

Meituan (3690 HK)

Confident in LT organic growth

We expect Meituan to deliver in-line 2Q21E (rev +71% YoY, bottom line at -RMB4.8bn) with full-year financials intact. We expect 2Q21E food delivery to be on track, and 2H21E prudent monetization and profitability (due to higher rider insurance) have been well guided. In-store rev +88% YoY in 2Q21E, while adj. OPM was 39%. One-off impact from Zhengzhou flooding and COVID uncertainty would be manageable. Groceries net loss is expected to widen in 2Q21E QoQ, but was well priced in. Our bear case analysis indicates HK\$180 as the fundamental price floor (30x FY22E EV/EBIT for food delivery & in-store & hotel, excl. new biz valuation). Multiples might bear temporary pressure amid new regulatory environment, but we keep confident in MT's secular growth given high barrier. We barely changed our forecast, and maintain our TP of HK\$383. Suggest to buy the dips for attractive valuation and further catalysts (e.g. upcoming results; anti-trust law fine).

- **2Q21E on track.** We expect 2Q21E rev +71% YoY, in line with consensus. Adj. net loss would widen to RMB4.8bn (vs. consensus of RMB3.9bn), mainly on rising groceries investment. By segment, rev of food delivery/ in-store, hotel & travel/ new initiatives +55%/+88%/+98% YoY, with OPM at +9%/+39%/-97% in 2Q21E, in our estimates.
- **Short-term conservative profitability priced in.** We expect food delivery GTV/orders/AOV +46%/+54%/-5% YoY, with take rate at 14.2% in 2Q21E (vs. 14.4% in 1Q21). GTV momentum in 2H21E would continue, while OPM would be diluted by social insurance. Under new social insurance policy, we expect delivery adj. OPM in 2H21E at 6%, lower than 9% in 2Q21E. We expect in-store, hotel and travel rev +88% YoY in 2Q21E (vs. +113% YoY in 1Q21), with OPM at 39%. Zhengzhou flooding and new COVID-19 cases might pose short-term pressure on 3Q21E, but organic growth will remain intact. Meituan would step up its investment on new initiatives (e.g. summer cold chain enhancement). We forecast new biz rev +98%YoY in 2Q21E, with EBIT loss at RMB10.8bn (Meituan Select at -RMB7.8bn). According to our cross-check, Meituan Select daily orders kept relatively stable in 2Q21 (vs. peers' downtrend), despite new regulatory environment and intensified competition.
- **Maintain BUY.** We keep our forecast unchanged, and maintain our SOTP-based TP of HK\$383. Maintain BUY, considering its structure opportunities from COVID-19, new initiatives benefits, and digital operation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	97,529	114,795	180,899	249,250	320,130
YoY growth (%)	50	18	58	38	28
Net income (RMB mn)	4,657	3,305	(20,285)	(1,237)	14,820
EPS (RMB)	0.79	0.52	(3.29)	(0.20)	2.27
YoY growth (%)	NA	(34)	(733)	(94)	(1,264)
Consensus (RMB)	NA	NA	(2.50)	0.24	3.08
P/E (x)	250	378	NA	NA	87
P/S (x)	12.3	10.5	6.6	4.8	3.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.7	5.0	(80.6)	(16.4)	14.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$383.0
 (Previous TP) HK\$383.0
Up/Downside +60.2%
Current Price HK\$239.0

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,310,354
Avg 3 mths t/o (HK\$ mn)	7,866.19
52w High/Low (HK\$)	460.0/ 190.4
Total Issued Shares (mn)	5,451

Source: Bloomberg

Shareholding Structure

Tencent	19.5%
Sequoia Capital	6.5%
Baillie Gifford	5.0%

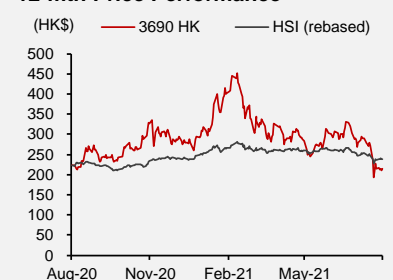
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.3%	-9.0%
3-mth	-17.8%	-18.3%
6-mth	-9.2%	-16.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Investment on groceries to step up – 31 May 2021
2. Reinvestment on new initiatives – 29 Mar 2021
3. Upbeat 3Q20; Eyes on new initiatives – 1 Dec 2020

