

HKG Group 6

Monthly Report

October 2024

The OIC Group

OIC Research Group | Analyst Group Report

Advisor: Harry Yeung Analysts: Scott Chan, Paul Fang, and Carmen Li

October 2024

Meituan Raises Up to US\$2.5bn in Dollar Notes Issuance

Issuance Summary

Announcement Date	September 24, 2024		
Issuance Size	4.500% US\$1.2 bn + 4.625% US\$1.3bn		
Issuance Spread	T3 ³ / ₈ + 115.00 bps T3 ⁵ / ₈ + 125.00 bps		
Capital Rank	Senior Unsecured + Senior Unsecured		
EBITDA Margin	9.65%	EBITDA / Interest Expense	46.64x

Issuance Background

- Both notes are under the [combined Rule 144A/Regulation S](#), as defined by the Securities Act of 1933 allows an issuer to sell two tranches of securities – one within the United States and one offshore – without registration under the Securities Act.
- The combined rule issuance reflects [Meituan's attempt to diversify its dollar-denominated funding sources](#) across US and other regions.

Bond Info/Structure

	Data as of 10/07/2024	
	4.50% 04/02/28 Corp	4.625% 10/02/29 Corp
Yield-to-Maturity	4.954878	5.014720
G-Spread	110.6	118.2
I-Spread	139.9	152.6
Z-Spread	135.0	147.2
ASW	133.9	145.8
OAS	109.8	117.1
Modified Duration	3.150	4.359
Convexity	0.107	0.214
DV01	311	429

Bond Comparable Analysis

	Data as of 10/07/2024	
	4.50% 04/02/28 Corp	4.625% 10/02/29 Corp
Yield	5.02 vs 4.71 (Avg.)	5.00 vs 4.70 (Avg.)
Z-Spread	140 bps vs 99.94 bps (Avg.)	144 bps vs 110.39 bps (Avg.)

Issuer

 Meituan

Meituan (HSI: 3690.HK)

Meituan is a Chinese e-Commerce platform offering retail services from food delivery, dining promotions, and travel; a 2015 merger with **Dazhong Dianping**, a portal of consumer reviews of restaurants similar to **Yelp** in addition to group buying akin to **Groupon**, created **Meituan-Dianping**. Its latest Annual Report showed record highs reached for **Annual Transacting Users**.

Founded Year	2010
HQ	Beijing, China
Sector	E-commerce
Market Cap	US\$166.09 bn
FY23 Revenue	US\$10.50 bn
FY23 EBITDA	US\$3.40 bn

Company Financials

Data as of 2024 Q2, in CNY millions	
Total Debt	43,050.26
Net Debt	-90,201.96
Enterprise Value	553,027.90
EV to LTM EBITDA	18.76
Long-Term Borrowing	29,187.67
Short-Term Borrowing	13,862.59
EBITDA	13,309.32
Interest Expense	285.37
Net Income	11,351.92
Cash from Operations	19,056.64
Trailing 12M Net Sales	305,689.82
Total Debt to EBITDA	1.46
Net Debt to EBITDA	-3.06
Total Assets	285,558.37
Total Capital	203,549.62
Debt to Assets	15.08
Total Debt to Total Capital	21.15
Total Debt to Common Equity	26.81

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Issuance Purposes

Short Term Plans

- **Use of Proceeds:** At a total of US\$2.48 bn, both issues of Meituan's use of proceeds are stated to be used "primarily for **refinancing of existing offshore indebtedness** and other general corporate purposes".
- **Refinancing Debt:** The **US\$750 mn debt** maturing in October 2024 could be another impetus behind the issuance, in addition to buyback funding as evidenced by the **August US\$1 bn buyback** of its Class-B ordinary shares.

Long Term Plans

- **Hints from Management Discussions:** **Meituan's pursuit of developing a "Super-App" similar to Tencent's WeChat drives increased R&D expenses.** The bond prospectus indicates a continued desire to expand services into overseas markets, albeit with "financial discipline." A notable example is the trial operation of the food delivery subsidiary Keeta in Saudi Arabia. Recent initiatives, including *Meituan Select*, *Xiaoxiang Supermarket*, and *Kuailv* (a B2B food distribution service), are **increasing capital needs for expansion**.
- **R&D Investment:** Meituan has, in the bond prospectus, reiterated intentions to continuously dedicate significant resources towards research and development efforts, including but not limited to (1) **Innovative applications, products, and services**, (2) **Big data and AI capabilities**, and (3) **Development of autonomous delivery vehicles and unmanned aerial vehicles**; R&D expenses have consistently been **above RMB\$10 bn** from 2021 to H2 2024.

