

Meituan (3690 HK)

Regulation & epidemic impact manageable

Meituan delivered another upbeat quarter, with rev +77% YoY (3% above consensus) and better bottom line. All biz lines beat our estimates. Looking ahead, food delivery might see order deceleration (+25% YoY) and margin volatility (OPM at 3%) in 3Q21E, but was partly anticipated by the market. Mgmt reemphasized new social insurance would be acceptable. COVID-19 & flood would pose one-off impact on in-store biz in 3Q21E (forecasting rev +31% YoY, with OPM at 40%), while long-term trend intact. We reiterated our confidence on its LT organic growth with high barrier, and view its ST headwinds manageable. We raised FY21-23E rev by 2%, and maintain our TP of HK\$383. Suggest to buy the dips for attractive valuation (HK\$180 as the fundamental price floor) and further catalysts (e.g. anti-trust law fine).

- Upbeat 2Q21.** 2Q21 rev +77% YoY, 3%/3% above consensus/our estimates. Adj. net loss reached RMB2.2bn, better than consensus of -RMB4.0bn, mainly on lower new initiatives loss and higher OPM of in-store, hotel & travel. By segment, rev of food delivery/ in-store, hotel and travel/ new initiatives +59%/+89%/+114% YoY (vs. our estimate of +55%/+88%/+98% YoY).
- Eyes on 2H21E regulation & epidemic impact.** Food delivery GTV/orders +59%/59% YoY, with take rate at 13.3% in 2Q21 (vs. 14.4% in 1Q21). Looking ahead, we expect orders +25% YoY in 3Q21E, with AOV flat QoQ, and OPM would be diluted by epidemic, natural disasters, and higher subsidies (forecasting OPM at 3%). We view this deceleration and margin volatility as acceptable, given low market expectation. Apart from employment injury insurance (guiding RMB0.05 extra cost per order), mgmt reemphasized new social insurance would be acceptable and not be fully reflected in FY22E, given long cycle for new policy introduction. In-store, hotel and travel rev +89% YoY, and OPM beat 4ppts. COVID-19 & flood would pose one-off impact on this segment in 3Q21E (forecasting rev +31% YoY, with OPM at 40%), but long-term trend intact.
- Focusing on LT capability investment for new initiatives.** We are surprised to see new initiatives rev +114% YoY with less-than-expected loss in 2Q21, amid tightening regulations. New biz net loss was estimated to be RMB10.5bn in 3Q21E (Meituan Select ~RMB7.5bn) with improving UE. CGB biz might slow its pace in line with regulations (lower QoQ growth in 3Q21E), but was well anticipated.
- Maintain BUY.** We raised FY21-23E rev by 2%, and maintain our SOTP-based TP of HK\$383. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	97,529	114,795	183,818	253,252	325,206
YoY growth (%)	50	18	60	38	28
Net income (RMB mn)	4,657	3,121	(16,281)	(1,827)	16,092
EPS (RMB)	0.79	0.52	(2.64)	(0.29)	2.46
YoY growth (%)	NA	(34)	(607)	(89)	(956)
Consensus (RMB)	NA	NA	(2.53)	0.07	2.97
P/E (x)	237	359	-71	-648	76
P/S (x)	11.9	10.1	6.3	4.6	3.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.7	5.0	(31.1)	(11.2)	13.7
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 **+68.0%**
 Current Price **HK\$228.0**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,376,732
Avg 3 mths t/o (HK\$ mn)	7,663.61
52w High/Low (HK\$)	460.0/ 183.2
Total Issued Shares (mn)	5,451

Source: Bloomberg

Shareholding Structure

Tencent	19.5%
Sequoia Capital	6.5%
Baillie Gifford	5.0%

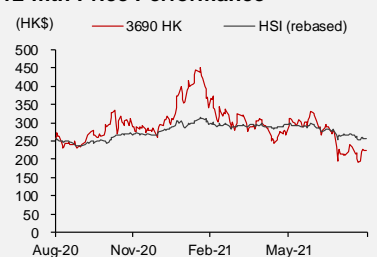
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.5%	2.0%
3-mth	-15.2%	-2.7%
6-mth	-33.8%	-24.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Confident in LT organic growth – 10 Aug 2021
- Investment on groceries to step up – 31 May 2021
- Reinvestment on new initiatives – 29 Mar 2021

