

Meituan (3690 HK)

Recovery in sight with better margin outlook

Meituan delivered upbeat 1Q22 results, with rev +25% YoY (2%/3% above consensus/our estimate). Bottom line was -RMB3.6bn (above consensus at -RMB4.6bn). We are more positive on Meituan's upcoming recovery and margin outlook, backed by: 1) resilient 2Q22 guidance, with food delivery rev +9% YoY (above buy-side expectation); 2) margin improvement, targeting adj. EBITDA breakeven in FY22, in which food delivery OP & OPM may improve YoY and new initiatives may continue to narrow loss. We believe better-than-feared 2Q22E guidance supports its 2H22E recovery momentum, and Meituan would be key name to benefit from reopening and COVID cases stabilization. We reiterated our confidence in its LT organic growth and profitability visibility. We lifted our earnings forecast by 7-17% in FY23-24E, and raised our TP to HK\$263.

- 1Q22 beat; all biz lines trend well.** 1Q22 rev +25% YoY, 2%/3% above consensus/our estimate. Adj. net loss reached RMB3.6bn, above consensus of -RMB4.6bn, on higher-than-expected in-store OPM and narrowing loss of new initiatives. Rev of food delivery/ in-store, hotel and travel/ new initiatives +17%/+16%/+47% YoY (vs. our estimate of +15%/+15%/+41%).
- Recovery in sight with margin intact.** Food delivery orders +16% YoY (above our estimates of +15% YoY). Adj. OPM was 6.5%, above our estimate at 6.0%. Looking ahead, 2Q22E orders momentum might decelerate for epidemic (orders flat YoY), but rev would see 9% YoY growth for rising AOV (higher mix of brands merchants) and lower subsidies, with OPM +1ppt YoY. We expect food delivery to rebound in 3Q22E (mid-to high-teens YoY growth) once lockdowns are relaxed, and full-year OPM is improved YoY. In-store, hotel and travel rev +16% YoY, and OPM beat our expectation (45%, vs. our estimate of 41%). Epidemic resurgence might still dampen in-store biz in 2Q22E (-23% YoY), but OPM and long-term demand intact. New initiatives +47% YoY, with net loss at RMB9.0bn (vs. our estimate of RMB9.5bn). We expect 2Q22E new initiatives rev +36% YoY, with narrowing loss to continue (loss at RMB8.0bn, in which Meituan Select loss at RMB5.5bn).
- Maintain BUY.** We raised earnings forecast by 7-17% and margin by 1ppt in FY23-24E, and adjusted our SOTP-based TP to HK\$263 from HK\$250. We reiterate our confidence in its LT organic growth with high barrier, and view it as one of the key players to benefit from lockdown relaxations.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	114,795	179,128	212,074	271,454	339,971
YoY growth (%)	18	56	18	28	25
Net income (RMB mn)	3,121	(15,572)	(8,436)	8,442	21,741
EPS (RMB)	0.53	(2.58)	(1.36)	1.33	3.32
YoY growth (%)	NA	NA	NA	NA	NA
Consensus (RMB)	NA	NA	(1.53)	1.32	4.24
P/E (x)	NA	NA	NA	115	46
P/S (x)	8.2	5.3	4.5	3.5	2.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	5.0	(16.5)	(10.3)	1.9	10.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$263.0
(Previous TP)	HK\$250.0
Up/Downside	+46.1%
Current Price	HK\$180.0

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,125,443
Avg 3 mths t/o (HK\$ mn)	6,507.27
52w High/Low (HK\$)	338/103.5
Total Issued Shares (mn)	5,506

Source: Bloomberg

Shareholding Structure

Tencent	19.27%
Sequoia Capital	5.0%
Baillie Gifford	5.0%

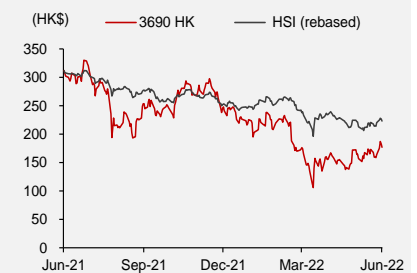
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.1%	5.1%
3-mth	5.2%	12.5%
6-mth	-25.4%	-17.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	212,074	271,454	339,971	223,090	291,622	364,004	-4.9%	-6.9%	-6.6%
Gross Profit	49,555	65,983	86,098	58,350	86,465	114,269	-15.1%	-23.7%	-24.7%
Operating Profit	(12,782)	3,486	17,895	(13,490)	4,763	22,955	NA	-26.8%	-22.0%
Adj. net profit	(8,436)	8,442	21,741	(8,982)	8,792	26,618	NA	-4.0%	-18.3%
EPS (RMB)	(1.32)	1.29	3.23	(1.53)	1.32	4.24	NA	-2.4%	-23.7%
Gross Margin	23.4%	24.3%	25.3%	26.2%	29.6%	31.4%	-2.8ppts	-5.3ppts	-6.1ppts
Operating Margin	-6.0%	1.3%	5.3%	-6.0%	1.6%	6.3%	+0.0ppts	-0.3ppts	-1.0ppts
Adj. Net Margin	-4.0%	3.1%	6.4%	-4.0%	3.0%	7.3%	+0.0ppts	+0.1ppts	-0.9ppts