Final Price Guidance

MEITUA 4.5% 04/02/2028 CORP

Spread at Issue 115 bps vs T 3 ³/₈ 09/15/2027

MEITUA 4.625% 10/02/2029 CORP

Spread at Issue 125 bps vs T 3 ⁵/₈ 08/31/2029

Thesis for Issuance Subscription

- **Secure Stable Income:** Meituan's bonds offer an **attractive yield** according to our comparable analysis on page 1.
- **Harness Interest Rate Trend:** Since the Fed entered the **interest rate cut cycle**, the price of existing bonds tends to go up given the mark-to-market gains. Compared with other bonds with similar maturity, Meituan 4.625% has a **higher Modified Duration**, indicating its **higher sensitivity of the interest rate movement**. Though market has priced in, we can still seize capital gains amid fluctuation.
- **Potential Rating Upgrade:** All three agencies have **upgraded Meituan's credit rating** in early September 2024. What's more, Fitch and Moody's **hold a positive attitude** on credit rating outlook, indicating a possible surging of Meituan's bond price.
- **Promising Business Growth:** With the **PBOC stimulus package** reaching the market gradually, China economy is bound to revive. With **increasing consumer demand**, Meituan's e-commerce and delivery business are likely to be boosted.

Key Takeaway: The investment thesis is rooted in **generating stable income from favorable yield** and **realizing capital gains driven by interest rate trend and potential rating upgrade**.

Comparison with IG rating Chinese Tech Eurobond

Bond Name	Maturity	Modified Duration
Avg. of Comparables	--	3.29
Meituan 4.625%	02-Oct-2029	4.36
Meituan 4.5%	02-Apr-2028	3.15
Tencent 3.975%	11-Apr-2029	4.05
Tencent 3.592%	19-Jan-2028	3.00
Baidu 4.875%	14-Nov-2028	3.39
Baidu 4.375%	29-Mar-2028	3.16
Lenovo 5.831%	27-Jan-2028	2.86

Meituan's Credit Rating and Outlook

Rating Agency	Foreign	Domestic	Outlook
Fitch	BBB 11-Sep-2024	--	Positive
Moody's	Baa2 03-Sep-2024	Baa2 03-Sep-2024	Positive
S&P	BBB+ 01-Oct-2024	BBB+ 01-Oct-2024	Stable

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Bond Comparable Analysis

MEITUA 4 ½ 04/02/28 benchmarked against industry group credits with IG ratings (AAA/Aaa to BBB-/Baa)

Security	Price	Yield (%)	Z-Spread (bps)	Diff (bps)	Low (bps)	High (bps)	Avg. (bps)
Avg. of Comparables		4.71	99.94	40	35	42	38
MEITUA 4 ½ 04/02/28	98.37	5.02	140	-	-	-	-
PRXNA 3.257 01/19/27	95.94	5.17	142	-2	-20	3	-11
PRXNA 4.85 07/06/27	99.24	5.15	146	-6	-21	3	-9
LENOVO 5.831 01/27/28	102.53	4.97	133	7	-1	8	5
SINOCH 2 ¼ 11/24/26	94.70	4.91	115	25	22	34	27
NXPI 5.55 12/01/28	102.96	4.71	111	29	25	35	29
SZEXPR 1 ¾ 07/08/26	94.75	4.93	109	31	25	33	28
XINAOG 4 ¾ 05/17/27	99.67	4.76	106	34	26	41	33
TENCNT 3.975 04/11/29	98.10	4.45	88	52	44	53	49
NXPI 4.4 06/01/27	99.61	4.56	86	54	50	57	53
BABA 3.4 12/06/27	96.78	4.5	86	54	51	66	57
NXPI 3.15 05/01/27	96.66	4.54	84	56	48	56	53
NXPI 3.15 05/01/27	96.66	4.54	84	56	48	56	53
CITLTD 2 ¾ 02/17/27	96.28	4.56	83	57	57	69	62
TENCNT 3.595 01/19/28	97.45	4.44	80	60	45	60	53
NXPI 3 ¾ 06/18/26	98.84	4.59	73	67	56	67	63
NXPI 3 ¾ 06/18/26	98.84	4.59	73	67	56	67	63
CHGRID 3 ¼ 04/07/27	97.52	4.31	60	80	76	89	83

MEITUA 4 ¾ 10/02/29 benchmarked against industry group credits with IG ratings (AAA/Aaa to BBB-/Baa)

