



Pindao Fan: New food delivery model, 'group buying' improves efficiency

Huatai Research

In-depth Research

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Internet

Group buying in food delivery, Pindao Fan brings a new efficiency model to Meituan

Meituan's Pindao Fan has introduced a new business model in food delivery through 'group buying', using a 'quantity for price' approach combined with centralized platform delivery to bring higher efficiency to users, merchants, and delivery riders, and enhance platform efficiency. We maintain 24-26 year revenue forecast at 3248/3837/4501 billion yuan, yoy+17.4%/18.1%/17.3%, forecast non-IFRS net profit attributable to 377/534/700 billion yuan, yoy+62.1%/41.6%/31.1%, based on the closing price on July 7 and August 8 corresponding to PE ratios of 17.6/12.3/9.4 for 24-26 years, assuming a exchange rate (RMB against HKD) of 1.09, target price based on the SOTP model is 149.5 Hong Kong dollars, maintaining a "buy" rating.

Cost-effective consumption and the trend of sinking market drive the new trend of takeout. Meituan has launched "Pinhao Fan". In the post-epidemic economic recovery, the catering market has shown strong resilience. With the low base effect in 2022, the Chinese takeout market is expected to grow by +45% year-on-year in 2023, with the share of catering rising from 3.9% in 2015 to 28.3% in 2023, highlighting its importance. At the same time, the trend of dining consumption is gradually shifting towards high cost performance. According to the Red Catering Industry Research Institute, the per capita dining consumption amount in 2023 is 42.6 yuan, a decrease from 43.2 yuan in 2022. According to Quest Mobile, in April 2023, the penetration rate of takeaway services in tier 1 cities was 21.5%, while in tier 3 cities it was less than 15%. There is a large penetration space in the sinking market and it is beginning to take over user growth. Under the trend of cost performance and the sinking trend of takeout, in April 2022, Meituan launched 'Pinhao Fan'. By January 2024, it had rapidly expanded in tier 1 and new tier cities.

Enhance meeting the needs of segmented audiences, innovating in the supply and delivery models

The innovation of Pindao's model lies in: 1) Pindao negotiates with merchants on the supply side to set low-margin supply prices, merchants cooperate to produce low-priced products in exchange for volume, the platform presents specific products and gives more traffic to the lowest-priced products, thereby helping small and medium-sized merchants acquire customers and meet users' desire for low prices. 2) Pindao achieves higher delivery efficiency on the delivery side by concentrating deliveries to destinations.

By encouraging users to group orders, riders adopt a 'smooth running mode' for delivery, completing 2-3 times the number of orders in the same time as a regular rider, thus improving delivery efficiency. According to our calculations, under the Pindao model, the platform's delivery time per order decreases by 46%, and the average delivery cost per order decreases from 7 yuan to 3.7 yuan.

The transfer of low-end customers brings higher profit space, exploring UE back to normal under the scale effect

The impact of Pindao Fan on Meituan's takeaway is reflected in two aspects: significant improvement in low-end customer order UE and optimized order structure, helping Meituan's takeaway achieve stable and long-term growth in order volume. The growth in order volume includes the introduction of new customers sensitive to low prices, as well as the migration of consumption habits and the increase in frequency among existing users. Currently, the contribution from the improvement in profitability of low-end customer orders is more prominent. It is expected that by 2025, the proportion of Pindao Fan's orders will reach 10%-11%, contributing to an improvement in Meituan's takeaway profitability in the range of 4.3 billion to 8.5 billion yuan. In terms of the self-sufficiency of Pindao, with the improvement of economies of scale and the refinement of Meituan's own operations, UE is still exploring. We expect Pindao to achieve a balance between average order volume of 4-5 orders.

Risk Warning: Weak demand for economic recovery; Decline in takeaway demand; Intensified market competition.

Operating forecast indicators and valuation

Fiscal year	2022	2023	2024E	2025E	2026E
Operating income (RMB million)	219,955	276,745	324,784	383,686	450,124
+/-%	22.79	25.82	17.36	18.14	17.32
Net profit attributable to parent company (RMB million)	(6,686)	13,855	27,880	41,356	55,968
+/-%	(71.59)	(307.22)	101.22	48.34	35.33
EPS (RMB, latest diluted)	(1.10)	2.22	4.47	6.63	8.98
ROE (%)	(5.26)	9.87	16.12	18.78	19.89
PE (times)	(98.80)	48.75	24.23	16.33	12.07
PB (times)	5.13	4.44	3.49	2.74	2.14
EV EBITDA (times)	180.77	31.25	16.08	10.52	7.06

Source: Company announcements, Huatai Research forecasts

(Maintain) :

Buy

(HKD) :

149.50

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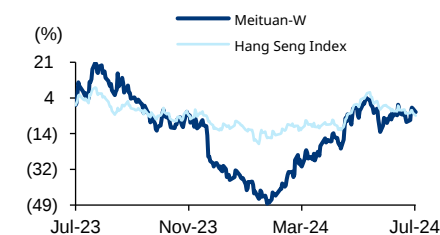
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Basic Data

Target Price (Hong Kong Dollar)	149.50
Closing Price (Hong Kong Dollar as of July 8)	117.00
Market Value (Hong Kong Dollar in millions)	727,916
6 months average daily turnover (HKD million)	3,791
52 week price range (HKD)	61.10-150.00
BVPS (RMB)	25.15

Stock price trend chart



Source: S&P



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Core investment logic

We believe that in the post-epidemic rapid recovery of the catering market, online consumption driving the sinking market of takeout high growth, Meituan's 'Group Meal' has brought a new business model, through the supply side 'quantity for price' combined with centralized platform delivery, bringing higher efficiency for users, merchants, and delivery riders, and promoting platform efficiency improvement.

The innovation of Pindao Fan's business model lies in: 1) Pindao Fan negotiates with merchants to set low-margin supply prices on the supply side, and merchants cooperate to produce low-priced products in exchange for volume. The platform presents specific products on a unit basis and gives more traffic to the lowest-priced products, helping small and medium-sized merchants acquire customers and meet users' desire for low prices. 2) Pindao Fan achieves higher delivery efficiency on the delivery side through centralized delivery to destinations. By encouraging users to group orders, and at the same time, Meituan's delivery system assigns orders from the same merchant and nearby addresses to riders, thereby improving delivery efficiency and significantly reducing average delivery costs.

We believe that the main impact of Pindao Fan on Meituan is reflected in two aspects, one is the significant improvement in low average order value (AOV) orders, and the other is the optimization of order volume structure, helping Meituan's takeaway order volume to grow steadily in the medium to long term. The growth in order volume includes the introduction of new customers who are sensitive to low prices, as well as the migration of consumption habits and the increase in frequency among existing users. We believe that the current contribution from the improvement in profitability from low AOV orders is more prominent. Under the same low AOV, Pindao Fan's loss reduction compared to the main site is 61.2%.

The sustainability of the low-price model of splicing rice has been verified, and we expect that by 2025, the proportion of splicing rice orders will reach 10%-11%. Assuming that splicing rice promotes order volume by 1%-5%, the range of improvement in Meituan's profit from splicing rice is between 44 billion -85 billion yuan.

Different views from the market

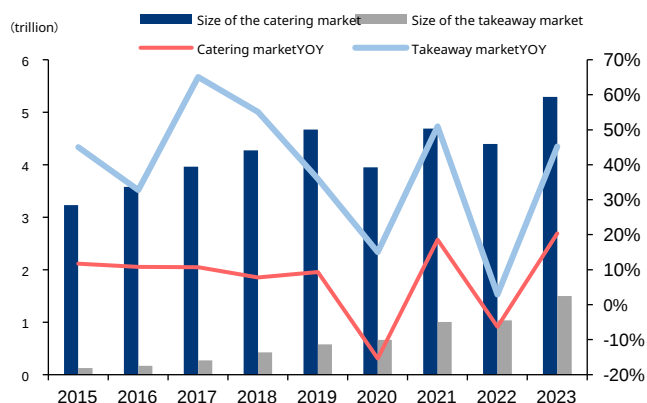
Different from the market's view that splicing rice is just a cheaper takeaway compared to the main site, we believe that splicing rice brings a new model of takeaway, where the low price is the result of the platform negotiating 'quantity for price' with merchants on the supply side and encouraging local group orders and centralized delivery on the user side, significantly reducing the average delivery cost per order. Therefore, the essence of Splicing Rice is a new model to improve the efficiency of food delivery, and it helps enhance the utility of users, merchants, and delivery riders.

Unlike the market's belief that Splicing Rice will affect Meituan's average profit per order due to the lower customer price, we believe that Splicing Rice has a dual impact on improving Meituan's overall profit by improving the low customer price and increasing the number of orders, with a more prominent contribution to profit improvement from the low customer price. We believe that under the same low customer price, Splicing Rice brings significant profit improvement through centralized delivery, so it can to a certain extent replace low customer price orders on the main platform and improve overall profitability.