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	183,818	253,252	325,206	183,827	250,712	326,062	0.0%	1.0%	-0.3%
Gross Profit	45,714	90,216	118,262	43,725	70,822	99,738	4.5%	27.4%	18.6%
Operating Profit	(21,536)	(7,783)	11,863	(20,273)	(3,495)	17,730	NA	NA	-33.1%
Adj. net profit	(16,281)	(1,827)	16,092	(15,339)	1,771	21,605	NA	NA	-25.5%
EPS (RMB)	(2.64)	(0.29)	2.46	(2.53)	0.07	2.97	NA	NA	-17.2%
Gross Margin	24.9%	35.6%	36.4%	23.7%	28.3%	30.6%	+1.1ppts	+7.3ppts	+5.8ppts
Operating Margin	-11.7%	-3.1%	3.6%	-10.5%	-1.0%	5.3%	-1.2ppts	-2.0ppts	-1.6ppts
Adj. Net Margin	-8.9%	-0.7%	4.9%	-8.2%	0.8%	6.3%	-0.7ppts	-1.5ppts	-1.4ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	183,818	253,252	325,206	180,899	249,250	320,130	1.6%	1.6%	1.6%
Gross Profit	45,714	90,216	118,262	44,027	91,796	115,160	3.8%	-1.7%	2.7%
Operating Profit	(21,536)	(7,783)	11,863	(41,362)	(8,264)	9,305	NA	NA	27.5%
Adj. net profit	(16,281)	(1,827)	16,092	(20,285)	(1,237)	14,820	NA	NA	8.6%
Adj. EPS (RMB)	(2.64)	(0.29)	2.46	(3.29)	(0.20)	2.27	NA	NA	8.5%
Gross Margin	24.9%	35.6%	36.4%	24.3%	36.8%	36.0%	+0.6ppts	-1.2ppts	+0.4ppts
Operating Margin	-11.7%	-3.1%	3.6%	-22.9%	-3.3%	2.9%	+11.2ppts	+0.2ppts	+0.7ppts
Adj. net margin	-8.9%	-0.7%	4.9%	-11.2%	-0.5%	4.6%	+2.3ppts	-0.2ppts	+0.3ppts

Source: CMBIS estimates

Figure 3: Meituan's 2Q21 review

RMB mn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	43,759	18%	77%	42,357	3%
Operating profit	1,113	1,447	1,424	(1,716)	2,175	6,724	(2,853)	(4,767)	(3,252)	NA	NA	(5,107)	NA
Net profit	877	1,333	1,463	(1,579)	2,210	6,321	(2,244)	(4,846)	(3,356)	NA	NA	(5,251)	NA
Adj. net profit	1,494	1,942	2,270	(216)	2,718	2,055	(1,437)	(3,892)	(2,217)	NA	NA	(4,043)	NA
Margin (%)													
Gross margin	34.7%	30.6%	24.9%	31.0%	34.7%	30.6%	24.9%	19.5%	28.6%			22.9%	
Operating margin	4.9%	5.3%	5.1%	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-7.4%			-12.1%	
Adj. net margin	6.6%	7.1%	8.1%	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-5.1%			-9.5%	
Growth (%)													
Revenue (YoY)	50.6%	44.1%	42.2%	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%			71.3%	
Revenue (QoQ)	18.4%	21.1%	2.4%	-40.5%	47.6%	43.2%	7.1%	-2.4%	18.2%			14.4%	
Operating profit	NA	NA	NA	NA	95.5%	364.6%	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	82.0%	5.8%	NA	NA	NA			NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 2Q21 Revenue breakdown

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue (RMB mn)	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	43,759	18.2%	77.0%
Food Delivery	12,845	15,577	15,716	9,490	14,544	20,693	21,538	20,575	23,125	12.4%	59.0%
In-Store, Hotel, Travel	5,245	6,181	6,357	3,095	4,544	6,478	7,135	6,584	8,602	30.6%	89.3%
New Initiatives & Others	4,613	5,736	6,086	4,168	5,634	8,230	9,244	9,856	12,032	22.1%	113.6%

