

Meituan (3690 HK)

Looking beyond 3Q21E epidemic impact

Meituan's 3Q21E would be relatively moderate but well-anticipated, limited by COVID-19 resurgence, natural disasters and regulation. We forecast rev +37% YoY (in line with consensus) and bottom line at -RMB5.6bn (vs. consensus of -RMB5.0bn). By segment, food delivery would see rev deceleration (+26% YoY) and margin volatility (OPM at 3%) with higher subsidies in 3Q21E, but was well-guided. New social insurance would also 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 would be intact. We reiterate our confidence on its LT organic growth with high barrier, and view its ST headwinds manageable. We keep our financials largely unchanged, and maintain our TP of HK\$383. Suggest to buy the dips with regulatory overhang to lift.

- 3Q21E on track.** We forecast 3Q21E rev +37% YoY, largely in line with consensus. Adj. net loss would reach RMB5.6bn, vs. consensus of -RMB5.0bn. By segment, rev of food delivery/ in-store, hotel and travel/ new initiatives +26%/+31%/+70% YoY, in our estimate.
- 2H21E epidemic impact well priced in.** We expect Food delivery GTV/orders +28%/25% YoY, with AOV flat QoQ and take rate at 13.4% in 3Q21E (vs. 13.3% in 2Q21). 3Q21E OPM would be diluted to 3% (vs. 9% in 2Q21E), due to COVID-19 resurgence, natural disasters, and higher subsidies. 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. We forecast in-store, hotel and travel rev +31% YoY, with OPM at 40%. COVID-19 & flood would pose one-off impact on this segment in 3Q21E, but long-term trend intact.
- Heading into 4Q21E CGB strong seasonality.** We estimate new biz rev +70% YoY, while net loss at RMB10.5bn in 3Q21E (Meituan Select ~RMB7.5bn) with improving UE. Daily orders of tier 1 players reached 30mn in Sep (based on channel check), suggesting sequential growth in 3Q21, despite slower expansion pace. We suggest to move into 4Q21E CGB strong seasonality, with better UE and rising orders to continue.
- Maintain BUY.** We keep our financials largely unchanged, 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	180,891	253,279	324,840
YoY growth (%)	50	18	58	40	28
Net income (RMB mn)	4,657	3,121	(15,465)	(1,105)	17,078
EPS (RMB)	0.79	0.52	(2.50)	(0.17)	2.61
YoY growth (%)	NA	(34)	NA	NA	NA
Consensus (RMB)	NA	NA	(2.7)	(0.19)	2.58
P/E (x)	295	446	NA	NA	89
P/S (x)	14.6	12.4	7.9	5.6	4.4
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.7	5.0	(29.3)	(9.8)	14.6
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 **+35.3%**
 Current Price **HK\$283.0**

China Internet Sector

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

Stock Data

Mkt Cap (HK\$ mn)	1,735,832
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%

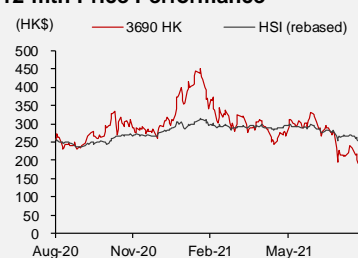
Source: Bloomberg

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

- Regulation & epidemic impact manageable - 31 Aug 2021
- Confident in LT organic growth - 10 Aug 2021
- Investment on groceries to step up - 31 May 2021

Figure 1: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	180,891	253,279	324,840	182,757	252,114	329,693	-1.0%	0.5%	-1.5%
Gross Profit	46,138	91,076	119,299	44,974	72,406	102,462	2.6%	25.8%	16.4%
Operating Profit	(20,559)	(6,934)	13,022	(20,597)	(6,029)	12,942	NA	NA	0.6%
Adj. net profit	(15,465)	(1,105)	17,078	(15,489)	100	17,672	NA	NA	-3.4%
EPS (RMB)	(2.50)	(0.17)	2.61	(2.70)	(0.19)	2.58	NA	NA	1.3%
Gross Margin	25.5%	36.0%	36.7%	23.7%	28.3%	30.6%	+1.8ppts	+7.7ppts	+6.2ppts
Operating Margin	-11.4%	-2.7%	4.0%	-10.5%	-1.0%	5.3%	-0.9ppts	-1.7ppts	-1.3ppts
Adj. Net Margin	-8.5%	-0.4%	5.3%	-8.2%	0.8%	6.3%	-0.4ppts	-1.2ppts	-1.1ppts