Cost-effectiveness and sinking market drive high growth in takeaway, takeaway group buying emerges. Takeaway market: dual drivers of user numbers and consumption frequency.

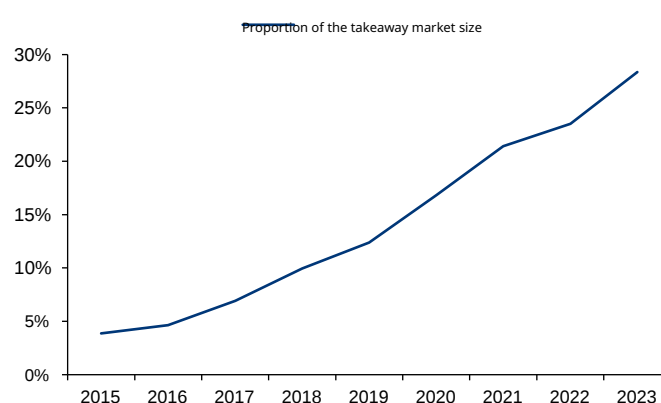
Post-epidemic catering market quickly recovers, takeaway proportion continues to rise. According to data from the National Information Center, from 2015 to 2023, the scale of China's catering market has grown from 3.23 trillion to 5.29 trillion, achieving a steady growth of CAGR +6.4%. During the period of 2020-2022, the growth rate declined year-on-year due to the epidemic, but in 2023, it achieved a year-on-year growth of +20.4%, returning to a level higher than 2019, reflecting the strong resilience of catering consumption. The scale of the food delivery market has grown from 0.13 trillion to 1.5 trillion, achieving a rapid growth with a CAGR of +36.45%; The market share in the catering industry has increased from 3.9% to 28.3%, becoming an important part of China's catering market.

Chart 1: Rapid growth of food delivery and catering market since 2023



Data source: National Information Center, Huatai Research

Chart 2: From 2015 to 2023, the market share of food delivery has increased from 3.9% to 28.3%

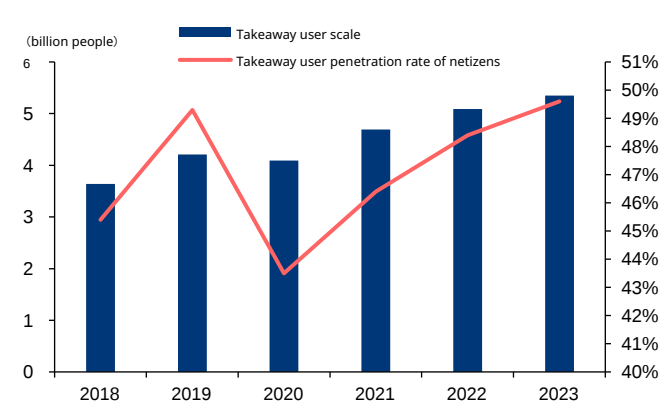


Data source: National Information Center, Huatai Research

The trend of catering consumption is shifting towards cost-effectiveness driving down the Average Order Value (AOV) of food delivery, with consumption frequency being the main driver of current order volume growth. According to the 52nd China Internet Network Development Status Statistics Report released by the China Internet Network Information Center, the number of online food delivery users increased from 3.64 billion to 5.35 billion from 2018 to 2023, with the penetration rate increasing from 45.4% to 49.6%.

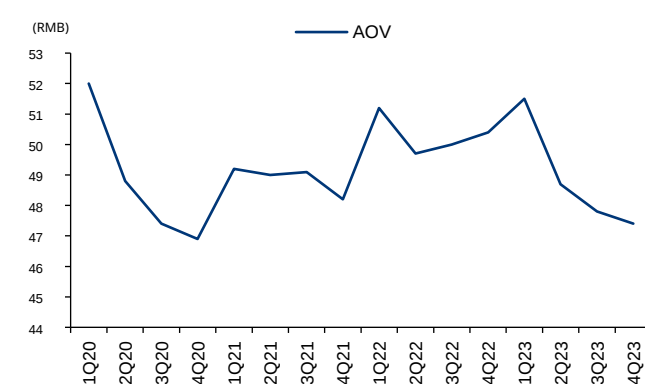
The penetration rate of online food delivery users continues to rise. According to the Red Catering Industry Research Institute, the per capita catering consumption in China in 2023 is 42.6 yuan, showing a decrease compared to 43.2 yuan in 2022. In terms of online food delivery average order value (AOV), based on Meituan's quarterly performance meetings and our calculations, Meituan's AOV fluctuates between 52 yuan and 47.4 yuan from 1Q20 to 4Q23. This is mainly due to the impact of cost-effective consumption becoming a major factor affecting the decline in AOV under the current macroeconomic expectations. In addition, we believe that the overall penetration rate of takeaway users has climbed to a relatively high level, with AOV being the main focus under the current consumption trend. In the future expansion of the takeaway market, the enrichment of consumption scenarios + the increase in consumption frequency driven by the improvement of product categories may be the main driving force for growth.

Chart3: Scale and penetration rate of takeaway users



Source: August 28, 2023, China Internet Network Information Center released the 52nd "China Internet Development Status Statistics Report", Huatai Research

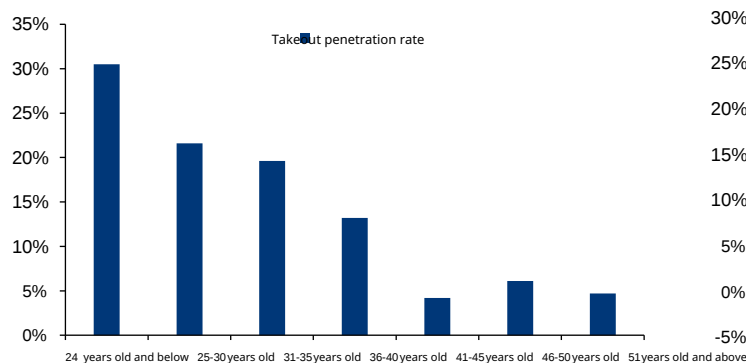
Chart 4: AOV changes in Meituan takeaway since 2020



Source of information: Meituan's quarterly public performance meetings, Huatai Research

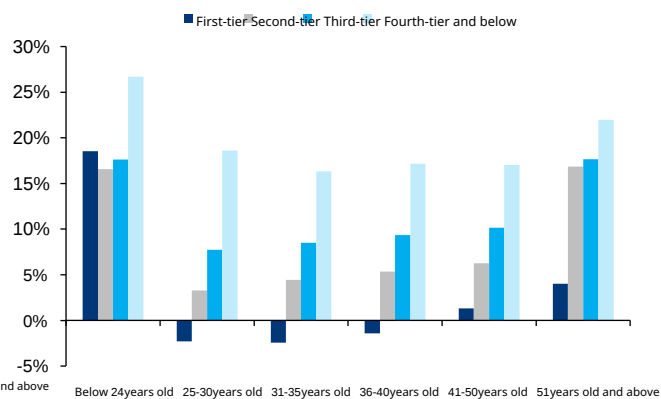
Currently, the consumption of takeout is mainly by young people, and there is growth potential in the elderly and users in lower-tier cities. According to the data from Quest Mobile in April 2023, users under 35 years old are the main consumers of takeout, mainly young urban white-collar workers and students. The higher penetration rate of takeout is mainly due to: 1) stronger independence and higher consumption ability. 2) Compared to the group over 35 years old, this age group has a higher time cost, which makes them pay more attention to the convenience of consumption and generally have the habit of online consumption. According to the '2020-2021 China Online Food Delivery Industry Development Research Report', the number of online food delivery users in fourth-tier and below cities in China has achieved a growth rate of 15%+ in each age group from 2020 to 2021; Among them, the demand growth rate of people over 51 years old in various-tier cities is the highest, showing that the demand for online food delivery is accelerating penetration into older age groups. We believe that the consumer portrait of the online food delivery market is currently dominated by young people aged 20-34, and the penetration into older age groups is accelerating, while the demand in fourth-tier and below cities is accelerating.