Security	Price	Yield (%)	Z-Spread (bps)	Diff (bps)	Low (bps)	High (bps)	Avg (bps)
Avg of Comparables	--	4.7	110.39	34	33	43	35
MEITUA 4 ¾ 10/02/29	98.37	5	144	0	0	0	0
PRXNA 4.85 07/06/27	99.24	5.15	146	-2	-13	9	-3
XIAOMI 3 ¾ 04/29/30	92.17	5.01	146	-2	-3	10	0
MEITUA 4 ½ 04/02/28	98.37	5.02	140	4	2	13	6
LENOVO 5.831 01/27/28	102.53	4.97	133	11	4	20	11
NXPI 3.4 05/01/30	93.27	4.79	125	19	18	39	24
PRXNA 3.68 01/21/30	92.91	5.23	168	-24	-34	-16	-25
JD 3 ¾ 01/14/30	93.96	4.68	113	31	29	44	34
NXPI 4.3 06/18/29	98.40	4.68	112	32	30	47	36
NXPI 5.55 12/01/28	102.96	4.71	111	33	30	47	35
XINAOG 4 ¾ 05/17/27	99.67	4.76	106	38	32	48	39
TENCNT 3.975 04/11/29	98.10	4.45	88	56	51	60	55
NXPI 4.4 06/01/27	99.61	4.56	86	58	55	70	59
BABA 3.4 12/06/27	96.78	4.5	86	58	57	73	62
TENCNT 3.595 01/19/28	97.45	4.44	80	64	55	64	59
SINOPE 2.95 11/12/29	94.06	4.26	71	73	73	91	80
CNOOC 2 ¾ 09/30/29	94.00	4.22	67	77	75	95	82
SINOPE 2.95 08/08/29	94.54	4.21	65	79	74	92	81

Initial Observations

- **Yield and Spread measures for both of Meituan's issuances wide vs peers:** Meituan's Yield is 31 bps wider than the peer group average for the 4.5% issue, and 30 bps wider for the 4.625% issue, despite credit fundamentals for Meituan being comparatively healthy.

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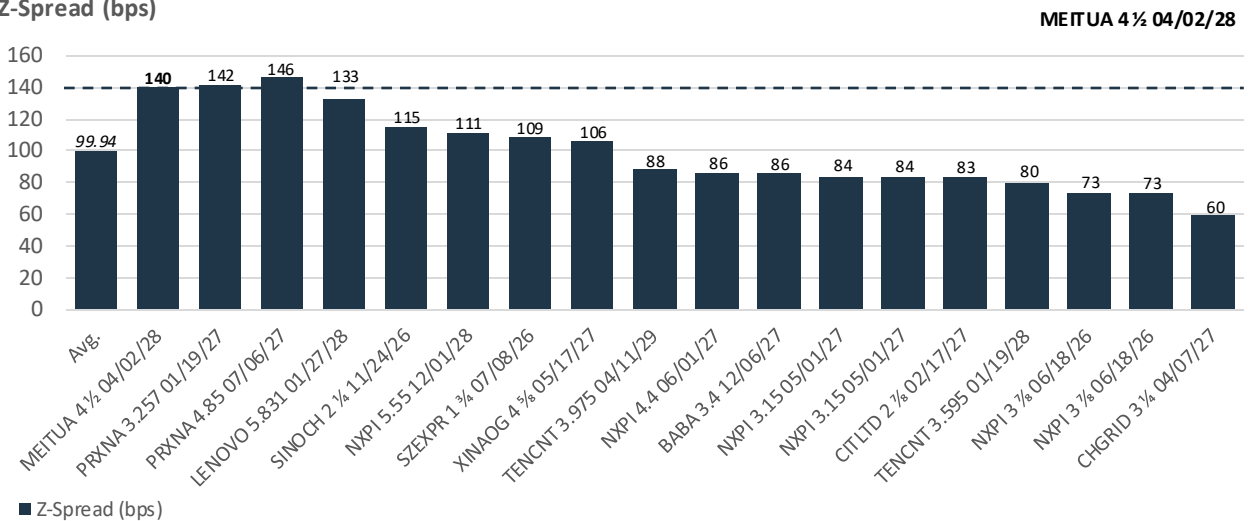
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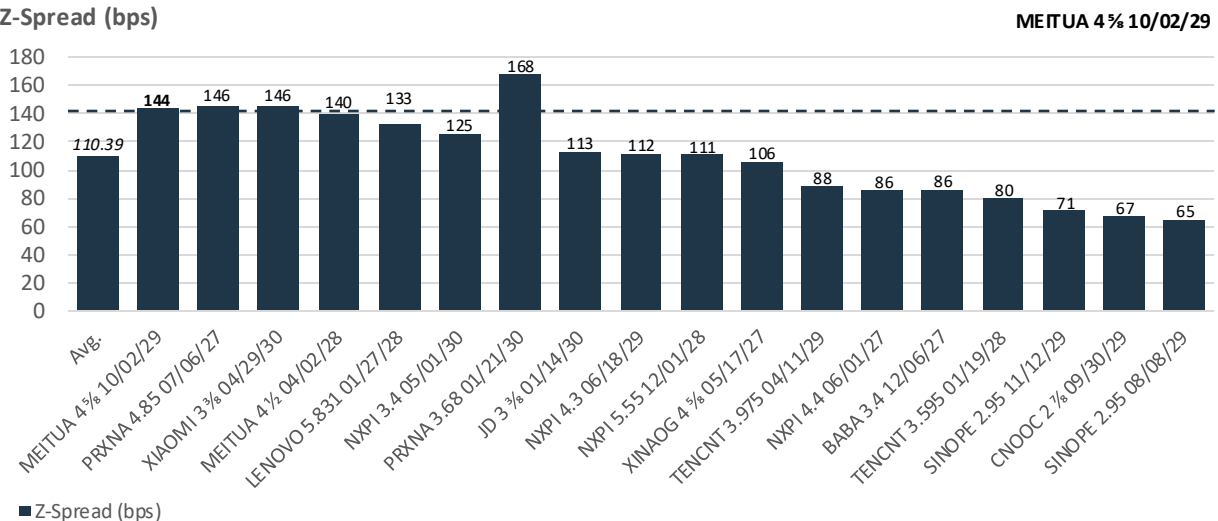
Bond Comparable Analysis – Cont.

