

Meituan (3690 HK)

Prioritizing high-quality growth

Meituan's 4Q21 beat on margin with in-line rev (+31% YoY). By segment, food delivery/ in-store, hotel and travel/ new initiatives rev +21%/+22%/+59% YoY, with adj. OPM at 6.6%/45%/-69.5%. Looking ahead, 1Q22E would be a challenging quarter, given epidemic resurgence (weak Mar) to dampen food delivery & in-store growth. Mgmt emphasized on quality growth in FY22E, with new biz loss to narrow. We expect food delivery OPM to be diluted by new social insurance and supportive merchants fee structure in FY22E, while long-term earning target remains intact. We forecast its food delivery/ in-store, hotel and travel/ new initiatives rev +13%/+27%/+46% YoY in FY22E, with adj. OPM at 5.0%/41%/-42%. We reiterate our confidence on its LT organic growth with high barrier, and view its ST headwinds manageable. We trimmed our rev forecast by 2-4% and margin by 1-2ppts in FY22-23E, and cut our TP to HK\$250.

- 4Q21 beat on margin.** 4Q21 rev +31% YoY, in line with consensus. Adj. net loss reached RMB3.9bn, better than consensus of -RMB5.8bn, on higher-than-expected delivery & in-store margin and narrowing loss of new initiatives. By segment, rev of food delivery/ In-store, hotel and travel/ new initiatives +21%/+22%/+59% YoY (vs. our estimates of +19%/+22%/+57% YoY).
- Looking beyond soft 1Q22E on epidemic resurgence.** Food delivery GTV/orders +21%/+17% YoY (above our estimates of +16%/+16% YoY), with take rate at 13.9% in 4Q21 (in line). Adj. OPM was 6.6%, above our estimate of 5.5%. Looking ahead, 1Q22E orders might decelerate for epidemic (especially in Mar), and we expect food delivery margin to be diluted by rider social insurance & commission adjustment in FY22E (forecasting EBIT per order at RMB0.33). In-store, hotel and travel rev +22% YoY, while OPM beat our expectation (45%, vs. our estimate of 40%). COVID-19 resurgence might still pose one-off impact on in-store biz in 1Q22E, but long-term trend remains intact. We forecast in-store rev +27% YoY in FY22E, with OPM at 41%. New initiatives +59% YoY, with net loss at RMB10.2bn (better than our estimate of RMB11.5bn). We expect better CGP UE in FY22E, with industrial consolidation.
- Maintain BUY.** We trimmed our rev forecast by 2-4% and margin by 1-2ppts in FY22-23E, and cut our SOTP-based TP to HK\$250.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	114,795	179,128	223,536	290,791	362,767
YoY growth (%)	18	56	25	30	25
Net income (RMB mn)	3,121	(15,572)	(8,875)	9,674	23,903
EPS (RMB)	0.52	(2.58)	(1.39)	1.48	3.56
YoY growth (%)	NA	NA	NA	NA	NA
Consensus (RMB)	NA	NA	(1.43)	1.61	5.27
P/E (x)	NA	NA	NA	73	30
P/S (x)	0.0	3.8	3.0	2.3	1.9
Yield (%)	2.0	0.0	0.0	0.0	0.0
ROE (%)	5.0	(16.5)	(9.7)	3.6	12.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$250.0**
(Previous TP **HK\$332.0**)
Up/Downside **+85.2%**
Current Price **HK\$135.0**

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	921,782
Avg 3 mths t/o (HK\$ mn)	5,970.13
52w High/Low (HK\$)	338.0/103.5
Total Issued Shares (mn)	5,459

Source: Bloomberg

Shareholding Structure

Tencent	19.43%
Sequoia Capital	5.0%
Baillie Gifford	5.0%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-18.5%	-7.4%
3-mth	-30.1%	-25.7%
6-mth	-34.7%	-26.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- China Internet analyst marketing takeaways – 31 Jan 2022
- Moving into 2Q22E recovery- 29 Nov 2021
- Looking beyond 3Q21E epidemic impact- 27 Oct 2021