Chart 5 : User penetration rate of takeout in different age groups in April 2023



Source: Quest Mobile, Huatai Research

Chart 6 : Growth of takeout users in different age groups and cities from 2020 to 2021



Source: China Hotel Association jointly with Ele.me released the '2020-2021 China Takeout Industry Development Research Report' in 2021, Huatai Research

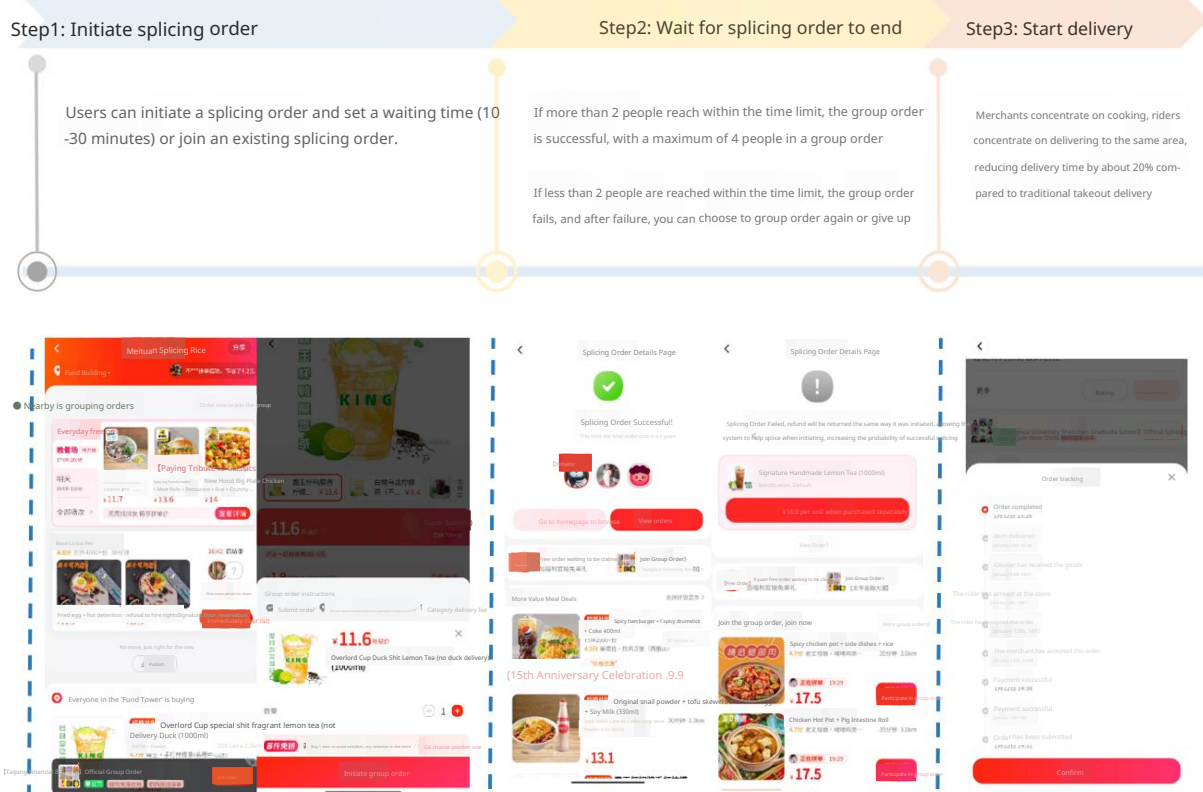
Splicing Rice: Takeout group buying, aiming to improve delivery efficiency and achieve low single customer transfer

Splicing Rice: Successfully group order with 2-4 people within the specified time. The process of splicing rice can be compared to Pinduoduo, specifically "popular meal recommendations + splicing order + unified delivery": ① Users initiate a splicing order and set a waiting time (not exceeding 30 minutes) or join an existing splicing order; ② If 2 or more people complete the order within the splicing waiting time, the splicing order is successful, with a maximum of 4 people;

If 2 people do not arrive within the time limit, the splicing order fails, and users can try again or give up the splicing order ; ③ When the splicing order is successful, the waiting time for delivery begins.

In addition to the regular multi-person splicing orders, Splicing Rice also allows for individual purchases at a higher price, and one person can order multiple items to achieve non-splicing. By centralizing order preparation during delivery + and delivering to centralized destinations, delivery capacity is saved and delivery efficiency per order is improved; By attracting low average order value merchants with limited profit capabilities to join the main platform, both the merchant and platform's profit capabilities are enhanced.

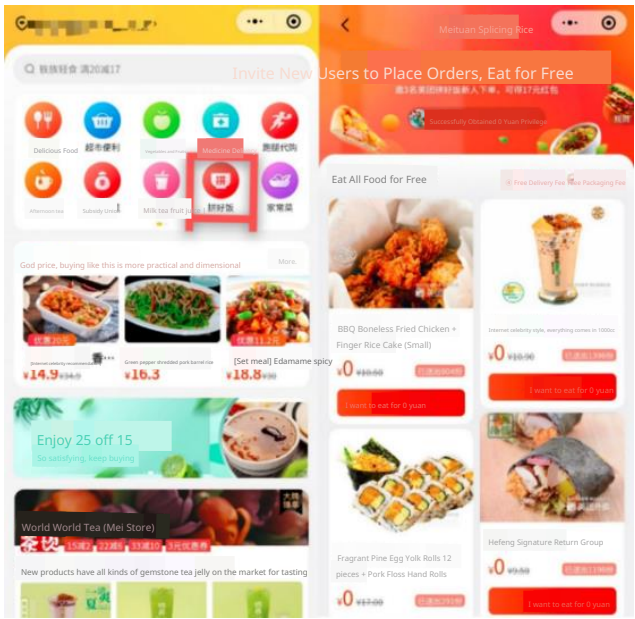
Figure7: Splicing Rice Order Process



Data Source: Meituan Splicing Rice Mini Program, Huatai Research

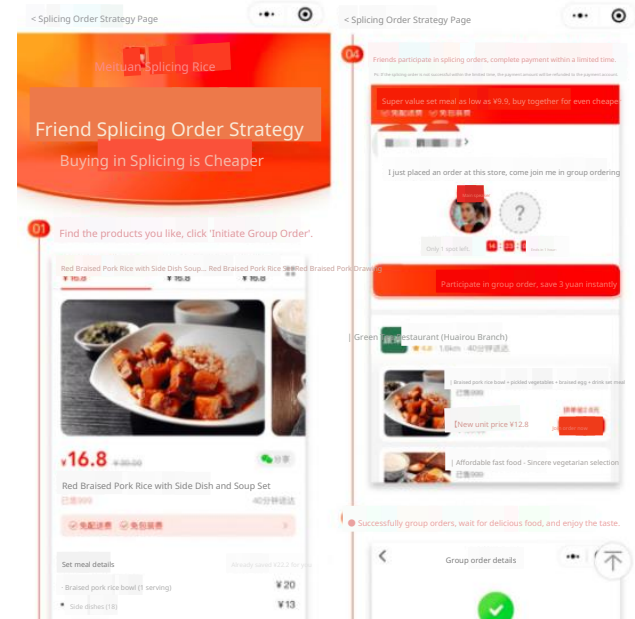
Started internal testing in August 20, officially launched in some cities in April 22. Meituan started internal testing in third and fourth-tier cities in August 2020, during which it continued to improve on areas such as online areas, delivery network, splicing mode, and merchant cooperation. Due to subsequent epidemic restrictions on collective splicing delivery, the launch time of this feature was delayed. By April 2022, Splicing Rice first officially launched in first-tier cities such as Chengdu, Hangzhou, Shanghai, and Guangzhou. The splicing area is mainly concentrated in high-consumption scenarios such as office buildings and schools, guiding users to the WeChat mini-program 'Meituan Splicing Rice' for ordering through the embedded entrance in the Meituan app. According to Meituan's 2023 performance conference, Meituan has established a Splicing Rice business BD department since 2023, and set up a series of targeted KPI assessment mechanisms to achieve refined operation and quality improvement for Splicing Rice.

Chart 8 : Splicing Rice's location and page on Meituan APP



Source: Meituan Splicing Rice mini program, Huatai Research

Chart9: Splicing Rice's group ordering strategy guide



Source: Meituan Splicing Rice, Huatai Research

Currently, Splicing Rice has been launched in most prefecture-level cities, with some cities accounting for 25% of the order volume. According to the statistics of the Splicing Rice mini program, as of January 2024, Splicing Rice has been launched in 247 cities, with a penetration rate of 100% in first-tier and new first-tier cities, and penetration rates of 96.7%/88.6%/70%/57.8% in second to fifth-tier cities, showing a gradual decrease trend. As Splicing Rice gradually penetrates into cities and users, according to Meituan's public performance report, as of 4Q23, the proportion of Splicing Rice orders in the total takeaway orders has reached a high single-digit percentage, with some cities reaching 25%, and it is expected that the proportion will continue to increase in the future.