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	212,074	271,454	339,971	216,712	286,162	356,787	-2.1%	-5.1%	-4.7%
Gross Profit	49,555	65,983	86,098	51,842	69,899	91,426	-4.4%	-5.6%	-5.8%
Operating Profit	(12,782)	3,486	17,895	(15,337)	2,682	16,752	NA	30.0%	6.8%
Adj. net profit	(8,436)	8,442	21,741	(11,685)	7,219	20,277	NA	16.9%	7.2%
Adj. EPS (RMB)	(1.32)	1.29	3.23	(1.82)	1.10	3.02	NA	17.4%	7.1%
Gross Margin	23.4%	24.3%	25.3%	23.9%	24.4%	25.6%	-0.5ppts	-0.1ppts	-0.3ppts
Operating Margin	-6.0%	1.3%	5.3%	-7.1%	0.9%	4.7%	+1.1ppts	+0.4ppts	+0.6ppts
Adj. net margin	-4.0%	3.1%	6.4%	-5.4%	2.5%	5.7%	+1.4ppts	+0.6ppts	+0.7ppts

Source: CMBIGM estimates

Figure 3: Meituan's 1Q22 review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	16,754	24,722	35,401	37,918	37,016	43,759	48,826	49,523	46,269	-7%	25%	45,289	2%	45,081	3%
Operating profit	(1,716)	2,175	6,724	(2,853)	(4,767)	(3,252)	(10,103)	(5,006)	(5,584)	NA	NA	(5,579)	NA	(5,764)	NA
Net profit	(1,579)	2,210	6,321	(2,244)	(4,846)	(3,356)	(9,994)	(5,339)	(5,703)	NA	NA	(6,035)	NA	(6,006)	NA
Adj. net profit	(216)	2,718	2,055	(1,437)	(3,892)	(2,217)	(5,527)	(3,936)	(3,586)	NA	NA	(4,585)	NA	(5,026)	NA
Adj. EPS (RMB)	(0.04)	0.45	0.34	(0.24)	(0.64)	(0.37)	(0.92)	(0.65)	(0.56)	NA	NA	(0.74)	NA	(1)	
Margin (%)															
Gross margin	31.0%	34.7%	30.6%	24.9%	19.5%	28.6%	22.1%	24.2%	23.2%			22.3%		23.8%	
Operating margin	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-7.4%	-20.7%	-10.1%	-12.1%			-12.3%		-12.8%	
Adj. net margin	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-5.1%	-11.3%	-7.9%	-7.8%			-10.1%		-11.1%	
Growth (%)															
Revenue (YoY)	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	37.9%	30.6%	25.0%			22.3%		21.8%	
Revenue (QoQ)	-40.5%	47.6%	43.2%	7.1%	-2.4%	18.2%	11.6%	1.4%	-6.6%			-8.5%		-9.0%	
Operating profit	NA	95.5%	364.6%	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	82.0%	5.8%	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 1Q22 Revenue breakdown

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Revenue (RMB mn)	16,754	24,722	35,401	37,918	37,016	43,759	48,826	49,523	46,269	-6.6%	25.0%
Food Delivery	9,490	14,544	20,693	21,538	20,575	23,125	26,482	26,127	24,157	-7.5%	17.4%
In-Store, Hotel, Travel	3,095	4,544	6,478	7,135	6,584	8,602	8,621	8,722	7,622	-12.6%	15.8%
New Initiatives & Other	4,168	5,634	8,230	9,244	9,856	12,032	13,723	14,674	14,491	-1.3%	47.0%

