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Meituan (3690.HK)

Thoughts On LongCat-2.0 & MT's Positioning In Local Services Agentic Capabilities

CITI'S TAKE

Following the release of its trillion-parameter LongCat-2.0 model on June 30, Meituan announced on July 6 that it would be open-sourcing the model. We believe this strategic move could solidify its leadership in the local services market. The model's advanced agentic architecture is set to enhance internal R&D efficiency and attract external developers. By leveraging its vast, proprietary offline transaction and operational data, Meituan can offer unique, AI-powered marketing and business insights to its SME merchants. We believe this creates a strong competitive moat that differentiates it from other LLM providers and deepens its relationship with merchants and consumers. Specifically, while competitors like ByteDance can offer strong AI support to local merchants, we believe Meituan's model is differentiated by its proprietary data from its rider network and its cumulative experience with dispatch algorithms. We believe this combination could create a powerful local services flywheel. Maintain Buy and TP of HK$113.

Buy / High Risk	
Price (10 Jul 26 16:10)	HK$78.70
Target price	HK$113.00
Expected share price return	43.6%
Expected dividend yield	0.0%
Expected total return	43.6%
Market Cap	HK$480,147M
	US$61,219M

Alicia Yap, CFA[AC]

Nelson Cheung

Vicky Wei, CFA

Release of LongCat-2.0 on Jun 30 and open-source on Jul 6 – On Jun 30, Meituan officially released its newer version of LongCat-2.0 consisted of 1.6T total parameter and average active parameters of 48B with dynamic range between 33-56B. About a week later on July 6, it further announced to open source LongCat-2.0 in BF16, FP8 and INT8. Meituan claimed that LongCat-2.0 represents the industry's first large model with trillions parameters with full-chain training and inference processed on domestic 50K-card chip cluster. LongCat-2.0 started the pre-training from scratch with a data scale of >30T tokens covering multi-language and codes and supports a native 1M context window. Trained based on domestic chip cluster, LongCat-2.0 also reduce average monthly failure rate by over 70%, improve training accuracy and increase training model flops utilization (MFU) by 1.5x. From inference perspective, LongCat-2.0 also supports lower-latency decode backed by MoE model at trillions parameters.

Agentic coding architecture – LongCat-2.0 adopts LongCat Sparse Attention (LSA) to support intelligent screening, positioning and understanding of key information accurately within 1M tokens. LongCat-2.0 also adopts zero-compute expert to save compute on simple tokens and allocation of compute resources towards complex tokens. Leveraging Multi-Teacher On-Policy Distill (MOPD), LongCat-2.0 integrates agent, reasoning, interaction as three key expert skills to deliver better performance across coding, reasoning and interactions. Such architecture is designated to complete real agentic coding missions more efficiently and steadily. Before its official release, the preview version of LongCat-2.0 has been deployed on OpenRouter and longcat.ai. During its internal testing, LongCat-2.0 is capable for real-world scenarios including agent creation, codebase migration, full-chain application development, 3D illustration and demonstration and AI novel factory. As of the announcement date, Meituan argued that LongCat-2.0 preview entered top 3 by global large model usage

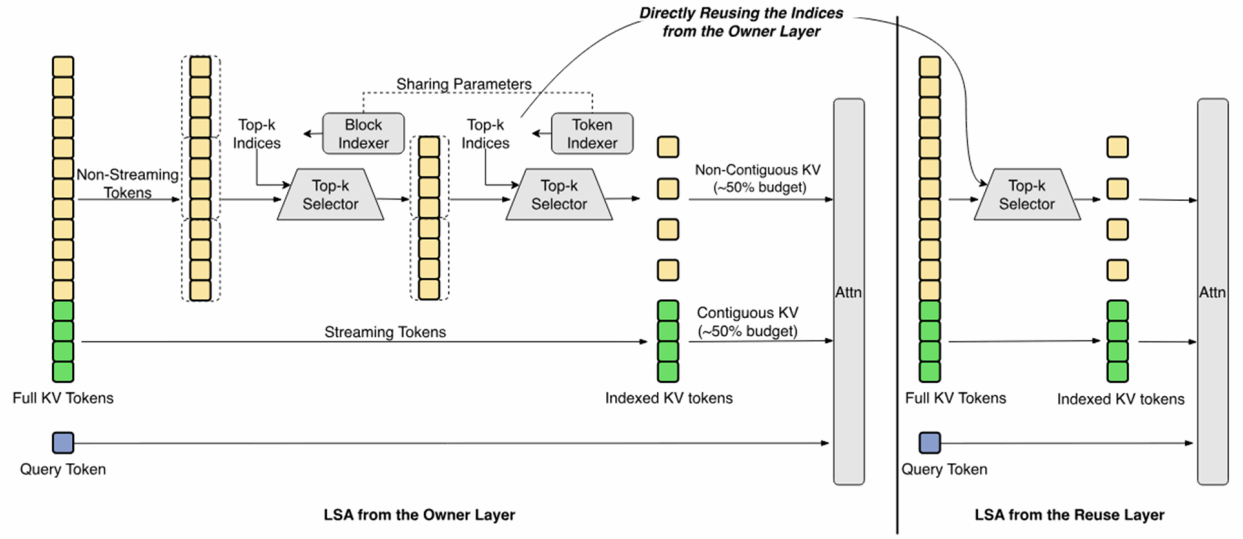
See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

on OpenRouter, and ranked #1/2/3 on Hermes, Claude Code and OpenClaw by monthly usage.