Chart 10 : Splicing Rice online status in cities at various levels (as of January 2024)

City Level	Number of Cities	Number of Cities where Splicing Rice is Online	Proportion
First-tier Cities	4	4	100%
New First-tier Cities	15	15	100%
Second-tier Cities	30	29	96.7%
Third-tier Cities	70	62	88.6%
Fourth-tier Cities	90	63	70%
Fifth-tier City	128	74	57.8%

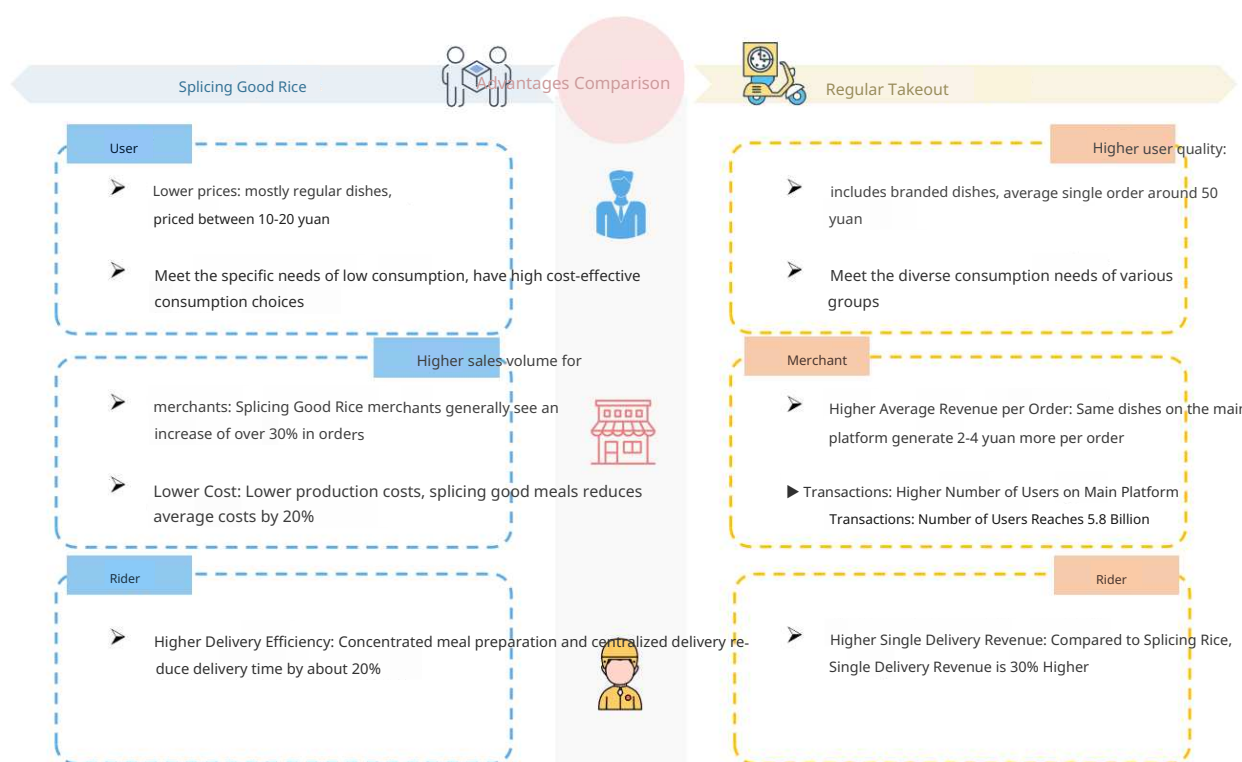
Data Source: Meituan Splicing Rice Mini Program, Huatai Research

Enhance meeting the needs of segmented audiences, bringing differentiated choices to merchants / users, saving user expenses, increasing merchant orders, and improving delivery efficiency for riders.

For users, merchants, and riders, Splicing Rice meets the needs of saving more, getting more, and being more efficient, respectively.

- 1) Meet the group of users pursuing cost-effectiveness: Meituan's main site covers both low and high spending consumer groups, and with the continuation of the trend of cost-effectiveness in consumption, more consumers are starting to pay attention to the unit price of takeout; Splicing Rice takes price as a breakthrough point to attract cost-effective consumers from the main site and meet the needs of this group of users who are sensitive to prices.
- 2) Providing exposure for merchants: The main site recommends merchants by name, while Splicing Rice recommends products by category. Therefore, small and medium-sized merchants on the main site face competition from well-known brands at the same price point, making it difficult to be featured in the recommendation sequence. Well-known merchants also face issues with low sales of niche products. The independent WeChat mini-program ordering function of Splicing Rice helps ordinary merchants on the main site obtain higher recommendation rankings and helps well-known merchants increase sales of niche products.
- 3) Making delivery more efficient for riders: In regular food delivery processes, riders need to pick up orders from multiple merchants and deliver to multiple destinations. Waiting for orders from different merchants and traveling to multiple locations takes up a lot of delivery time. Splicing Rice effectively reduces delivery time, improves delivery efficiency, and increases the number of deliveries by concentrating meal preparation and delivery.

Chart11: A comparison of Splicing Rice and regular takeout on three aspects



Source: Meituan Splicing Rice mini program, Huatai Research

User mindset: The focus is on cost-effectiveness, but there may be potential drawbacks such as long waiting times and loss of dining flexibility

Low prices are the core of Splicing Rice, with a general decrease in unit price compared to regular takeout of over 15%+. For users, price is the most important advantage of Splicing Rice compared to regular takeout. According to the Splicing Rice app, the average price per takeout order is around 15 yuan, which is less than 1/3 of regular takeout. Splicing Rice offers three types of discount promotions in its group ordering mode, with price reductions of over 15% under different promotional activities:

- 1) First order + Value-added subsidy activities, the price of spliced dishes is 50% lower than the non-spliced mode +;
- 2) The price of spliced dishes in value-added subsidy activities is 20-40% lower than the non-spliced mode ;
- 3) The price of normal spliced dishes is 15-20% lower than the non-spliced mode .

In the 'Fast, Good, and Economical' trade-off model, the logic behind food delivery is to exchange additional delivery premiums for convenience, variety of choices, and consistently high-quality dishes; However, in line with the trend of cost-effective consumption, Splicing Rice further strengthens the 'Economical' attribute of food delivery.

Chart12: Splicing Rice and Regular Food Delivery Price Comparison

Types of Activities	Dishes	Splicing Rice	Regular Takeout
Great Subsidies	Meideken Three-piece Set	12.6	16.1
	LINLIXU Handmade Lemon Tea	6.9	12.2
	Let's Eat Noodles Three-piece Set	9.9	15.6
Normal Subsidies	Hua Laishi Three-piece Set	16.7	19.3
	Little Snail Pancake Two-piece Set	12.9	15.4
	Double Sauce Pancake King Three-piece Set	14	16.5

Source: Meituan Splicing Rice Mini Program, Huatai Research

Note: Unit in RMB Yuan

Compared to regular takeout, Splicing Rice has relative disadvantages in terms of freedom of choice, ordering time, and product quality:

- 1) Limited SKU. The merchants on Splicing Rice are mostly small and medium-sized businesses or individual brand merchants with limited selection of single items compared to regular takeout. In addition, the taste and combination of Splicing Rice single items are relatively limited, limited to platform-created popular items, resulting in a loss of freedom in product combination compared to traditional takeout.
- 2) Requires time to group orders. Initiating a group order requires setting a wait time (10-30 minutes), successful group orders (more than two people) need to wait for the time to end before delivery, failed group orders need to be reordered.
- 3) Quality is somewhat lacking compared to brand merchants. Splicing Rice merchants are mostly small and medium-sized businesses, offering lower prices for popular items, to some extent sacrificing food quality. In addition, Splicing Rice orders do not allow customers to rate the merchants, and the merchants receive lower prices than the main platform, making it difficult to incentivize maintaining the original quality of the dishes, resulting in overall lower order quality compared to the main platform orders.

Splicing Rice better meets the needs of price-sensitive consumers. The main platform orders AOV are high, and most merchants have a minimum order requirement. Low-spending users have a lower willingness to order takeout, while Splicing Rice dishes themselves are priced lower and have substantial discounts. Some price-sensitive consumers are willing to sacrifice some product choices and wait time for lower prices. Therefore, Splicing Rice fits well with the consumption needs of this group of people. Furthermore, in the future, as the number of active users of Splicing Rice increases, the variety of dishes offered by participating merchants expands, and quality control becomes stricter, the disadvantages of choosing "fewer", "slower", and "lower quality" compared to regular takeout will diminish. At the same time, the advantage of "saving" will continuously strengthen under economies of scale, significantly improving the dining experience for some users.