Figure 1: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	223,536	290,791	362,767	240,669	313,975	380,524	-7.1%	-7.4%	-4.7%
Gross Profit	56,929	73,356	95,821	64,094	93,388	124,795	-11.2%	-21.5%	-23.2%
Operating Profit	(12,683)	5,452	20,873	(13,889)	4,871	31,991	NA	11.9%	-34.8%
Adj. net profit	(8,875)	9,674	23,903	(8,741)	10,839	35,532	NA	-10.7%	-32.7%
EPS (RMB)	(1.39)	1.48	3.56	(1.43)	1.61	5.27	NA	-7.8%	-32.5%
Gross Margin	25.5%	25.2%	26.4%	26.6%	29.7%	32.8%	-1.2ppts	-4.5ppts	-6.4ppts
Operating Margin	-5.7%	1.9%	5.8%	-5.8%	1.6%	8.4%	+0.1ppts	+0.3ppts	-2.7ppts
Adj. Net Margin	-4.0%	3.3%	6.6%	-3.6%	3.5%	9.3%	-0.3ppts	-0.1ppts	-2.7ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	223,536	290,791	362,767	232,676	297,613	NA	-3.9%	-2.3%	NA
Gross Profit	56,929	73,356	95,821	78,497	106,396	NA	-27.5%	-31.1%	NA
Operating Profit	(12,683)	5,452	20,873	(13,666)	6,905	NA	NA	-21.0%	NA
Adj. net profit	(8,875)	9,674	23,903	(4,811)	13,698	NA	NA	-29.4%	NA
Adj. EPS (RMB)	(1.39)	1.48	3.56	(0.76)	2.10	NA	NA	-29.5%	NA
Gross Margin	25.5%	25.2%	26.4%	33.7%	35.7%	NA	-8.2ppts	-10.5ppts	NA
Operating Margin	-5.7%	1.9%	5.8%	-5.9%	2.3%	NA	+0.2ppts	-0.4ppts	NA
Adj. net margin	-4.0%	3.3%	6.6%	-2.1%	4.6%	NA	-1.9ppts	-1.3ppts	NA

Source: CMBIGM estimates

Figure 3: Meituan's 4Q21 review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %
Revenue	16,754	24,722	35,401	37,918	37,016	43,759	48,826	49,523	1%	31%	49,324	0%
Operating profit	(1,716)	2,175	6,724	(2,853)	(4,767)	(3,252)	(10,103)	(5,006)	NA	NA	(7,325)	NA
Net profit	(1,579)	2,210	6,321	(2,244)	(4,846)	(3,356)	(9,994)	(5,339)	NA	NA	(7,222)	NA
Adj. net profit	(216)	2,718	2,055	(1,437)	(3,892)	(2,217)	(5,527)	(3,936)	NA	NA	(5,791)	NA
Adj. EPS (RMB)	(0.04)	0.45	0.34	(0.24)	(0.64)	(0.37)	(0.92)	(0.65)	NA	NA	(0.58)	NA
Margin (%)												
Gross margin	31.0%	34.7%	30.6%	24.9%	19.5%	28.6%	22.1%	24.2%			22.3%	
Operating margin	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-7.4%	-20.7%	-10.1%			-14.9%	
Adj. net margin	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-5.1%	-11.3%	-7.9%			-11.7%	
Growth (%)												
Revenue (YoY)	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	37.9%	30.6%			30.1%	
Revenue (QoQ)	-40.5%	47.6%	43.2%	7.1%	-2.4%	18.2%	11.6%	1.4%			1.0%	
Operating profit	NA	95.5%	364.6%	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	82.0%	5.8%	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 4: 4Q21 Revenue breakdown

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue (RMB mn)	16,754	24,722	35,401	37,918	37,016	43,759	48,826	49,523	1.4%	30.6%
Food Delivery	9,490	14,544	20,693	21,538	20,575	23,125	26,482	26,127	-1.3%	21.3%
In-Store, Hotel, Travel	3,095	4,544	6,478	7,135	6,584	8,602	8,621	8,722	1.2%	22.2%
New Initiatives & Others	4,168	5,634	8,230	9,244	9,856	12,032	13,723	14,674	6.9%	58.7%

Source: Company data

Figure 5: SOTP Valuation

Business (US\$ bn)	'23E Rev	OP Margin	'23E EBIT	Methodology	Multiple	Value
Food Delivery	21.4	7.2%	1.5	EV/EBIT	30.0x	46.3
In-Store and Travel	6.1	49.2%	3.0	EV/EBIT	25.0x	75.1
Hotel	1.9	17.0%	0.3	EV/EBIT	25.0x	7.9
New initiatives	16.3	-20.0%	(3.3)	EV/Sales	4.0x	65.1
Enterprise Value						194.4
(+) Net Cash						16.6
Equity Value						210.9
Diluted Shares Outstanding (mn)						6,201.0
FY23 Val. Per share(HK\$)						264.0
Discounted back to FY22E (HK\$)						235.7
Average 2022 & 2023 valuation (HK\$)						249.9