- Z-Spread:** Also known as **Zero-volatility Spread**, is defined as the constant spread that, when added onto the yield curve of **risk-free sovereign debt** (i.e. US Treasuries), makes the **Present Value** of a bond's cash flows **equal to its current market price**.
- How is it useful?** The Zero-volatility Spread provides a holistic perspective, taking into consideration the shape of the yield curve, **applying a spread across all maturities on top of the yield curve** rather than a singular maturity.

Z-Spread (bps)



Z-Spread (bps)



Catalysts for Issuance

- Spreads wide versus peers:** Both of Meituan's issues, at **140** and **144** bps respectively, trade relatively wider compared to the immediate peer group, filtered further by an Investment-Grade rating spectrum (**AAA/Aaa to BBB-/Baa**).
- Chinese e-commerce's continued growth poses a credit positive:** Chinese consumption of "**local-life services**" is showing a **stronger recovery** compared to other sectors. Bloomberg Intelligence projects 27% EBITDA growth for Meituan in 2025, signaling a respective jump of **12%** and **17%** over e-commerce peers **JD.com** and **Alibaba**. The overall e-commerce industry is reflecting optimistic sentiment, driven by rebounds in consumption and economic stimulus.
- Meituan's positive outlook increases the likelihood of ratings upgrades:** In our view, Meituan's USD bonds have room for further tightening, supported by a series of credit-positive events: (1) Earnings figures show a stronger net cash position, with a **218% increase** from CNY 5.98 billion in Q1 2024 to CNY 19.06 billion in Q2 2024; (2) Continuously robust momentum in local services consumption; and (3) Meituan's status as a leading e-commerce platform in the domestic market. **Positive outlooks from Moody's and Fitch** lend credibility to the possibility of ratings upgrades within the next 12 months, indicating further potential for spread tightening.

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Key Risks and Considerations

- **Food Delivery Market Competition:** **Ele Me**, a food delivery platform owned by Alibaba Group, is the main competitor of Meituan in China, with 70.64 million Monthly Active Users (MAU) compared to Meituan's 80.55 million MAU in February 2024. Additionally, a Statista survey found that **80%** of Chinese consumers used Meituan for food delivery in the past 12 months, while **73% used Ele Me**. On the other hand, Douyin, the Chinese version of Tiktok owned by ByteDance, had planned to expand its food delivery service to compete with the industry leader Meituan. These phenomena highlights the **presence of formidable existing competitors**, with other companies demonstrating their ambition to enter the profitable food delivery industry.
- **Potential Threat:** In 2021, **China imposed a \$533 million fine on Meituan for violating anti-monopoly regulations**, which may potentially introduce short term liquidity constraint and reduce Meituan's free cash flow. This suggests that China's anti-monopoly regulations could potentially **dismantle Meituan's absolute dominance** in the food delivery sector.
- **Business Growth Challenge:** Meituan may encounter challenges and difficulties in maintaining its growth rate without offering discounts, potentially **slowing down its business growth**. However, **introducing discounts**, which may **impact Meituan's profitability**, could be a way for Meituan to sustain its growth.