Chart13: Comparison of user experience between choosing Splicing Rice and regular takeout

Comparison of user experience between choosing Splicing Rice and traditional takeout		
	Splicing Rice	Regular Takeout
Unit Price	Mostly below 15 元	Average 50 元
Discount Intensity	Price reduction above 15%	Lower
Total Order Completion Time	30min (delivery)+15min (waiting)	35min (delivery)
Order Success Rate	Approximately 20%	Close to 100%
Number of Optional Merchants	Approximately 20merchants available for delivery in the area	Over 100merchants available for delivery in the area
Number of Optional Dish Categories	Fewer, average 5kinds	More, mostly 20kinds or more
Optional merchant categories	Mostly small and medium-sized merchants	More brand chain merchants, higher richness of merchants

Source: Meituan Splicing Rice mini program, Huatai Research

Merchant settlement: Using low prices as a means to increase exposure while reducing meal preparation costs

Splicing rice products are labeled with low-price discounts, while increasing merchant exposure and reducing meal preparation costs. The merchants and products launched on Splicing Rice have the following characteristics:

- 1) Most of the merchants joining Splicing Rice are small and medium-sized businesses. These businesses do not have exposure advantages on the Meituan regular takeaway platform, and they heavily rely on online orders. They hope to increase exposure in the market by offering discounts and low prices. Splicing Rice helps support small and medium-sized businesses in acquiring customers.
- 2) Single product presentation, low price priority. Meituan's main takeaway platform presents by merchants, merchants need higher advertising investment, user reviews, prices, delivery time and other multidimensional factors to gain exposure. Splicing Rice presents by specific products, giving more traffic to the lowest priced products.
- 3) Merchants trade price for volume, profiting through high turnover. According to Late Post, Splicing Rice negotiates with merchants on setting low-margin supply prices, merchants cooperate to offer low-priced products and trade price for volume, profiting through high turnover. Compared to traditional takeout, Splicing Rice users are more price-sensitive, and merchants with cost advantages entering Splicing Rice will engage in differentiated competition to increase sales volume.
- 4) There are individual brand merchants launching explosive products. In addition to small and medium-sized merchants increasing their order volume through low-price marketing, individual brand merchants such as Guming and Chabaida have launched individual products to increase exposure, mostly low-cost, low-selling seasonal products with room for price reduction and urgent need for inventory clearance. The launch of explosive products by brand merchants can enhance users' trust in Splicing Rice, increase the stickiness of old users, and attract new users.

Currently, brand merchants lack the motivation to settle in, and it is expected that in the future, the stratification between Splicing Rice and ordinary takeout merchants will converge. Merchants settle in Splicing Rice to create explosive products with discounts, but at the same time, they will be labeled as 'low-price'. Taking tea drink brands as an example, popular brands like Heytea and Nayuki lack the motivation to join Splicing Rice, a mid-to-high-end brand, while Migu Xue Ice City has a solid user base in the lower-tier market and does not need more discounts to get orders. Therefore, there is a mid-to-high-end segmentation between Splicing Rice and regular takeout businesses. We believe that following the trend of both Pinduoduo and Taobao in terms of merchant settlement, as Splicing Rice becomes popular and drives sales through explosive products, merchants will still achieve mixed settlement in the future, and both price range and merchant brands are expected to converge.

Chart14: Profit Comparison between Popular Businesses and Small and Medium-sized Businesses Joining Splicing Rice



Source: Meituan Splicing Rice mini program, Huatai Research

Chart15: A comparison example of Splicing Rice and regular takeout merchant types

Types of activities	Splicing Rice	Types of dishes	Regular Takeout	Types of dishes
Delicious food	Mei Dekun	13	Hangzhou Xiaolongbao	20+
	Xi Xiaowu	5	Master Bao's pastries	20+
	Mai Cool Chicken	9	Domino's Pizza	20+
	Get rich hand-grabbed cake	4	Yonghe King	30+
	Have some noodles	5	Xiao Yang Pan-fried Bun	15+
Beverage category	YO ! TEA has tea	3	Overlord Tea Princess	30+
	Tea Savior	3	Tea Hundred Ways	30+
	Tea Da Ye	5	Shanghai Auntie	30+
	Wang Ning	3	Ancient Tea	20+
	Encounter Coffee	1	Milk Snow Ice City	30+

Source: Meituan Splicing Rice mini program, Huatai Research

Rider: Concentrating destinations brings higher delivery efficiency

In the short term, incentives are given to riders through subsidies. The core of Splicing Rice lies in the efficiency improvement brought by centralized delivery of riders. According to Late Post, Splicing Rice mainly adopts the "smooth running mode" launched by Meituan in 2021, that is, Meituan's delivery system can assign orders from the same merchant with similar addresses to riders on the way, so the number of orders completed by riders through the "smooth running mode" in the same time is 2-3 times that of ordinary riders. To analyze the impact of Splicing Rice on the rider side, a comparison between Meituan's main site and Splicing Rice's rider side situation is needed. Taking 2023 as an example:

- Income side:** According to Meituan's public performance meeting statement and our calculation assumptions, the average delivery income for riders on Meituan's main site was about 7 RMB / order, while Splicing Rice adopts multiple orders grouping but the rider income is still calculated per 1 order, with a subsidy of about 1.5 RMB given by the platform, the income per delivery for Splicing Rice riders is 8.5 RMB, an increase of 21%. According to the Splicing Rice mini program, the average grouping quantity for Splicing Rice is between 2 and 3 orders, we assume an average of 2.3 orders grouped, thus the platform's average delivery cost (which is also the rider's average delivery income) decreases from 7 RMB to 3.7 RMB.
- Delivery Time:** Assuming that the average delivery per hour for the main station rider is 5 orders, the delivery time per order for Meituan main station takeaway is 12 minutes. According to Meituan Research Institute data, during the delivery process of each order by the rider, the time to pick up the meal accounts for 50%, and the last mile delivery time accounts for 30%. Splicing Rice adopts the "smooth running mode" to deliver multiple orders per trip. Since multiple orders are placed at the same store and have similar destinations, many scenarios are within the same office building or community, significantly reducing the last mile delivery time. Therefore, the time to deliver multiple orders only slightly increases compared to the main station, assuming that the average delivery time per trip for Splicing Rice riders is 15 minutes under the current average of 2.3 orders per group. From this perspective, for the riders, the delivery time per trip increases by 25%, but for the platform, due to intensive delivery, the delivery time per order decreases by 46%, improving overall platform efficiency.
- Delivery rider 1h Total income:** Based on the assumptions of the previous two sections, we estimate that the income of Meituan's main site delivery rider is around 35 yuan per hour, while the income of Pindao rider is around 34 yuan, a decrease of 2.9% compared to the main site. Although the benefits of Pindao riders are compromised compared to the main site, we believe that in the short term, Meituan can provide incentives to riders by adjusting subsidies based on supply and demand. Furthermore, since the average delivery cost per order on the Pindao model is significantly lower than the main site, there is more room for adjustment. According to our calculations, when the platform subsidy reaches 1.8 yuan per order, the total income of the rider for 1h is 35.2 yuan, higher than the main site. We believe that with the increase in the number of shared orders in the same area and the improvement in dispatch efficiency under the platform's scale effect, the Pindao model is expected to move away from subsidy dependence and achieve a win-win situation for the platform and riders.

Chart16: The current Splicing Rice model regulates rider incentives through subsidies (average 2.3orders per group)

	Main site	Reduce subsidies		Current Splicing Rice	Increase subsidies				
Rider income/per trip	7	8.3	8.4	8.5	8.6	8.7	8.8	8.9	9
Platform subsidy	0	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2
Average platform delivery cost per order	7.0	3.6	3.7	3.7	3.7	3.8	3.8	3.9	3.9
Rider 1htotal income	35.0	33.2	33.6	34.0	34.4	34.8	35.2	35.6	36.0
Rider income change (+/-)		-5.1%	-4.0%	-2.9%	-1.7%	-0.6%	0.6%	1.7%	2.9%

Note: Average 2.3orders per group, rider delivery time per trip remains the same

Source: Huatai Research Forecast

Splicing Rice model leverages takeaway UE improvement, reducing profit threshold

We believe that the main impact of Splicing Rice on Meituan's food delivery service is reflected in two aspects, one is the significant improvement in low average order value (AOV), and the other is the optimization of order volume structure, helping Meituan's food delivery service achieve long-term stable growth. The growth in order volume includes the introduction of new customers who are sensitive to low prices, as well as the migration of consumption habits among existing users. We believe that the current contribution from the improvement in profitability due to the low AOV is more prominent, and the following will focus on analyzing the "leverage" effect of the new model on profitability improvement.

Under the new model, the transfer of low AOV customers will increase the average profit per order.

The core impact of Splicing Rice on the UE of Meituan Takeout comes from the improvement in the profitability of low-price orders. Although Meituan Takeout has long been profitable overall in terms of UE, orders with an average price of less than 15 yuan are still in a loss-making state in the food delivery order structure, mainly because it is difficult to offset income with rider costs. Introducing Splicing Rice through centralized distribution will significantly improve the profitability of low-price orders, thereby promoting overall UE growth. With an average price of 15 yuan, comparing the UE models of Splicing Rice and regular low-price takeout:

- 1) The monetization rate of Splicing Rice is lower. Compared to traditional food delivery, Splicing Rice negotiates with merchants to offer low-priced products, therefore Splicing Rice does not include technology service fees and advertising costs, resulting in a lower monetization rate. We assume that the average monetization rate of Splicing Rice is about 2% lower than the main site, corresponding to a decrease in average revenue per order by 11.2%.
- 2) The average delivery cost per order of Splicing Rice is significantly lower. Splicing Rice combines 2-4 people to place one order and only pays one delivery fee, although the platform provides a subsidy of 1-2 yuan to the delivery riders, the average delivery fee is still about 50% less than the main site.
- 3) The average order value (AOV) of Splicing Rice has significantly increased. With the same average order value of 15 yuan, the AOV of Splicing Rice is a loss of 2.1 yuan, while the main site delivery is a loss of 5.4 yuan. The AOV has increased by 3.3 yuan per order, about 61.2%.