Source: Company data

Figure 5: SOTP Valuation

Business (US\$ bn)	'23E Rev	OP Margin	'23E EBIT	Methodology	Multiple	Value
Food Delivery	20.9	7.5%	1.6	EV/EBIT	35.0x	55.0
In-Store, Travel and Hotel	6.7	42.5%	2.8	EV/EBIT	25.0x	71.2
New initiatives	15.0	-20.0%	(3.0)	EV/Sales	4.5x	67.4
Enterprise Value						193.6
(+) Net Cash						16.6
Equity Value						210.2
Diluted Shares Outstanding (mn)						6,201.0
FY23 Val. Per share(HK\$)						263.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	114,795	179,128	212,074	271,454	339,971
Food delivery	66,265	96,312	109,266	133,405	162,440
In-store, hotel & travel	21,252	32,530	32,581	42,612	51,033
New initiatives	27,277	50,286	70,227	95,437	126,498
COGS	(80,744)	(136,654)	(162,519)	(205,471)	(253,873)
Gross profit	34,050	42,474	49,555	65,983	86,098
S&M	(20,558)	(40,169)	(38,043)	(38,399)	(42,427)
Admin.Exp.	(4,427)	(6,763)	(6,574)	(7,465)	(8,159)
R&D	(9,192)	(13,980)	(13,785)	(11,673)	(11,559)
Others	4,924	(4,429)	(3,935)	(4,961)	(6,058)
Operating profit	4,798	(22,867)	(12,782)	3,486	17,895
Financial Cost	(156)	(585)	(880)	(880)	(880)
Fair value change	-	-	-	-	-
Others	264	146	-	-	-
Pre-tax Income	4,906	(23,307)	(13,662)	2,606	17,015
Income Tax	270	30	-	(352)	(2,513)
Net profit	4,708	(23,536)	(13,921)	1,994	14,242
Adj. net profit	3,121	(15,572)	(8,436)	8,442	21,741

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	4,708	(23,536)	(13,921)	1,994	14,242
D&A	5,194	11,892	8,756	10,392	12,225
Change in WC	1,896	6,286	1,789	5,990	7,120
Others	(3,322)	5,053	4,878	5,931	7,057
Operating CF	8,475	(306)	1,501	24,307	40,644
Capex	(11,223)	(8,956)	(10,604)	(13,030)	(15,639)
Associates	2,679	-	-	-	-
Others	(12,688)	3,995	781	1,433	760
Investing CF	(21,232)	(4,961)	(9,822)	(11,597)	(14,878)
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	(8,322)	12,710	25,765
Cash (beg of yr)	13,396	17,094	74,120	65,798	78,509
FX	(964)	-	-	-	-
Cash (end of yr)	17,094	74,120	65,798	78,509	104,274

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	78,269	73,521	74,220	76,493	80,631
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	29,872	29,092
Others	21,395	23,689	23,341	24,522	26,103
Current assets	88,306	150,073	142,526	158,269	186,957
Cash	17,094	74,120	65,798	78,509	104,274
Restricted cash	12,776	12,776	12,776	12,776	12,776
Account receivable	1,031	1,287	1,295	1,492	1,682
Others	57,406	61,891	62,657	65,492	68,226
Current liabilities	51,148	64,174	66,381	76,467	87,994
Trade payable	11,967	18,674	22,108	28,298	35,441
Payable to merchants	9,415	11,753	11,828	13,625	16,211
Advances from users	4,308	5,378	5,412	6,234	7,027
Deferred revenues	5,053	6,308	6,721	7,743	8,727
Others	20,405	22,062	20,312	20,567	20,588
Non-current liabilities	17,793	17,834	17,823	17,828	17,828
Borrowings	14,924	14,924	14,924	14,924	14,924
Others	-	-	-	-	-
Minority interest	2,869	2,910	2,899	2,904	2,905
Total Equity	(59)	(57)	(54)	(52)	(50)
Shareholders' equity	97,634	141,585	132,542	140,467	161,766

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Food delivery	57.7	53.8	51.5	49.1	47.8
In-store, hotel & travel	18.5	18.2	15.4	15.7	15.0
New initiatives	23.8	28.1	33.1	35.2	37.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	17.7	56.0	18.4	28.0	25.2
Gross profit	5.2	24.8	16.7	33.2	30.5
EBIT	35.9	NA	NA	NA	NA
Net profit	(33.0)	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	4.2	(12.8)	(6.0)	1.3	5.3
Pre-tax margin	4.3	(13.0)	(6.4)	1.0	5.0
Net margin	2.7	(8.7)	(4.0)	3.1	6.4
Effective tax rate	5.5	(0.1)	-	(13.5)	(14.8)
Returns (%)					
ROE	5.0	(16.5)	(10.3)	1.9	10.5
ROA	2.1	(8.0)	(3.8)	3.7	8.7
Per share					
EPS (RMB)	0.52	(2.6)	(1.3)	1.29	3.23
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	16.26	23.45	20.69	21.50	24.07

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