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	180,891	253,279	324,840	183,818	253,252	325,206	-1.6%	0.0%	-0.1%
Gross Profit	46,138	91,076	119,299	45,714	90,216	118,262	0.9%	1.0%	0.9%
Operating Profit	(20,559)	(6,934)	13,022	(21,536)	(7,783)	11,863	NA	NA	9.8%
Adj. net profit	(15,465)	(1,105)	17,078	(16,281)	(1,827)	16,092	NA	NA	6.1%
Adj. EPS (RMB)	(2.50)	(0.17)	2.61	(2.64)	(0.29)	2.46	NA	NA	6.1%
Gross Margin	25.5%	36.0%	36.7%	24.9%	35.6%	36.4%	+0.6ppts	+0.3ppts	+0.4ppts
Operating Margin	-11.4%	-2.7%	4.0%	-11.7%	-3.1%	3.6%	+0.4ppts	+0.3ppts	+0.4ppts
Adj. net margin	-8.5%	-0.4%	5.3%	-8.9%	-0.7%	4.9%	+0.3ppts	+0.3ppts	+0.3ppts

Source: CMBIS estimates

Figure 3: Meituan's 3Q21E preview

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	QoQ	YoY	Consensus	Diff %
Revenue	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	43,759	48,422	11%	37%	48,745	-1%
Operating profit	(1,304)	1,113	1,447	1,424	(1,716)	2,175	6,724	(2,853)	(4,767)	(3,252)	(7,523)	NA	NA	(7,469)	NA
Net profit	(1,432)	877	1,333	1,463	(1,579)	2,210	6,321	(2,244)	(4,846)	(3,356)	(6,866)	NA	NA	(6,855)	NA
Adj. net profit	(1,039)	1,494	1,942	2,270	(216)	2,718	2,055	(1,437)	(3,892)	(2,217)	(5,646)	NA	NA	(5,040)	NA
Margin (%)															
Gross margin	31.0%	34.7%	30.6%	24.9%	31.0%	34.7%	30.6%	24.9%	19.5%	28.6%	21.2%				22.5%
Operating margin	-6.8%	4.9%	5.3%	5.1%	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-7.4%	-15.5%				-15.3%
Adj. net margin	-5.4%	6.6%	7.1%	8.1%	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-5.1%	-11.7%				-10.3%
Growth (%)															
Revenue (YoY)	70.1%	50.6%	44.1%	42.2%	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	36.8%				37.7%
Revenue (QoQ)	-3.2%	18.4%	21.1%	2.4%	-40.5%	47.6%	43.2%	7.1%	-2.4%	18.2%	10.7%				11.4%
Operating profit	NA	NA	NA	NA	NA	95.5%	364.6%	NA	NA	NA	NA				NA
Adj. net profit	NA	NA	NA	NA	NA	82.0%	5.8%	NA	NA	NA	NA				NA