At a low average order value, Splicing Rice significantly outperforms the main site due to delivery cost advantages. Delivery costs are mainly related to delivery distance, with little relation to unit price. However, platforms charge commissions based on unit price, leading to a loss for the platform with low-price orders. Although the average order value of Splicing Rice is lower, under the new group delivery model, the overall average delivery cost decrease is greater than the subsidy cost increase. Therefore, with the same low-price orders, Splicing Rice significantly outperforms the main site due to delivery cost advantages.

Chart17: When the average order value=15yuan, the comparison between Splicing Rice and the main station takeaway UE model

	Average order value=15yuan		VS
	Splicing Rice	Main station 1p	
Monetization rate	15.85%	17.85%	-2%
Average revenue per order	2.38	2.68	-11.2%
Rider cost (0.43yuan/order subsidy)	3.60	7.21	-50.0%
Other costs	0.87	0.87	0.0%
Average UE per order	-2.10	-5.40	61.2%

Data source: Meituan quarterly performance meetings, company announcements, Huatai Research estimates

Splicing Rice has two layers of impact, improving low average order value and increasing order volume, with the contribution of improving profitability from low average order value being more prominent. According to Meituan's 2023 performance meeting, the proportion of Splicing Rice in 2023 is approximately 8.5% for the full year. To explore the impact of the 'Splicing Rice' model on Meituan's overall profitability (platform delivery model, where delivery services are provided by Meituan, as opposed to the self-delivery model, where businesses handle delivery), it is necessary to compare it with the scenario where the 'Splicing Rice' model is not used. On one hand, 'Splicing Rice' improves profitability by replacing low-priced orders on the main platform (with an average order value of 15 yuan). On the other hand, the newly added 'Splicing Rice' orders may still be in a loss-making state, which could potentially drag down overall profitability. Since we cannot determine the proportion of 'Splicing Rice' orders that replace low-priced orders on the main platform and the proportion of newly added low-priced orders, we will discuss two scenarios: considering replacement and considering addition.

- 1) Considering the scenario of replacing low-priced orders on the main site with Splicing Rice, with no change in order volume and revenue, there is a significant increase in profitability. Assuming that the Splicing Rice model completely replaces the original low-priced orders on the main site 8.5%, under this assumption, if there is no increase in order volume with Splicing Rice, the overall order volume and the proportion of low-priced orders without using the Splicing Rice model remain unchanged. For these orders analyzed earlier, UE decreased from -5.4 yuan as discussed earlier to -2.1 yuan, resulting in a 65.7% increase in overall UE for 1p.

2) Considering the scenario of additional order volume with Splicing Rice, cleverly leveraging small profits to drive growth in order volume and revenue. We assume that the 'Splicing Rice' model has partially replaced the original low-priced orders on the main platform, while increasing the overall number of low-priced orders. Under this assumption, using the 'Splicing Rice' model has increased the overall order volume by 4.1%, increased the proportion of low-priced orders by 4.9%, and increased overall revenue by 3.7%. However, due to the increase in the number of low-priced orders, the overall UE decreased by 7.7%, and the overall OP decreased by 3.9%. In other words, implementing the 'Splicing Rice' model has led to growth in order volume and revenue, with a relatively limited impact on profits.

Chart 18 : Impact of Splicing Rice on Meituan's Overall 1P Profit in 2023

	Actual Situation in 23	Not adopting the Splicing Rice model			
		Considering alternatives	Splicing Rice VS Before Replacement	Considering additions	Splicing Rice VS Before Addition
1p Total Revenue (Million RMB)	109441.3	109938.2	-0.5%	105561.3	3.7%
Total Takeout Orders (Million Orders)	19350.0	19350.0	0.0%	18579.6	4.1%
Splicing Rice/Proportion of Low-price Orders	8.50%	8.50%	0.0%	3.65%	4.9%
1p Proportion of Main Site Orders	56.57%	56.57%	0.0%	61.42%	-4.9%
1p Overall Average Order Value UE(RMB)	1.1	0.7	65.7%	1.2	-7.7%
Splicing Rice/Low-price Order UE(RMB)	-2.1	-5.4	61.2%	-5.4	61.2%
1p Main Site UE(RMB)	1.6	1.6	0.0%	1.6	0.0%
1p Overall OP (Million RMB)	13597.8	8205.9	65.7%	14152.3	-3.9%

Source: Huatai Research Forecast

The sustainability of the low-cost model of Splicing Rice has been verified, which will effectively improve the profitability of Meituan Takeout. The previous analysis showed that Splicing Rice may have two effects: substitution and addition, both of which have opposite impacts on profits. We assume that the overall order volume of Meituan will grow at a CAGR of about 15% between 2023 and 2025. Taking the year 2025 as an example, we explore the long-term impact of Splicing Rice on the profitability of Meituan Takeout through elasticity calculations. We found that with the change in the proportion of substitution and addition by Splicing Rice, there is a clear 'seesaw' effect on overall profitability. When the promotion of splicing rice on order volume exceeds the alternative ratio, OP will decrease, and if the promotion of splicing rice on order volume is lower than the alternative ratio, OP will increase. We expect that by 2025, the proportion of splicing rice orders will reach 10%-11%, assuming that the promotion of splicing rice on order volume is between 1%-5%, then the range of improvement in profit for Meituan Waimai due to splicing rice is between 44 billion and 85 billion.

Figure 19 : Elasticity calculation of splicing rice on OP promotion, using the year 2025 as an example

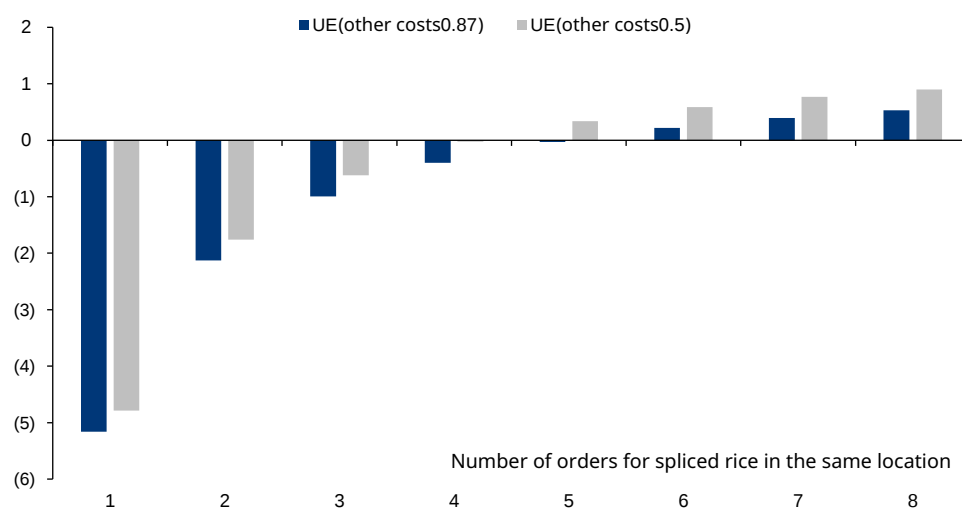
Proportion of spliced rice	Single volume growth promotes									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
5%	3,415	2,580	1,733	873	-0	-639	-1,279	-1,918	-2,557	-3,196
8%	5,975	5,160	4,332	3,491	2,638	1,278	639	-0	-639	-1,279
9%	6,829	6,020	5,198	4,364	3,517	1,917	1,278	639	-0	-639
10%	7,683	6,880	6,065	5,237	4,396	2,557	1,917	1,278	639	-0
11%	8,536	7,740	6,931	6,110	5,275	3,196	2,557	1,917	1,278	639
13%	10,244	9,460	8,664	7,855	7,034	4,474	3,835	3,196	2,557	1,917
15%	11,951	11,180	10,397	9,601	8,792	5,752	5,113	4,474	3,835	3,196

Source: Huatai Research Forecast

Operational refinement with scale benefits stacking, UE exploring positive feedback

The average order volume of spliced rice is expected to achieve breakeven at 4-5 orders. We believe that there is still significant room for improvement in the UE of spliced rice, with a focus on increasing the average order volume per delivery rider to reduce the average delivery cost per order.

According to the previous calculations, the current average order volume of spliced rice is 2-3 orders. Assuming that Meituan pays the delivery cost to the rider for each trip as 8 yuan (7 yuan delivery fee +1 yuan subsidy), the average delivery cost per order is 3.6 yuan, resulting in a UE of -2.1 yuan per order for spliced rice. We believe that with the refinement of Splicing Rice's popular single products and reaching more potential user groups, the average order quantity is expected to significantly increase, leading to a decrease in average delivery costs. According to our calculations, assuming that the other costs per order (operating costs, etc.) remain at 0.87 RMB / order, with Splicing Rice's average order quantity increasing to 5.2 orders, the average delivery cost decreases to 1.5 RMB, and the Splicing Rice model can achieve breakeven. If the other costs benefit from efficiency improvements and optimize to 0.5 RMB / order, the Splicing Rice model can achieve breakeven when the average order quantity reaches 4 orders. Currently, the spliced rice business has a maximum limit of 4 orders. We believe that the platform is still focusing on reducing losses through low average order value, and the adjustment of UE is still being explored.

