

Meituan Dianping (3690 HK)

Looking beyond 1H20E

Meituan Dianping (“MD”) delivered eye-catching 4Q19 result, with revenue 6% above consensus, and strong earnings upbeat. 1Q20E guidance was better than feared, with 15% revenue YoY decline and net loss of RMB1.2bn. We expect MD to face near-term pressure in 1H20E, but long-term intact. We cut its revenue by 5%/2% in FY20/21E, and lowered TP to HK\$120. Suggest to buy on dips.

- 4Q19 all-round beat.** 4Q19 revenue grew 42% YoY, 6%/5% above consensus/our estimate. Adj. net profit reached RMB2.27bn, largely above consensus of RMB470mn, mainly on lower S&M, R&D, and narrowing loss of initiatives. GTV grew 38% YoY, 4% above our estimate. By segments, GTV of food delivery/ In-store, hotel & travel/ New initiatives grew 40%/35%/33% YoY. Take rate grew up to 14.8% in 4Q19 (vs. 14.4% in 4Q18), in which food delivery/ In-store, hotel & travel/ New initiatives at 14%/10.5%/35%, +0.1ppts/0.9ppts/4.5ppts QoQ. We are impressed by this eye-catching result with strong earnings beat and solid growth of all segments.
- Near-term pressure from COVID-19, but long term intact.** Given COVID-19 impact, mgmt guided revenue to drop 15% YoY and net loss at RMB1.2bn in 1Q20E. We view this guidance as better-than-feared. By segment, food delivery/in-store dining & hotel volumes recovered to 75%/40-50% of pre-epidemic level. We forecast food delivery/ In-store, hotel & travel/ new initiatives revenue to decline 14%/35%/0% YoY, with OPM at -3%/+20%/-40% in 1Q20E. Food delivery might see positive YoY revenue growth in 2Q20E, if domestic market epidemic stabilizes, while in-store would recover until 3Q20E. 1Q20E take rate might see decline. Mgmt was conservative on its take rate in FY20E, considering its subsidies and support to merchants. We cut its revenue by 5%/2% in FY20/21E, and trimmed its adj. net profit by 3%/0%. MD's financials in 1Q20E could bear short-term pressure, but we keep positive on its secular growth, and expect it to benefit from user expansion in the long term and stronger engagement in this epidemic.
- Maintain BUY.** With financial adjustment, we slightly trimmed our DCF-based TP from HK\$126 to **HK\$120** (implying **4.4x** FY21E P/S, or **48x** FY21E P/E). With epidemic impact partly priced in, we suggest to look beyond soft 2020, and keep an eye on more catalysts from: 1) delivery & hotel recovery; 2) cross-selling effect to unlock revenue; and 3) new initiatives expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	65,227	97,529	107,841	157,310	195,165
YoY growth (%)	92	50	11	46	24
Net income (RMB mn)	(8,517)	4,657	1,277	14,012	22,383
EPS (RMB)	(3.13)	0.79	0.21	2.24	3.47
YoY growth (%)	NA	NA	(73)	967	55
Consensus (RMB)	NA	NA	0.89	2.52	3.85
P/E (x)	NA	107	402	38	24
P/S (x)	7.5	5.0	4.5	3.1	2.5
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(133.5)	3.7	(1.9)	10.0	16.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$120
(Previous TP)	HK\$126.3)
Up/Downside	+28.9%
Current Price	HK\$93.1

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	588,023
Avg 3 mths t/o (HK\$ mn)	2496.2
52w High/Low (HK\$)	116/47
Total Issued Shares (mn)	5,081

Source: Bloomberg

Shareholding Structure

Tencent	20.8%
Sequoia Capital	8.4%
Qihui	3.5%

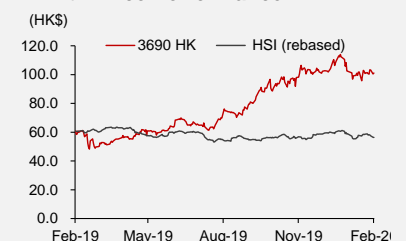
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.8%	2.4%
3-mth	2.5%	1.6%
6-mth	43.6%	40.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: Earnings revision