Source: Company data, CMBIS estimates

Figure 5: SOTP valuation

Business (US\$ bn)	'22E Rev	OP Margin	'22E EBIT	Methodology	Multiple	Value
Food Delivery	20.1	8.0%	1.6	EV/Sales	6.5x	129.7
In-Store and Travel	4.8	39.0%	1.9	EV/EBIT	30.0x	56.4
Hotel	1.7	39.0%	0.7	EV/EBIT	30.0x	19.7
New initiatives	11.4	-40.5%	(4.6)	EV/Sales	8.0x	91.0
Enterprise Value						296.8
(+) Net Cash						8.2
Equity Value						305.0
Diluted Shares Outstanding (mn)						6,201.0
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	183,818	253,252	325,206
Food delivery	54,843	66,265	98,900	134,052	165,708
In-store, hotel & travel	22,275	21,252	31,954	43,389	55,834
New initiatives	20,410	27,277	52,965	75,811	103,663
COGS	(65,208)	(80,744)	(138,104)	(163,035)	(206,944)
Gross profit	32,320	34,050	45,714	90,216	118,262
S&M	(18,602)	(20,883)	(40,440)	(60,780)	(68,293)
Admin.Exp.	(3,559)	(5,594)	(8,272)	(12,663)	(9,756)
R&D	(7,309)	(10,893)	(15,625)	(20,260)	(22,764)
Others	475	8,117	(2,914)	(4,297)	(5,585)
Operating profit	3,326	4,798	(21,536)	(7,783)	11,863
Financial Cost	(25)	(156)	(91)	10	(69)
Fair value change	-	-	-	-	-
Others	107	264	36	36	36
Pre-tax Income	3,408	4,906	(21,591)	(7,737)	11,830
Income Tax	(526)	270	1,950	1,171	(1,764)
Net profit	2,236	4,708	(19,712)	(6,636)	9,996
Adj. net profit	4,657	3,305	(16,281)	(1,827)	16,092

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	2,236	4,708	(19,712)	(6,636)	9,996
D&A	4,846	4,466	2,608	3,016	3,405
Change in WC	(3,697)	(1,044)	6,671	6,086	9,111
Others	2,189	345	4,595	6,015	7,337
Operating CF	5,574	8,475	(5,838)	8,480	29,849
Capex	(2,210)	(4,305)	(5,882)	(7,699)	(9,392)
Associates	(8,710)	(4,334)	(0)	(0)	(0)
Others	746	(12,593)	4,188	5,482	6,687
Investing CF	(10,174)	(21,232)	(1,694)	(2,217)	(2,705)
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	(7,532)	6,263	27,144
Cash (beg of yr)	17,044	13,396	17,094	9,561	15,824
FX	(173)	(964)	-	-	-
Cash (end of yr)	13,396	17,094	9,561	15,824	42,969

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,878	78,269	57,146	56,610	56,122
Fixed asset	5,376	13,917	-	-	-
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	15,478	15,741	15,952
Current assets	82,135	88,306	73,777	81,743	110,583
Cash	13,396	17,094	9,561	15,824	42,969
Restricted cash	8,760	12,776	8,760	8,760	8,760
Account receivable	677	1,031	631	739	854
Others	59,302	57,406	54,825	56,420	58,000
Current liabilities	36,593	51,148	44,110	52,091	63,088
Trade payable	6,766	11,967	11,379	16,461	23,252
Payable to merchants	7,495	9,415	8,349	9,777	11,300
Advances from users	3,856	4,308	3,164	3,705	4,282
Deferred revenues	4,567	5,053	3,917	4,857	5,614
Others	13,908	20,405	17,300	17,290	18,641
Non-current liabilities	3,366	17,793	17,301	17,372	17,393
Borrowings	467	1,957	1,957	1,957	1,957
Others	-	-	-	-	-
Minority interest	2,899	15,835	15,344	15,414	15,435
Total Equity	(58)	(59)	(61)	(64)	(67)
Shareholders' equity	92,054	97,634	82,517	81,896	99,229

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Food delivery	56.2	57.7	53.8	52.9	51.0
In-store, hotel & travel	22.8	18.5	17.4	17.1	17.2
New initiatives	20.9	23.8	28.8	29.9	31.9
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	49.5	17.7	60.1	37.8	28.4
Gross profit	114.0	5.4	34.3	97.3	31.1
EBIT	NA	35.9	NA	NA	NA
Net profit	NA	(29.0)	NA	NA	NA
P&L ratios (%)					
Operating margin	3.4	4.2	(11.7)	(3.1)	3.6
Pre-tax margin	3.5	4.3	(11.7)	(3.1)	3.6
Net margin	4.8	2.9	(8.9)	(0.7)	4.9
Effective tax rate	(0.5)	0.2	1.1	0.5	(0.5)
Returns (%)					
ROE	3.7	5.0	(31.1)	(11.2)	13.7
ROA	3.7	2.2	(10.9)	(1.4)	10.6
Per share					
EPS (RMB)	0.79	0.52	(2.64)	(0.29)	2.46
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.54	16.26	11.26	10.84	13.19

Source: Company data, CMBIS estimates

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