Chart20: **UE** increases with the increase in orders for spliced rice in the same location


Source: Huatai Research Forecast

Main profit forecast

Our main profit forecast for Meituan in 24-26 is as follows:

We expect Meituan's revenue in 24-26 to be 3248/3837/4501 billion yuan, with a year-on-year growth of 17.4%/18.1%/17.3%; 24-26 With the enhanced synergy between home delivery and in-store businesses, operational efficiency continues to improve, and the gross profit margins are 39.5%/41.2%/42.8%;

On the cost side, it is expected that the management and R&D expense ratio will remain stable, while the sales expense ratio will decrease as the platform user base continues to solidify; On the profit side, the operating profit for 24-26 is respectively 313/480/669 billion yuan, with yoy growth rates of +133%/53%/39%, and the non-IFRS net profit attributable to shareholders is 377/534/700 billion yuan (adjustments from IFRS to non-IFRS mainly include equity incentive expenses, amortization of intangible assets generated from acquisitions, etc.), with yoy growth rates of +62.1%/41.6%/31.1%, and the non-IFRS net profit margins are 11.6%/13.9%/15.5% respectively. Mainly considering the company's return to rational growth, focusing on orderly profit release, and looking at the business segments:

1) Core Local Business: The home business benefits from the improvement in advertising monetization and subsidy optimization, with expected revenues of 1867/2213/2613 billion yuan for the years 2024-2026; while the in-store business continues to benefit from the recovery of offline consumption and strong demand for tourism, with expected revenues of 572/715/894 billion yuan for the years 2024-2026. With the integration of home and in-store businesses, synergies deepen the local life competitive barriers. We expect core local business revenues of 2438/2927/3507 billion yuan for the years 2024-2026, with year-on-year growth of 18%/20%/20%, benefiting from profit release due to the slowdown in in-store competition and efficiency improvements in home business, operating profits of 455/571/718 billion yuan, with year-on-year growth of 17%/25%/26%.

2) New Business: The strategic focus of the selected business has shifted from a significant reduction in losses, with the core focus changing from increasing market share to improving user experience. It is expected that the new business revenue in the years 24-26 will be 810/909/994 billion yuan, with year-on-year growth of 16%/12%/9%, benefiting from the company's active reduction in losses, with expected operating profits of -89/-25/14 billion yuan.

Chart21: Meituan Profit Forecast

(Chinese Yuan in hundreds of millions)	2021	2022	2023	2024E	2025E	2026E
Operating Income	179,128	219,955	276,745	324,783	383,687	450,124
yoy	56.00%	22.80%	25.80%	17.40%	18.10%	17.30%
- Core Local Business	137,279	160,759	206,908	243,801	292,741	350,686
yoy	48.60%	17.10%	28.70%	17.80%	20.10%	19.80%
- Home Delivery Business	103,600	128,948	161,245	186,650	221,289	261,281
yoy	46%	24%	25%	16%	19%	18%
- In-store Business	33,679	31,811	45,662	57,151	71,452	89,405
yoy	58%	-6%	44%	25%	25%	25%
- New Business	42,348	59,196	69,838	80,983	90,945	99,438
yoy	55.30%	39.80%	18.00%	16.00%	12.30%	9.30%
Gross Profit Margin	23.7%	28.1%	35.1%	39.5%	41.2%	42.8%
Sales Expense Ratio	-22.7%	-18.1%	-21.2%	-21.0%	-19.8%	-19.0%
Management Expense Ratio	-4.8%	-4.4%	-3.4%	-3.2%	-3.2%	-3.2%
Research and Development Expense Ratio	-9.3%	-9.4%	-7.7%	-7.0%	-7.0%	-7.0%
Operating profit	-23,127	-5,821	13,415	31,277	48,002	66,921
- Core Local Business	18,300	29,442	38,828	45,543	57,084	71,803
- Home Delivery Business	4,207	14,937	22,593	27,255	33,504	41,405
- In-store Business	14,093	14,505	16,235	18,288	23,579	30,398
- New Business	-38,394	-28,379	-20,166	-8,874	-2,542	1,426
- Undistributed	-3,033	-6,884	-5,246	-5,392	-6,540	-6,308
IFRS Net profit attributable to owners of the parent	-23,539	-6,686	13,855	27,880	41,356	55,968
Adjustments	-7,966	-9,513	-9,396	-9,823	-12,032	-14,008
Non-IFRS Net profit attributable to owners of the parent	-15,572	2,828	23,255	37,703	53,389	69,977
Non-IFRS Net profit margin attributable to owners of the parent	-8.7%	1.3%	8.4%	11.6%	13.9%	15.5%

Source: Huatai Research Forecast

Valuation

Corresponding to SOTP Maintain target price 149.5 Hong Kong dollars, including per share:

1) Valuation of the home business 81.0 Hong Kong dollars, based on a 20x 2024 forecast PE ratio, we expect the net profit of the home business in 2024 to be 23.2 billion (assuming that the net profit of this division = operating profit * (1-15%)), with reference to the global industry average of Visible Alpha's forecast PE ratio of 29.5x in 2024, giving a valuation discount, mainly based on the uncertainty of the recovery of offline consumption affecting online home consumption, but we are optimistic about the resilience and long-term development of the home business.

2) The valuation of the in-store business is 54.4 Hong Kong dollars, based on a 20 times 2024 forecast PE. We expect the net profit of the in-store business in 2024 to be 15.5 billion (assuming that the net profit of this division = operating profit * (1-15%)), with a valuation discount based on the global industry average PE of 29.5 times forecasted by Visible Alpha for 2024. This is mainly based on the uncertainty of competition in the in-store sector affecting profit margins, but we are optimistic about the improvement in Meituan's competitiveness after the synergy between in-store and delivery businesses.

3) New business valuation 14.2 HKD, based on 1.0 times 2024 forecast PS, with reference to the global peers in local life services and major domestic e-commerce platforms, the 2024 Visible Alpha forecast PS mean 2.9 times valuation discount is given, the company will shift its focus to reducing losses starting from 2024, and revenue growth will slow down. We believe that under the high-quality growth strategy, the trend of turning losses into profits for platform new businesses may come earlier.

Chart 22 : SOTP Valuation

Segment	Valuation Method	Valuation multiple(x)	2024E Profit/Revenue (RMB in millions)	Valuation	Per Share Valuation (HKD)
Home Delivery Business	2024E PE	20	23,166	463,329	81.0
In-store Business	2024E PE	20	15,545	310,900	54.4
New Business	2024E PS	1	80,983	80,983	14.2
Total Valuation, RMB in millions				855,211	
Total Valuation, HKD in millions				932,180	
Number of Shares, Diluted				6,235	
Per Share Valuation, HKD				149.5	

Source: Huatai Research Forecast

Chart23: Comparable Company Valuation Table

Company	Stock Code	Stock Price	PE			PS		
(Trading Currency)			2024E	2025E	2026E	2024E	2025E	2026E
Local Lifestyle Services								
DoorDash	DASH US	109.0	820.8	83.9	41.6	4.5	3.9	3.5
Grab	GRAB US	3.6	NM	182.3	50.2	5.0	4.3	3.8
Delivery Hero	DHER GR	19.5	NM	NM	21.9	0.5	0.4	0.4
Just Eat Takeaway	TKWY NA	11.5	NM	NM	NM	0.5	0.4	0.4
Tokopedia	GOTO IJ	50.0	NM	NM	NM	4.3	3.8	3.3
Trip.com	TCOM US	387.2	16.2	14.4	12.5	4.6	4.0	3.5
Booking	BKNG US	3984.6	22.8	19.4	16.5	5.9	5.1	4.5
Airbnb	ABNB US	152.0	33.8	29.9	26.6	8.9	8.0	7.1
Tongcheng-Elong	780 HK	14.8	16.1	12.7	9.4	1.8	1.5	1.3
Dada	DADA US	1.4	NM	NM	NM	0.3	0.2	0.2
SF Intra city	9699 HK	11.5	58.7	32.5	22.8	0.7	0.6	0.5
Average Value			29.5	32.2	25.2	3.3	2.9	2.6
Online Retail								
Alibaba	BABA US	71.8	8.7	7.8	7.0	1.3	1.2	1.1
JD	JD US	103	8.1	7.4	6.8	0.3	0.2	0.2
Pinduoduo	PDD US	134.68	11.3	9.1	7.3	3.5	2.7	2.2
Average Value			9.3	8.1	7.0	1.7	1.4	1.2
Overall Average Value			21.4	17.3	19.6	2.9	2.6	2.2

Note : 1) Data as of July 8, 2024; 2) PE average calculation does not include numbers greater than 80x, PS average calculation does not include numbers greater than 15x.