RMB mn, Dec-YE	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	107,841	157,310	113,555	160,699	-5.0%	-2.1%
Gross Profit	32,635	59,414	36,148	59,723	-9.7%	-0.5%
Operating Profit	(1,858)	10,593	(1,989)	10,493	-6.6%	0.9%
Net profit	1,277	14,012	1,316	14,036	-3.0%	-0.2%
EPS (RMB)	0.21	2.24	0.20	2.13	4.8%	5.0%
Gross Margin	30.3%	37.8%	31.8%	37.2%	-1.6ppts	+0.6ppts
Operating Margin	-1.7%	6.7%	-1.8%	6.5%	+0.0ppts	+0.2ppts
Net Margin	1.2%	8.9%	1.2%	8.7%	+0.0ppts	+0.2ppts

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	107,841	157,310	195,165	120,247	158,895	188,317	-10.3%	-1.0%	3.6%
Gross Profit	32,635	59,414	77,157	40,681	59,115	72,351	-19.8%	0.5%	6.6%
Operating Profit	(1,858)	10,593	20,318	3,300	13,366	22,831	-156.3%	-20.8%	-11.0%
Net profit	1,277	14,012	22,383	4,817	14,072	23,763	-73.5%	-0.4%	-5.8%
EPS (RMB)	0.21	2.24	3.47	0.89	2.52	3.85	-76.3%	-11.3%	-9.9%
Gross Margin	30.3%	37.8%	39.5%	33.8%	37.2%	38.4%	-3.6ppt	+0.6ppts	+1.1ppts
Operating Margin	-1.7%	6.7%	10.4%	2.7%	8.4%	12.1%	-4.5ppts	-1.7ppts	-1.7ppts
Net Margin	1.2%	8.9%	11.5%	4.0%	8.9%	12.6%	-2.8ppts	-0.1ppts	-1.1ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: MD's 4Q19 Review

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY	Consensus	Diff %
Revenue	19,803	19,174	22,703	27,494	28,158	2.4%	42.2%	26,511	6%
Operating profit	(3,735)	(1,304)	1,113	1,447	1,424	-1.6%	NA	(416)	NA
Net profit	(3,425)	(1,432)	877	1,335	1,458	9.2%	NA	(576)	NA
Adj. net profit	(1,582)	(1,039)	1,494	1,942	2,270	16.9%	NA	470	383%
Adj. EPS (RMB)	(0.58)	(0.18)	0.25	0.33	0.38	16.9%	NA	0.07	415%
Margin (%)									
Gross margin	34.5%	24.3%	28.6%	33.2%	34.5%			32.8%	
Operating margin	-18.9%	-6.8%	4.9%	5.3%	5.1%			-1.6%	
Adj. net margin	-8.0%	-5.4%	6.6%	7.1%	8.1%			1.8%	
Growth (%)									
Revenue (YoY)	89.0%	70.1%	50.6%	44.1%	42.2%			33.9%	
Revenue (QoQ)	3.8%	-3.2%	18.4%	21.1%	2.4%			-3.6%	
Operating profit	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 4: 4Q19 Revenue & GTV breakdown

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	QoQ	YoY
Revenue (RMB mn)	10,475	11,275	15,073	19,076	19,803	19,174	22,703	27,494	28,158	2.4%	42.2%
Food Delivery	6,624	7,056	8,908	11,172	11,006	10,706	12,845	15,577	15,716	0.9%	42.8%
In-Store, Hotel, Travel	3,103	3,138	3,673	4,436	4,594	4,492	5,245	6,181	6,357	2.8%	38.4%
New Initiatives & Others	748	1,081	2,492	3,468	4,203	3,976	4,613	5,736	6,086	6.1%	44.8%
GTV (RMB bn)	104	108	124	146	138	138	159	195	190		
Food Delivery	57	54	68	80	80	76	93	112	112	0.2%	39.8%
In-Store, Hotel, Travel	40	40	43	49	45	46	51	64	60	-5.5%	35.1%
New Initiatives & Others	7	13	13	16	13	16	15	19	17	-7.4%	32.8%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	65,227	97,529	107,841	157,310	195,165
Food delivery	38,143	54,323	62,589	90,423	111,925
In-store, hotel & travel	15,840	22,275	23,272	34,773	43,723
New initiatives	11,244	20,410	22,884	30,852	39,051
COGS	(50,122)	(65,208)	(75,205)	(97,896)	(118,008)
Gross profit	15,105	32,320	32,635	59,414	77,157
S&M	(15,687)	(18,602)	(19,843)	(29,574)	(34,154)
Admin.Exp.	(5,168)	(3,559)	(4,098)	(5,663)	(6,675)
R&D	(6,104)	(7,309)	(7,926)	(9,753)	(11,495)
Others	768	475	(2,626)	(3,831)	(4,515)
Operating profit	(11,086)	3,326	(1,858)	10,593	20,318
Financial Cost	249	(25)	85	122	223
Fair value change	(104,606)	-	-	-	-
Others	(48)	107	-	-	-
Pre-tax Income	(115,491)	3,408	(1,772)	10,714	20,542
Income Tax	(2)	(526)	-	(964)	(3,081)
Net profit	(115,493)	2,236	(1,772)	9,750	17,461
Adj. net profit	(8,517)	4,657	1,277	14,012	22,383