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	180,899	249,250	320,130	184,101	251,030	326,153	-1.7%	-0.7%	-1.8%
Gross Profit	44,027	91,796	115,160	43,678	71,000	99,669	0.8%	29.3%	15.5%
Operating Profit	(41,362)	(8,264)	9,305	(19,271)	(2,618)	17,178	NA	NA	-45.8%
Adj. net profit	(20,285)	(1,237)	14,820	(15,022)	1,990	20,671	NA	NA	-28.3%
EPS (RMB)	(3.29)	(0.20)	2.27	(2.50)	0.24	3.08	NA	NA	-26.4%
Gross Margin	24.3%	36.8%	36.0%	23.7%	28.3%	30.6%	+0.6ppts	+8.5ppts	+5.4ppts
Operating Margin	-22.9%	-3.3%	2.9%	-10.5%	-1.0%	5.3%	-12.4ppts	-2.3ppts	-2.4ppts
Adj. Net Margin	-11.2%	-0.5%	4.6%	-8.2%	0.8%	6.3%	-3.1ppts	-1.3ppts	-1.7ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Meituan's 2Q21E preview

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	QoQ	YoY	Consensus	Diff %
Revenue	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	42,306	14%	71%	42,623	-1%
Operating profit	(1,304)	1,113	1,447	1,424	(1,716)	2,175	6,724	(2,853)	(4,767)	(6,487)	NA	NA	(5,004)	NA
Net profit	(1,432)	877	1,333	1,463	(1,579)	2,210	6,321	(2,244)	(4,846)	(5,924)	NA	NA	(5,106)	NA
Adj. net profit	(1,039)	1,494	1,942	2,270	(216)	2,718	2,055	(1,437)	(3,892)	(4,848)	NA	NA	(3,921)	NA
Margin (%)														
Gross margin	31.0%	34.7%	30.6%	24.9%	31.0%	34.7%	30.6%	24.9%	19.5%	22.6%			24.2%	
Operating margin	-6.8%	4.9%	5.3%	5.1%	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-15.3%			-11.7%	
Adj. net margin	-5.4%	6.6%	7.1%	8.1%	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-11.5%			-9.2%	
Growth (%)														
Revenue (YoY)	70.1%	50.6%	44.1%	42.2%	-12.6%	8.9%	28.8%	34.7%	120.9%	71.1%			72.4%	
Revenue (QoQ)	-3.2%	18.4%	21.1%	2.4%	-40.5%	47.6%	43.2%	7.1%	-2.4%	14.3%			15.1%	
Operating profit	NA	NA	NA	NA	NA	95.5%	364.6%	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	82.0%	5.8%	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: 2Q21E Revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	QoQ	YoY
Revenue (RMB mn)	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	42,306	14.3%	71.1%
Food Delivery	10,706	12,845	15,577	15,716	9,490	14,544	20,693	21,538	20,575	22,608	9.9%	55.4%
In-Store, Hotel, Travel	4,492	5,245	6,181	6,357	3,095	4,544	6,478	7,135	6,584	8,543	29.7%	88.0%
New Initiatives & Others	3,976	4,613	5,736	6,086	4,168	5,634	8,230	9,244	9,856	11,155	13.2%	98.0%

Source: Company data, CMBIS estimates

Figure 4: SOTP valuation

Business (US\$ bn)	'22E Rev	OP Margin	'22E EBIT	Methodology	Multiple	Value
Food Delivery	19.8	10.0%	2.0	EV/Sales	6.5x	128.9
In-Store and Travel	4.7	38.9%	1.8	EV/EBIT	30.0x	54.5
Hotel	1.5	38.9%	0.6	EV/EBIT	30.0x	17.7
New initiatives	11.4	-41.9%	(4.8)	EV/Sales	8.0x	91.0
Enterprise Value						292.1
(+) Net Cash						8.2
Equity Value						300.3
Diluted Shares Outstanding (mn)						6,146.0
Price Target (HK\$)						383.0

