

Meituan



What it does

Meituan is an online marketplace for the local service industry in China. It operates in on-demand restaurant delivery, grocery, in-store dining, hotel booking, film ticketing, rapid e-commerce and more. From a user perspective, it provides rich information to help make better decisions when choosing services. From a merchant perspective, it helps with marketing, operational efficiency and other services like financial and supply management.

Why we own it

- Scale advantage: Meituan enjoys network effects that increase the loyalty of consumers and merchants, creating a barrier to entry.
- Delivery capability: Delivery infrastructure is key differentiator. Meituan has built the largest intra-city on-demand delivery network in China.
- Visionary founder: Xing Wang continues to identify growth opportunities. Meituan's total addressable market is ever expanding.

How it could be worth many times more

- The online penetration ratio of food delivery and local services continues to grow. Meituan adds more users such that it reaches an annual active user base comparable to that of Alibaba and Pinduoduo, while still maintaining its dominant (c. 70%) market share.
- Online penetration for grocery more than triples within our investment horizon, of which Meituan takes a 40% market share. This also drives growth in order frequency. Wang's ambition to deliver 100 million daily orders by 2025 is realised through both user and order frequency growth.
- Average order value at least doubles over our investment horizon, as blended delivery fees rise on the back of more customized services and higher advertising revenues and more SaaS-based services bring further upside. Take rate reaches 8% (excluding delivery charge) across the platform in the long term. A platform-wide operating margin of 5% or more could spell significant upside.

Where we might be wrong

- Meituan becomes misaligned with the objectives of the State, severely constraining its growth. Market dominance and high margins become socially unacceptable.

Short 10 questions

Can sales double in the next five years? **1**

Yes, through core food delivery business and newer initiatives.

Ten years and beyond? **2**

Total addressable market continues to grow. Meituan becomes largest retail player in China.

Competitive advantage? **3**

Unparalleled delivery network and scale benefits users and merchants alike.

Is the business culture different? **4**

Passionate and thoughtful CEO Xing Wang is exceptionally long term. Constantly innovating and experimenting (e.g. trying but stopping its taxi-hailing business, investing in AI and robotics).

Customers like you? Contribute to society? **5**

'Always choose to do the right things for our customers and not the easy things for ourselves'.

Are returns worthwhile? **6**

Operating margin of >5% in future, per many large retailers.

Will they rise or fall? **7**

Growing scale and greater efficiency = growing returns.

How is capital allocated? **8**

Technology, R&D, cloud-based SaaS, smart payment solutions.

Could it be worth 5x as much? **9**

Market dominance + more orders + higher average order value + take rate expansion.

What doesn't the market understand? **10**

There is no comparison outside of China.

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