Meituan's attitude on AI – Per a report by Sina on Jul 7th quoted China Business Network that during recent annual shareholder meeting held on June 26th, Meituan CEO Wang Xing noted that AI transformation is "mandatory," not an "optional" as he believes that all companies must face two important decisions related to AI: 1) using AI in their products and 2) using AI in their work. Wang Xing noted that the impact of agents on workflows has "exceeded expectations from two years ago," and Meituan is actively addressing it. On the product front, Meituan has already launched products like the Xiaotuan AI Assistant in its exploratory efforts. Nevertheless, management reassured that the company will not invest blindly in AI beyond its financial capabilities.

Beneficial to SME local services merchants – By open-sourcing selected portion of the model, we believe Meituan hopes to attract external developers/merchants to build applications for local service scenarios, leveraging LongCat's capability. Since LongCat possess massive volume of offline transaction, fulfillment and operational data, Maituan can provide and support merchants with precise marketing and site selection recommendations which is differentiated from other common LLM.

Figure 1. LongCat Sparse Attention

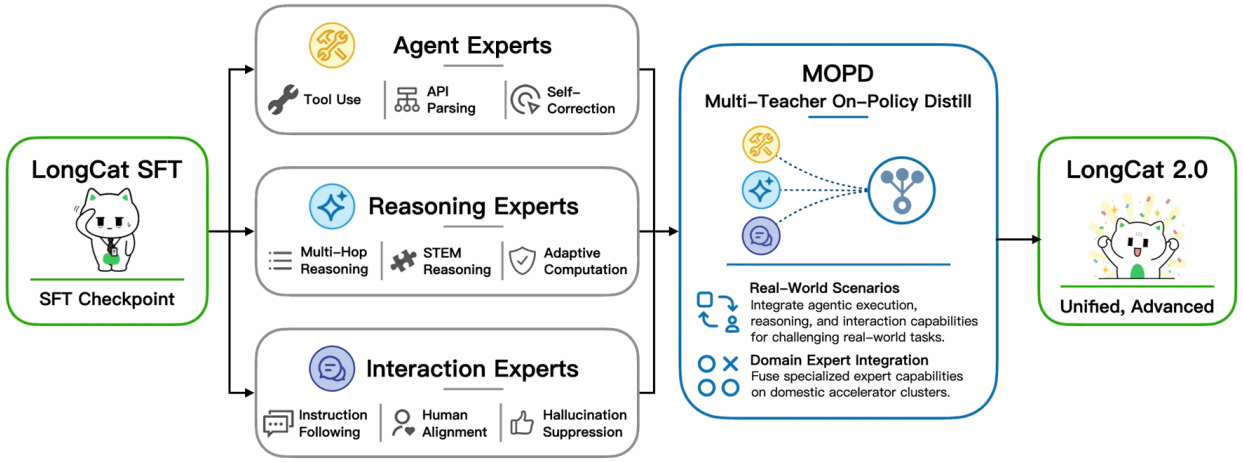


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Source: Company Reports, Citi Research



Figure 2. LongCat-2.0's Multi-Teacher On-Policy Distill



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Source: Company Reports, Citi Research

Meituan

Valuation

We use a sum-of-the-parts (SOTP) approach to value Meituan shares.

1) Food delivery and Meituan Instashopping business: Applying 1.4x P/S to Meituan's food delivery and Meituan Instashopping business yields a total value of HK$310bn, or ~HK$52 per share.

2) In-store hotel and travel: Applying an 8x multiple to our adjusted net profit of Rmb16.8bn yields a value of HK$150bn, or ~HK$25 per share.

3) New initiatives excluding grocery retail: Applying 1.0x P/S results in HK$53.8bn, or ~HK$9.0 per share.

4) Grocery retail (including Meituan Select): Applying 1.0x P/S results in HK$87.0bn, or ~HK$14.5 per share.

5) Cash balance: We include cash, cash equivalent and short-term investments, but exclude restricted cash. We use 1Q26 actual net cash balance in our valuation.

Added together, our SOTP valuation for Meituan comes to a target price of HK$113 per share.

Risks

We assign a High Risk rating to Meituan for higher volatility amid intensifying competition. Downside risks to achieving our target price include: 1) intense competition continues and food delivery UE remains loss making; 2) tough competitive landscape for in-store and hotel business that pressures margins; 3) new initiative losses wider than expected; 4) higher-than-expected rider cost; 5) deteriorating macro economy and shift of consumption behavior.