101,357	107,218	129,099	152,788	184,183	219,115
<b>Non-current assets</b>	<b>92,825</b>	<b>101,336</b>	<b>109,913</b>	<b>106,214</b>	<b>105,261</b>	<b>111,371</b>
PP&E	22,814	22,201	25,978	26,822	27,323	27,817
Intangibles	31,049	30,643	30,398	31,629	31,969	32,358
Other non-current assets	38,962	48,491	53,538	47,762	45,969	51,196
<b>Total assets</b>	<b>240,653</b>	<b>244,481</b>	<b>293,030</b>	<b>321,456</b>	<b>397,033</b>	<b>448,889</b>
<b>Current liabilities</b>	<b>68,593</b>	<b>76,430</b>	<b>100,874</b>	<b>104,309</b>	<b>130,352</b>	<b>97,519</b>
Short-term borrowings	11,565	17,562	19,322	25,719	26,298	2,698
Account payables	26,117	29,812	46,779	38,656	56,923	47,065
Tax payable	30,911	29,056	34,774	39,934	47,131	47,756
<b>Non-current liabilities</b>	<b>46,504</b>	<b>39,345</b>	<b>40,199</b>	<b>40,272</b>	<b>40,610</b>	<b>62,844</b>
Long-term borrowings	12,220	1,549	610	812	830	23,269
Other non-current liabilities	34,284	37,796	39,589	39,460	39,780	39,575
<b>Total liabilities</b>	<b>115,097</b>	<b>115,775</b>	<b>141,073</b>	<b>144,582</b>	<b>170,962</b>	<b>160,363</b>
Share capital	0	0	0	0	0	0
Capital surplus	311,221	316,743	325,579	320,550	329,532	339,233
Retained earnings	(182,742)	(189,466)	(175,617)	(145,672)	(105,462)	(52,712)
Other reserves	(2,867)	1,484	2,051	2,051	2,051	2,051
<b>Total shareholders equity</b>	<b>125,613</b>	<b>128,762</b>	<b>152,013</b>	<b>176,929</b>	<b>226,122</b>	<b>288,572</b>
Minority interest	(57)	(56)	(57)	(54)	(51)	(46)
<b>Total equity and liabilities</b>	<b>240,653</b>	<b>244,481</b>	<b>293,030</b>	<b>321,456</b>	<b>397,033</b>	<b>448,889</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>(23,566)</b>	<b>(6,756)</b>	<b>13,857</b>	<b>29,945</b>	<b>40,211</b>	<b>52,750</b>
Depreciation & amortization	8,928	9,730	7,820	8,528	9,026	9,378
Change in working capital	7,209	(813)	19,557	(13,004)	23,502	(16,146)
Others	3,418	9,250	(713)	8,384	8,983	9,702
<b>Net cash from operations</b>	<b>(4,011)</b>	<b>11,411</b>	<b>40,522</b>	<b>33,853</b>	<b>81,723</b>	<b>55,683</b>
<b>Investing</b>						
Capital expenditure	(9,010)	(5,731)	(9,963)	(9,582)	(9,479)	(9,824)
Net proceeds from disposal of short-term investments	(44,744)	(7,782)	(25,062)	(24,278)	(29,550)	(35,965)
Others	(4,737)	(1,201)	10,361	(333)	(387)	(437)
<b>Net cash from investing</b>	<b>(58,492)</b>	<b>(14,714)</b>	<b>(24,664)</b>	<b>(34,193)</b>	<b>(39,416)</b>	<b>(46,226)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	15,768	(6,859)	821	6,599	597	(1,161)
Proceeds from share issues	45,286	0	0	0	0	0
Others	17,544	(3,131)	(3,602)	3	4	5
<b>Net cash from financing</b>	<b>78,598</b>	<b>(9,990)</b>	<b>(2,781)</b>	<b>6,602</b>	<b>601</b>	<b>(1,157)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	17,094	32,513	20,159	33,340	39,601	82,509
Exchange difference	(675)	938	104	0	0	0
Others	0	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>32,513</b>	<b>20,159</b>	<b>33,340</b>	<b>39,601</b>	<b>82,509</b>	<b>90,809</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	56.0%	22.8%	25.8%	20.2%	16.4%	12.9%
Gross profit	24.7%	45.4%	57.4%	31.5%	19.6%	15.4%
Operating profit	na	na	na	140.5%	43.2%	33.7%
Net profit	na	na	na	116.1%	34.3%	31.2%
Adj. net profit	na	na	722.5%	65.6%	28.2%	26.9%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	23.7%	28.1%	35.1%	38.4%	39.5%	40.4%
Operating margin	(12.9%)	(2.6%)	4.8%	9.7%	11.9%	14.1%
Adj. net profit margin	(8.7%)	1.3%	8.4%	11.6%	12.7%	14.3%
Return on equity (ROE)	(21.1%)	(5.3%)	9.9%	18.2%	20.0%	20.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)	(0.9)
Current ratio (x)	2.2	1.9	1.8	2.1	2.2	3.5
Receivable turnover days	2.8	3.1	3.1	2.7	2.5	2.4
Inventory turnover days	1.5	2.1	2.5	2.5	2.4	2.4
Payable turnover days	35.7	37.0	40.5	40.5	40.5	40.5
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	ns	ns	46.9	21.9	16.5	12.7
P/E (diluted)	ns	ns	46.9	21.8	16.4	12.6
P/B	5.1	5.0	4.3	3.7	2.9	2.3
P/CFPS	ns	113.3	21.1	26.5	8.9	14.0
EV	(75,904.1)	(73,919.0)	(109,990.8)	(135,868.8)	(209,859.5)	(257,630.6)
EV/Sales	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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