Source: Visible Alpha Consensus Estimates, Huatai Research

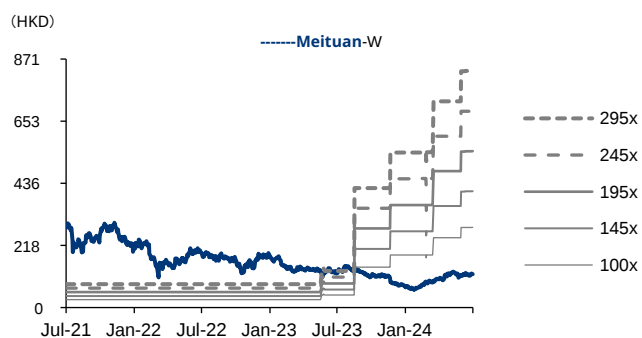
Risk Warning

Intensified competition in the local life market: More participants in the offline market, intensified competition, company's market share affected, offline OPM repair slower than expected due to intensified competition.

Market growth below expectations: Impacted by macro consumption, on-demand delivery volume growth below expectations.

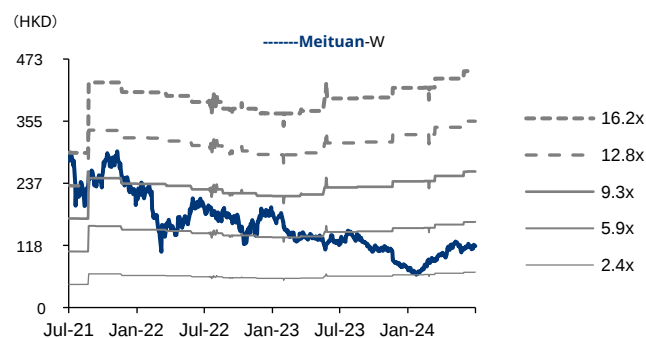
Company's profit falls short of expectations: operating profit margin and progress in reducing losses in new business are below expectations.

Chart24: Meituan-WPE-Bands



Source: S&P, Huatai Research

Chart25: Meituan-WPB-Bands



Source: S&P, Huatai Research

Profit Forecast

Income Statement

Fiscal Year (RMB Millions)	2022	2023	2024E	2025E	2026E
Operating Income	219,955	276,745	324,784	383,686	450,124
Cost of Sales	(158,202)	(179,554)	(196,360)	(225,526)	(257,620)
Gross Profit	61,753	97,191	128,424	158,160	192,504
Sales and Distribution Costs	(39,745)	(58,617)	(68,205)	(75,970)	(85,524)
Management Expenses	(9,772)	(9,372)	(10,393)	(12,278)	(14,404)
Other Income/Expenses	(18,057)	(15,787)	(18,549)	(21,910)	(25,655)
Net Financial Costs	(970.90)	(606.00)	(444.00)	(561.00)	(702.00)
Share of Profit or Loss of Associates	35.80	1,213	1,213	1,213	1,213
Profit Before Tax	(6,756)	14,022	32,046	48,654	67,432
Tax Expenses	70.20	(165.00)	(4,166)	(7,298)	(11,464)
Profit or Loss of Minority Shareholders	0.79	1.50	0.00	0.00	0.00
Net Profit Attributable to Equity Holders	(6,686)	13,855	27,880	41,356	55,968
Depreciation and Amortization	(9,730)	(7,997)	(9,435)	(11,315)	(13,424)
EBITDA	3,946	22,625	41,925	60,530	81,558
EPS (Chinese Yuan, Basic)	(1.10)	2.22	4.47	6.63	8.98

Balance sheet

Fiscal Year (RMB Millions)	2022	2023	2024E	2025E	2026E
Inventory	1,163	1,305	1,170	1,559	1,434
Accounts receivable and notes	15,345	17,278	14,470	21,758	19,444
Cash and cash equivalents	20,159	33,340	75,072	122,969	195,610
Other current assets	106,479	131,194	138,816	146,972	155,545
Total current assets	143,146	183,116	229,528	293,257	372,033
Fixed assets	22,201	25,978	29,386	32,479	35,105
Intangible assets	30,643	30,398	30,661	30,981	31,368
Other long-term assets	48,491	53,538	55,715	57,213	59,907
Total long-term assets	101,335	109,914	115,762	120,674	126,380
Total assets	244,481	293,030	345,290	413,931	498,414
Accounts Payable	46,467	64,721	66,303	71,383	74,956
Short-term Borrowing	17,562	19,322	22,665	26,541	31,297
Other Liabilities	12,401	16,832	16,345	18,828	18,653
Total Current Liabilities	76,430	100,874	105,313	116,753	124,906
Long-term Debt	4,752	4,208	4,314	4,436	4,587
Other Long-term Debt	34,593	35,991	41,917	46,128	52,835
Total Long-term Liabilities	39,346	40,199	46,231	50,565	57,422
Equity	0.40	0.40	0.40	0.40	0.40
Reserves/Other Items	128,761	152,010	193,800	246,667	316,140
Shareholders' Equity	128,762	152,011	193,800	246,668	316,141
Minority Shareholders' Equity	(55.91)	(54.41)	(54.41)	(54.41)	(54.41)
Total equity	128,706	151,956	193,746	246,613	316,086

Valuation indicators

Fiscal year (multiple)	2022	2023	2024E	2025E	2026E
PE	(98.80)	48.75	24.23	16.33	12.07
PB	5.13	4.44	3.49	2.74	2.14
EV EBITDA	180.77	31.25	16.08	10.52	7.06
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Free cash flow yield (%)	(0.16)	4.12	4.38	5.39	8.97

Cash Flow Statement

Fiscal Year (RMB Millions)	2022	2023	2024E	2025E	2026E
EBITDA	3,946	22,625	41,925	60,530	81,558
Financing Costs	970.90	606.00	444.00	561.00	702.00
Operating Capital Changes	3,198	16,178	4,526	(2,597)	6,012
Taxes	70.20	(165.00)	(4,166)	(7,298)	(11,464)
Other	3,474	1,278	16,756	16,274	16,713
Operating Cash Flow	11,659	40,522	59,485	67,470	93,521
CAPEX	(8,240)	(11,282)	(13,107)	(14,729)	(16,437)
Other Investment Activities	(6,474)	(13,382)	(8,365)	(8,843)	(9,349)
Investing Cash Flow	(14,714)	(24,664)	(21,471)	(23,571)	(25,786)
Increase in Debt	(4,465)	1,216	3,448	3,999	4,906
Increase in Equity	0.00	0.00	0.00	0.00	0.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00
Other Financing Activities Cash Flow	(5,525)	(3,997)	270.00	(0.10)	0.10
Financing Cash Flow	(9,990)	(2,781)	3,718	3,999	4,906
Cash Variance	(13,045)	13,077	41,732	47,897	72,641
Beginning of year cash	32,513	20,159	33,340	75,072	122,969
Impact of exchange rate fluctuations	937.50	104.45	0.00	0.00	0.00
End of year cash	20,159	33,340	75,072	122,969	195,610

Performance indicators

Fiscal year (multiple)	2022	2023	2024E	2025E	2026E
Growth rate (%)					
Operating Income	22.79	25.82	17.36	18.14	17.32
Gross Profit	45.39	57.39	32.14	23.15	21.71
Operating profit	(74.83)	(330.48)	133.15	53.47	39.41
Net Profit	(71.59)	(307.22)	101.22	48.34	35.33
EPS	(71.88)	(302.67)	101.22	48.34	35.33
Profitability Ratio (%)					
Gross Profit Margin	28.08	35.12	39.54	41.22	42.77
EBITDA	1.79	8.18	12.91	15.78	18.12
Net Profit Margin	(3.04)	5.01	8.58	10.78	12.43
ROE	(5.26)	9.87	16.12	18.78	19.89
ROA	(2.76)	5.16	8.74	10.89	12.27
Debt-to-Equity Ratio (times)					
Net Debt Ratio (%)	1.67	(6.45)	(24.82)	(37.29)	(50.52)
Current Ratio	1.87	1.82	2.18	2.51	2.98
Quick ratio	1.86	1.80	2.17	2.50	2.97
Operating capability (days) Total					
asset turnover ratio (times)	0.91	1.03	1.02	1.01	0.99
Accounts receivable turnover days	26.53	21.22	17.60	17.00	16.48
Accounts payable turnover days	103.52	111.46	120.11	109.89	102.25
Inventory turnover days	2.10	2.47	2.27	2.18	2.09
Cash conversion cycle	(74.89)	(87.77)	(100.24)	(90.72)	(83.68)
Per share indicators (RMB)					
EPS	(1.10)	2.22	4.47	6.63	8.98
Net asset per share	21.12	24.38	31.08	39.56	50.70

Source: Company announcements, Huatai Research forecasts

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