

Meituan Dianping (3690 HK)

Eye-catching 2Q20 with record-high margin

Meituan Dianping (“MD”) delivered upbeat 2Q20 results, with revenue up 9% YoY (5% above consensus). Bottom line grew 82% YoY (6696% above consensus), with record-high margin. Given its better-than-expected recovery pace and above-peer performance, we turn more bullish on its 3Q20E outlook and secular growth. We raised its revenue by 1%/1%/2%, and adj. net profit by 155%/10%/9% in FY20/21/21E, with higher TP of HK\$290 (from HK\$147).

- Another strong quarter with record-high margin.** 2Q20 revenue accelerated to +9% YoY, 5%/6% above consensus/our estimates. Adj. net profit reached RMB2.7bn, largely better than consensus of RMB40mn, mainly on lower S&M and narrowing loss margin of initiatives. By segments, rev of food delivery/ In-store, hotel and travel/ new initiatives +13%/-13%/+22% (vs. our estimate of +9%/-18%/+21% YoY). We are surprised to see MD to beat already-high market expectation, and achieve record-high margin post COVID-19 after net loss in 1Q20.
- Strengthening leadership with expanding TAM.** In post epidemic period, MD performed more resilient than market expectation and peers. Food delivery GTV +17% YoY, orders +7% YoY, take rate at 13.4%, with restaurants recovery, stronger user demand and “618 Food Delivery Festival” promotion. AOV momentum continued, up 9.4% YoY, suggesting users’ rising demand post COVID-19. In 2H20E, we expect food delivery to continuously gain share, with rising but strategic subsidies. In-store, hotel and travel rev -13% YoY, with hotel room nights -17% YoY, better than our expectation. We expect this segment to achieve positive growth in 3Q20E (forecasting +3% YoY). New initiatives +22% YoY in 2Q20, mainly on strong grocery retail business. On top of that, OPM of food delivery/ in-store, hotel and travel/ new initiatives came in at +8.6%/+41.6%/-25.9% in 2Q20, better than our estimate of +7.2%/+28%/-28%. MD would step up its investment in new initiatives to seize structural opportunities.
- Maintain BUY.** Given its strong 2Q20 results, we turn more bullish on MD’s recovery pace and secular growth with margin improvement. We raised its revenue by 1%/1%/2%, and adjusted its bottom line by 155%/10%/9% in FY20/21/21E. Our new SOTP-based TP is HK\$290 (implying **9.2x/7.2x** FY21/22E P/S). We see high visibility for MD to long-term benefit from structural changes in this epidemic, including online consumption tailwinds, grocery business and digital operation.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	65,227	97,529	111,242	164,121	211,936
YoY growth (%)	92	50	14	48	29
Net income (RMB mn)	(8,517)	4,657	5,213	16,720	25,747
EPS (RMB)	(3.13)	0.79	0.87	2.71	4.05
YoY growth (%)	NA	NA	10	212	50
Consensus (RMB)	NA	NA	0.47	2.64	4.35
P/E (x)	NA	280	253	81	54
P/S (x)	19.7	13.1	11.5	7.8	6.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(133.5)	3.7	1.1	10.9	16.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$290.0**
 (Previous TP **HK\$147.0**)
 Up/Downside **+18.3%**
 Current Price **HK\$245.2**

China Internet Sector

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

Stock Data

Mkt Cap (HK\$ mn)	1,357,023
Avg 3 mths t/o (HK\$ mn)	5,526.2
52w High/Low (HK\$)	243/67
Total Issued Shares (mn)	5,143

Source: Bloomberg

Shareholding Structure

Tencent	20.7%
Sequoia Capital	8.4%
Baillie Gifford	5.1%

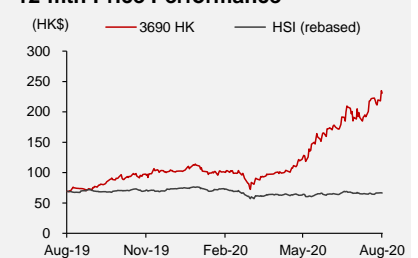
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	23.0%	21.6%
3-mth	92.8%	81.9%
6-mth	133.6%	153.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Faster recovery ahead with expanding TAM – 26 May 2020
- Looking beyond 1H20E – 31 Mar 2020
- One-stop lifestyle shop at your fingertip – 28 Feb 2020

Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	111,242	164,121	211,936	110,112	162,567	207,567	1.0%	1.0%	2.1%
Gross Profit	35,980	63,167	85,530	34,181	62,184	81,961	5.3%	1.6%	4.4%
Operating Profit	1,642	13,381	23,807	(1,147)	11,732	21,511	-243.1%	14.1%	10.7%
Adj. net profit	5,213	16,720	25,747	2,041	15,180	23,691	155.4%	10.1%	8.7%
EPS (RMB)	0.87	2.71	4.05	0.34	2.42	3.67	159.1%	11.8%	10.3%
Gross Margin	32.3%	38.5%	40.4%	30.3%	37.8%	39.5%	+2.1ppts	+0.7ppts	+0.8ppts
Operating Margin	1.5%	8.2%	11.2%	-1.7%	6.7%	10.4%	+3.2ppts	+1.4ppts	+0.8ppts
Adj. Net Margin	4.7%	10.2%	12.1%	1.2%	8.9%	11.5%	+3.5ppts	+1.3ppts	+0.7ppts

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	111,242	164,121	211,936	111,076	162,306	212,487	0.1%	1.1%	-0.3%
Gross Profit	35,980	63,167	85,530	36,505	60,294	80,171	-1.4%	4.8%	6.7%
Operating Profit	1,642	13,381	23,807	606	14,556	26,282	171.2%	-8.1%	-9.4%
Adj. net profit	5,213	16,720	25,747	2,989	16,056	25,950	74.4%	4.1%	-0.8%
EPS (RMB)	0.87	2.71	4.05	0.47	2.64	4.35	84.1%	2.6%	-6.8%
Gross Margin	32.3%	38.5%	40.4%	32.9%	37.1%	37.7%	-0.5ppt	+1.3ppts	+2.6ppts
Operating Margin	1.5%	8.2%	11.2%	0.5%	9.0%	12.4%	-0.9ppts	-0.8ppts	-1.1ppts
Adj. Net Margin	4.7%	10.2%	12.1%	2.7%	9.9%	12.2%	+2.0ppts	+0.3ppts	-0.1ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: MD's 2Q20 Review

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus	Diff %
Revenue	19,803	19,174	22,703	27,494	28,158	16,754	24,722	47.6%	8.9%	23,582	5%
Operating profit	(3,735)	(1,304)	1,113	1,447	1,424	(1,716)	2,175	NA	95.5%	(575)	NA
Net profit	(3,425)	(1,432)	877	1,335	1,458	(1,579)	2,210	NA	151.9%	(643)	NA
Adj. net profit	(1,582)	(1,039)	1,494	1,942	2,270	(216)	2,718	NA	82.0%	40	6696%
Margin (%)											
Gross margin	34.5%	31.0%	28.6%	33.2%	30.5%	31.0%	34.7%			30.6%	
Operating margin	-18.9%	-6.8%	4.9%	5.3%	5.1%	-10.2%	8.8%			-2.4%	
Adj. net margin	-8.0%	-5.4%	6.6%	7.1%	8.1%	-1.3%	11.0%			0.2%	
Growth (%)											
Revenue (YoY)	89.0%	70.1%	50.6%	44.1%	42.2%	-12.6%	8.9%			3.9%	
Revenue (QoQ)	3.8%	-3.2%	18.4%	21.1%	2.4%	-40.5%	47.6%			40.8%	
Operating profit	NA	NA	NA	NA	NA	NA	95.5%			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	82.0%			NA	

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 2Q20 Revenue breakdown

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY
Revenue (RMB mn)	19,803	19,174	22,703	27,494	28,158	16,754	24,722	47.6%	8.9%
Food Delivery	11,006	10,706	12,845	15,577	15,716	9,490	14,544	53.3%	13.2%
In-Store, Hotel, Travel	4,594	4,492	5,245	6,181	6,357	3,095	4,544	46.8%	-13.4%
New Initiatives & Others	4,203	3,976	4,613	5,736	6,086	4,168	5,634	35.2%	22.1%

Source: Company data

Figure 5: SOTP valuation

Business (US\$ bn)	'21E Rev	OP Margin	'21E EBIT	Methodology	Multiple	Value
Food Delivery	13.9	8.8%	1.2	EV/Sales	9.0x	124.9
In-Store and Travel	3.7	34.8%	1.3	EV/EBIT	30.0x	38.1
Hotel	1.3	34.8%	0.4	EV/EBIT	30.0x	13.4
New initiatives	4.9	-7.6%	(0.4)	EV/Sales	6.0x	29.2
Enterprise Value						205.6
(+) Net Cash						16.1
Equity Value						221.7
Diluted Shares Outstanding (mn)						6,003.9
Price Target (HK\$)						290.0