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 3Q21E Revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	QoQ	YoY
Revenue (RMB mn)	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	43,759	48,422	10.7%	36.8%
Food Delivery	10,706	12,845	15,577	15,716	9,490	14,544	20,693	21,538	20,575	23,125	26,009	12.5%	25.7%
In-Store, Hotel, Travel	4,492	5,245	6,181	6,357	3,095	4,544	6,478	7,135	6,584	8,602	8,422	-2.1%	30.0%
New Initiatives & Others	3,976	4,613	5,736	6,086	4,168	5,634	8,230	9,244	9,856	12,032	13,992	16.3%	70.0%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	97,529	114,795	180,891	253,279	324,840
Food delivery	54,843	66,265	96,451	134,996	166,875
In-store, hotel & travel	22,275	21,252	32,881	44,625	57,413
New initiatives	20,410	27,277	51,559	73,658	100,553
COGS	(65,208)	(80,744)	(134,753)	(162,203)	(205,541)
Gross profit	32,320	34,050	46,138	91,076	119,299
S&M	(18,602)	(20,883)	(41,605)	(60,787)	(68,216)
Admin.Exp.	(3,559)	(5,594)	(7,236)	(12,664)	(9,745)
R&D	(7,309)	(10,893)	(15,014)	(20,262)	(22,739)
Others	475	8,117	(2,843)	(4,297)	(5,577)
Operating profit	3,326	4,798	(20,559)	(6,934)	13,022
Financial Cost	(25)	(156)	(91)	10	(59)
Fair value change	-	-	-	-	-
Others	107	264	36	36	36
Pre-tax Income	3,408	4,906	(20,614)	(6,888)	12,999
Income Tax	(526)	270	1,862	1,044	(1,939)
Net profit	2,236	4,708	(18,823)	(5,915)	10,990
Adj. net profit	4,657	3,305	(15,465)	(1,105)	17,078

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	2,236	4,708	(18,823)	(5,915)	10,990
D&A	4,846	4,466	2,581	3,016	3,402
Change in WC	(3,697)	(1,044)	6,295	6,466	9,064
Others	2,189	345	4,522	6,015	7,329
Operating CF	5,574	8,475	(5,425)	9,582	30,785
Capex	(2,210)	(4,305)	(5,789)	(7,700)	(9,381)
Associates	(8,710)	(4,334)	(0)	(0)	(0)
Others	746	(12,593)	4,121	5,482	6,680
Investing CF	(10,174)	(21,232)	(1,667)	(2,218)	(2,702)
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	(7,092)	7,365	28,083
Cash (beg of yr)	17,044	13,396	17,094	10,001	17,366
FX	(173)	(964)	-	-	-
Cash (end of yr)	13,396	17,094	10,001	17,366	45,449

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,878	78,269	57,129	56,611	56,120
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	15,461	15,741	15,951
Current assets	82,135	88,306	74,034	83,286	113,046
Cash	13,396	17,094	10,001	17,366	45,449
Restricted cash	8,760	12,776	8,760	8,760	8,760
Account receivable	677	1,031	621	739	853
Others	59,302	57,406	54,652	56,421	57,985
Current liabilities	36,593	51,148	43,544	52,096	63,027
Trade payable	6,766	11,967	11,198	16,463	23,225
Payable to merchants	7,495	9,415	8,216	9,778	11,287
Advances from users	3,856	4,308	3,114	3,706	4,278
Deferred revenues	4,567	5,053	3,855	4,858	5,607
Others	13,908	20,405	17,162	17,291	18,629
Non-current liabilities	3,366	17,793	17,290	17,372	17,392
Borrowings	467	1,957	1,957	1,957	1,957
Others	-	-	-	-	-
Minority interest	2,899	15,835	15,333	15,415	15,434
Total Equity	(58)	(59)	(61)	(64)	(67)
Shareholders' equity	92,054	97,634	83,333	83,434	101,753

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Food delivery	56.2	57.7	53.3	53.3	51.4
In-store, hotel & travel	22.8	18.5	18.2	17.6	17.7
New initiatives	20.9	23.8	28.5	29.1	31.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	49.5	17.7	57.6	40.0	28.3
Gross profit	114.0	5.4	35.5	97.4	31.0
EBIT	NA	35.9	NA	NA	NA
Net profit	NA	(29.0)	NA	NA	NA
P&L ratios (%)					
Operating margin	3.4	4.2	(11.4)	(2.7)	4.0
Pre-tax margin	3.5	4.3	(11.4)	(2.7)	4.0
Net margin	4.8	2.9	(8.5)	(0.4)	5.3
Effective tax rate	(0.5)	0.2	1.0	0.4	(0.6)
Returns (%)					
ROE	3.7	5.0	(29.3)	(9.8)	14.6
ROA	3.7	2.2	(10.4)	(0.8)	11.1
Per share					
EPS (RMB)	0.79	0.52	(2.50)	(0.17)	2.61
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.54	16.26	11.39	11.09	13.58

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.