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	97,529	114,795	180,899	249,250	320,130
Food delivery	54,843	66,265	97,507	132,164	163,374
In-store, hotel & travel	22,275	21,252	30,427	41,275	53,092
New initiatives	20,410	27,277	52,965	75,811	103,663
COGS	(65,208)	(80,744)	(136,872)	(157,453)	(204,969)
Gross profit	32,320	34,050	44,027	91,796	115,160
S&M	(18,602)	(20,883)	(54,270)	(59,820)	(67,227)
Admin.Exp.	(3,559)	(5,594)	(9,045)	(12,462)	(9,604)
R&D	(7,309)	(10,893)	(18,090)	(22,432)	(22,409)
Others	475	8,117	(3,985)	(5,346)	(6,615)
Operating profit	3,326	4,798	(41,362)	(8,264)	9,305
Financial Cost	(25)	(156)	(91)	10	(160)
Fair value change	-	-	-	-	-
Others	107	264	(2)	(2)	(2)
Pre-tax Income	3,408	4,906	(41,456)	(8,256)	9,143
Income Tax	(526)	270	2,441	1,233	(1,377)
Net profit	2,236	4,708	(24,681)	(6,989)	7,800
Adj. net profit	4,657	3,305	(20,285)	(1,237)	14,820

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	2,236	4,708	(37,694)	(6,989)	7,745
D&A	4,846	4,466	2,581	5,301	6,311
Change in WC	(3,697)	(1,044)	6,296	5,992	8,975
Others	2,189	345	4,522	5,920	7,223
Operating CF	5,574	8,475	(24,295)	10,224	30,254
Capex	(2,210)	(4,305)	(5,789)	(7,577)	(9,245)
Associates	(8,710)	(4,334)	(0)	(0)	(0)
Others	746	(12,593)	(3,936)	893	2,031
Investing CF	(10,174)	(21,232)	(9,725)	(6,684)	(7,214)
Equity raised	-	-	-	-	-
Change of Debts	1,749	4,333	-	-	-
Others	(635)	13,085	-	-	-
Financing CF	1,114	17,418	-	-	-
Net change in cash	(3,486)	4,661	(34,020)	3,540	23,040
Cash (beg of yr)	17,044	13,396	17,094	(16,926)	(13,386)
FX	(173)	(964)	-	-	-
Cash (end of yr)	13,396	17,094	(16,926)	(13,386)	9,653

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,878	78,269	65,186	66,828	67,939
Fixed asset	5,376	13,917	8,057	10,239	11,842
Financial assets at fair value	7,166	10,863	10,863	10,863	10,863
Intangible assets	32,700	31,676	30,805	30,007	29,307
Others	4,636	21,812	15,461	15,720	15,928
Current assets	82,135	88,306	47,107	52,325	77,036
Cash	13,396	17,094	(16,926)	(13,386)	9,653
Restricted cash	8,760	12,776	8,760	8,760	8,760
Account receivable	677	1,031	621	727	840
Others	59,302	57,406	54,653	56,224	57,782
Current liabilities	36,593	51,148	43,546	51,404	62,238
Trade payable	6,766	11,967	11,198	16,201	22,889
Payable to merchants	7,495	9,415	8,216	9,623	11,123
Advances from users	3,856	4,308	3,114	3,647	4,216
Deferred revenues	4,567	5,053	3,855	4,781	5,526
Others	13,908	20,405	17,162	17,153	18,484
Non-current liabilities	3,366	17,793	17,290	17,360	17,381
Borrowings	467	1,957	1,957	1,957	1,957
Others	-	-	-	-	-
Minority interest	2,899	15,835	15,333	15,402	15,423
Total Equity	(58)	(59)	(61)	(64)	(67)
Shareholders' equity	92,054	97,634	64,463	63,394	78,362

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Food delivery	56.2	57.7	53.9	53.0	51.0
In-store, hotel & travel	22.8	18.5	16.8	16.6	16.6
New initiatives	20.9	23.8	29.3	30.4	32.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	49.5	17.7	57.6	37.8	28.4
Gross profit	114.0	5.4	29.3	108.5	25.5
EBIT	NA	35.9	NA	NA	NA
Net profit	NA	(29.0)	NA	NA	NA
P&L ratios (%)					
Operating margin	3.4	4.2	(22.9)	(3.3)	2.9
Pre-tax margin	3.5	4.3	(22.9)	(3.3)	2.9
Net margin	4.8	2.9	(11.2)	(0.5)	4.6
Effective tax rate	(0.5)	0.2	1.3	0.5	(0.4)
Returns (%)					
ROE	3.7	5.0	(80.6)	(16.4)	14.0
ROA	3.7	2.2	(14.5)	(1.1)	11.2
Per share					
EPS (RMB)	0.79	0.52	(3.29)	(0.20)	2.27
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.54	16.26	8.34	7.94	10.01

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.