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	65,227	97,529	111,242	164,121	211,936
Food delivery	38,143	54,323	62,589	90,423	111,925
In-store, hotel & travel	15,840	22,275	22,897	34,215	43,436
New initiatives	11,244	20,410	25,021	33,694	42,629
COGS	(50,122)	(65,208)	(75,262)	(100,954)	(126,406)
Gross profit	15,105	32,320	35,980	63,167	85,530
S&M	(15,687)	(18,602)	(20,469)	(29,706)	(37,089)
Admin.Exp.	(5,168)	(3,559)	(4,227)	(5,908)	(7,248)
R&D	(6,104)	(7,309)	(8,176)	(10,176)	(12,483)
Others	768	475	(1,465)	(3,996)	(4,903)
Operating profit	(11,086)	3,326	1,642	13,381	23,807
Financial Cost	249	(25)	85	122	223
Fair value change	(104,606)	-	-	-	-
Others	(48)	107	54	-	-
Pre-tax Income	(115,491)	3,408	1,782	13,503	24,031
Income Tax	(2)	(526)	127	(1,215)	(3,605)
Net profit	(115,493)	2,236	1,626	12,288	20,426
Adj. net profit	(8,517)	4,657	5,213	16,720	25,747

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	(115,491)	2,236	1,626	12,288	20,426
D&A	5,367	4,846	4,418	2,412	4,936
Change in WC	(4,987)	(3,697)	(1,569)	4,664	3,770
Others	105,931	2,189	2,781	4,064	4,930
Operating CF	(9,180)	5,574	7,256	21,893	31,797
Capex	(2,210)	(2,210)	(4,172)	(5,252)	(6,443)
Associates	(15,970)	(8,710)	0	0	0
Others	(5,259)	746	6,083	(4,354)	(9)
Investing CF	(23,439)	(10,174)	1,954	(9,556)	(6,319)
Equity raised	28,516	-	-	-	-
Change of Debts	1,718	1,749	-	-	-
Others	(939)	(635)	-	-	-
Financing CF	29,295	1,114	-	-	-
Net change in cash	(3,323)	(3,486)	6,201	12,338	25,478
Cash (beg of yr)	19,409	17,044	13,396	17,979	30,316
FX	1,010	(173)	(1,619)	-	-
Cash (end of yr)	17,044	13,396	17,979	30,316	55,794

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	47,512	49,878	42,578	49,870	51,398
Fixed asset	3,979	5,376	5,376	8,057	10,239
Financial assets at fair value	6,242	7,166	7,166	7,166	7,166
Intangible assets	33,876	32,700	31,719	30,805	30,007
Others	3,415	4,636	3,693	3,842	3,986
Current assets	73,149	82,135	84,583	98,644	124,776
Cash	17,044	13,396	17,979	30,316	55,794
Restricted cash	4,256	8,760	8,760	8,760	8,760
Account receivable	466	677	477	563	618
Others	51,383	59,302	57,372	59,009	59,616
Current liabilities	31,825	36,593	31,282	37,734	42,426
Trade payable	5,341	6,766	6,558	10,160	13,775
Payable to merchants	7,596	7,495	6,316	7,454	8,182
Advances from users	3,226	3,856	2,394	2,825	3,101
Deferred revenues	3,103	4,567	2,963	3,498	4,065
Others	12,558	13,908	13,051	13,797	13,303
Non-current liabilities	2,327	3,366	2,507	2,601	2,622
Borrowings	470	467	467	467	467
Others	-	-	-	-	-
Minority interest	1,857	2,899	2,040	2,134	2,155
Total Equity	5	(58)	(61)	(63)	(66)
Shareholders' equity	86,510	92,054	96,461	112,852	138,312

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Food delivery	58.5	55.7	56.3	55.1	52.8
In-store, hotel & travel	24.3	22.8	20.6	20.8	20.5
New initiatives	17.2	20.9	22.5	20.5	20.1
Total	100.0	99.5	99.3	96.5	93.4
Growth rate (%)					
Revenue	92.3	49.5	14.1	47.5	29.1
Gross profit	23.6	114.0	11.3	75.6	35.4
EBIT	NA	NA	15.1	404.2	63.5
Net profit	NA	NA	12.0	220.7	54.0
P&L ratios (%)					
Operating margin	(17.0)	3.4	1.5	8.2	11.2
Pre-tax margin	(177.1)	3.5	1.6	8.2	11.3
Net margin	(13.1)	4.8	4.7	10.2	12.1
Effective tax rate	(0.0)	(0.5)	0.1	(0.7)	(1.7)
Returns (%)					
ROE	(133.5)	3.7	1.1	10.9	16.5
ROA	(8.3)	3.7	1.6	11.0	14.6
Per share					
EPS (RMB)	(3.13)	0.79	0.87	2.71	4.05
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	31.76	15.54	15.37	17.31	20.45

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.

Disclaimer

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

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.