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	114,795	179,128	223,536	290,791	362,767
Food delivery	66,265	96,312	109,161	136,393	166,780
In-store, hotel & travel	21,252	32,530	41,179	50,805	61,245
New initiatives	27,277	50,286	73,196	103,593	134,743
COGS	(80,744)	(136,654)	(166,607)	(217,435)	(266,946)
Gross profit	34,050	42,474	56,929	73,356	95,821
S&M	(20,558)	(40,169)	(43,961)	(42,030)	(47,389)
Admin.Exp.	(4,427)	(6,763)	(6,930)	(7,997)	(8,706)
R&D	(9,192)	(13,980)	(14,530)	(12,504)	(12,334)
Others	4,924	(4,429)	(4,192)	(5,373)	(6,519)
Operating profit	4,798	(22,867)	(12,683)	5,452	20,873
Financial Cost	(156)	(585)	(311)	(311)	(311)
Fair value change	-	-	-	-	-
Others	264	146	-	-	-
Pre-tax Income	4,906	(23,307)	(12,994)	5,141	20,561
Income Tax	270	30	-	(732)	(3,045)
Net profit	4,708	(23,536)	(13,254)	4,149	17,256
Adj. net profit	3,121	(15,572)	(8,875)	9,674	23,903

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	4,708	(23,536)	(13,254)	4,149	17,256
D&A	5,194	11,892	7,926	9,646	11,367
Change in WC	1,896	6,286	3,211	6,869	7,462
Others	(3,322)	5,053	5,141	6,354	7,530
Operating CF	8,475	(306)	3,023	27,017	43,615
Capex	(11,223)	(8,956)	(11,177)	(13,958)	(16,687)
Associates	2,679	-	-	-	-
Others	(12,688)	3,995	1,969	2,924	2,510
Investing CF	(21,232)	(4,961)	(9,207)	(11,034)	(14,178)
Equity raised	-	-	-	-	-
Change of Debts	4,622	-	-	-	-
Others	12,797	62,293	-	-	-
Financing CF	17,418	62,293	-	-	-
Net change in cash	4,661	57,027	(6,184)	15,983	29,438
Cash (beg of yr)	13,396	17,094	74,120	67,936	83,919
FX	(964)	-	-	-	-
Cash (end of yr)	17,094	74,120	67,936	83,919	113,356

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	78,269	73,521	75,008	77,724	82,070
Fixed asset	13,917	7,899	9,858	11,842	15,178
Financial assets at fair value	10,257	10,257	10,257	10,257	10,257
Intangible assets	32,700	31,676	30,764	30,087	29,492
Others	21,395	23,689	24,130	25,538	27,143
Current assets	88,306	150,073	145,742	165,316	197,777
Cash	17,094	74,120	67,936	83,919	113,356
Restricted cash	12,776	12,776	12,776	12,776	12,776
Account receivable	1,031	1,287	1,365	1,598	1,794
Others	57,406	61,891	63,665	67,024	69,850
Current liabilities	51,148	64,174	69,444	81,223	93,243
Trade payable	11,967	18,674	23,303	30,314	37,818
Payable to merchants	9,415	11,753	12,467	14,596	17,298
Advances from users	4,308	5,378	5,704	6,678	7,498
Deferred revenues	5,053	6,308	7,084	8,294	9,312
Others	20,405	22,062	20,885	21,340	21,317
Non-current liabilities	17,793	17,834	17,834	17,842	17,842
Borrowings	14,924	14,924	14,924	14,924	14,924
Others	-	-	-	-	-
Minority interest	2,869	2,910	2,910	2,919	2,918
Total Equity	(59)	(57)	(54)	(52)	(50)
Shareholders' equity	97,634	141,585	133,472	143,975	168,761

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Food delivery	57.7	53.8	48.8	46.9	46.0
In-store, hotel & travel	18.5	18.2	18.4	17.5	16.9
New initiatives	23.8	28.1	32.7	35.6	37.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	17.7	56.0	24.8	30.1	24.8
Gross profit	5.2	16.9	43.1	28.9	30.6
EBIT	35.9	NA	NA	NA	NA
Net profit	(33.0)	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	4.2	(12.8)	(5.7)	1.9	5.8
Pre-tax margin	4.3	(13.0)	(5.8)	1.8	5.7
Net margin	2.7	(8.7)	(4.0)	3.3	6.6
Effective tax rate	5.5	(0.1)	-	(14.2)	(14.8)
Returns (%)					
ROE	5.0	(16.5)	(9.7)	3.6	12.2
ROA	2.1	(8.0)	(4.0)	4.2	9.1
Per share					
EPS (RMB)	0.52	(2.58)	(1.39)	1.48	3.56
DPS (RMB)	0.00	0.00	0.00	0.00	1.00
BVPS (RMB)	16.26	23.45	20.84	22.04	25.11

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