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	2,236	(1,772)	9,750	17,461	17,461
D&A	5,367	4,846	4,372	4,099	4,782
Change in WC	(4,987)	(3,697)	(2,072)	4,291	2,678
Others	105,931	2,189	2,696	3,933	4,635
Operating CF	(9,180)	5,574	3,225	22,073	29,556
Capex	(2,210)	(2,210)	(4,044)	(5,034)	(5,933)
Associates	(15,970)	(8,710)	0	0	0
Others	(5,259)	746	1	(22)	(9)
Investing CF	(23,439)	(10,174)	(4,043)	(5,056)	(5,942)
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)	(819)	17,017	23,613
Cash (beg of yr)	19,409	17,044	13,396	10,959	27,975
FX	1,010	(173)	(1,619)	-	-
Cash (end of yr)	17,044	13,396	10,959	27,975	51,589

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	47,512	49,878	48,589	49,680	50,950
Fixed asset	3,979	5,376	6,028	7,899	9,858
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	3,676	3,810	3,919
Current assets	73,149	82,135	77,390	95,975	119,926
Cash	17,044	13,396	10,959	27,975	51,589
Restricted cash	4,256	8,760	8,760	8,760	8,760
Account receivable	466	677	463	540	569
Others	51,383	59,302	57,209	58,700	59,008
Current liabilities	31,825	36,593	30,510	36,419	39,547
Trade payable	5,341	6,766	6,358	9,738	12,685
Payable to merchants	7,596	7,495	6,123	7,145	7,535
Advances from users	3,226	3,856	2,320	2,708	2,856
Deferred revenues	3,103	4,567	2,873	3,353	3,743
Others	12,558	13,908	12,837	13,475	12,728
Non-current liabilities	2,327	3,366	2,491	2,576	2,571
Borrowings	470	467	467	467	467
Others	-	-	-	-	-
Minority interest	1,857	2,899	2,024	2,109	2,104
Total Equity	5	(58)	(61)	(63)	(66)
Shareholders' equity	86,510	92,054	92,978	106,661	128,757

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Food delivery	58.5	55.7	58.0	57.5	57.3
In-store, hotel & travel	24.3	22.8	21.6	22.1	22.4
New initiatives	17.2	20.9	21.2	19.6	20.0
Total	100.0	99.5	100.8	99.2	99.8
Growth rate (%)					
Revenue	92.3	49.5	10.6	45.9	24.1
Gross profit	23.6	114.0	1.0	82.1	29.9
EBIT	NA	NA	(61.2)	1,146.5	69.9
Net profit	NA	NA	(72.6)	997.2	59.7
P&L ratios (%)					
Operating margin	(17.0)	3.4	(1.7)	6.7	10.4
Pre-tax margin	(177.1)	3.5	(1.6)	6.8	10.5
Net margin	(13.1)	4.8	1.2	8.9	11.5
Effective tax rate	(0.0)	(0.5)	-	(0.6)	(1.6)
Returns (%)					
ROE	(133.5)	3.7	-1.9	10.0	16.0
ROA	(8.3)	3.7	1.0	10.3	14.1
Per share					
EPS (RMB)	(3.13)	0.79	0.21	2.24	3.47
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	31.76	15.54	15.26	17.02	19.97

Source: Company data, CMBIS estimates

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