

Meituan (3690 HK)

More bullish on 2H22E recovery and profitability

Meituan delivered upbeat 2Q22 results, with topline +16% YoY (5% above consensus) and bottom line to achieve profit of RMB2.1bn (vs. consensus of -RMB2.2bn). We turned more bullish on 2H22E recovery and margin outlook, and expect 3Q22E rev +27% YoY, with positive profit to continue. We forecast FD rev/orders +26%/17% YoY in 3Q22E, in which FD orders rebounded at double-digit growth in Jul/Aug (in our estimates). Instashopping orders would climb to 450mn in 3Q22E, with rev to surpass order by 7ppts, in our estimates. We forecast in-store & hotel rev +13% YoY, and OPM to continuously improve QoQ in 3Q22E. New initiatives would keep strong momentum, with estimated rev +39% YoY in 3Q22E. As such, we raised its FY23-24E earnings by 16%-33%, to reflect its resilient growth and margin improvement. Our new TP was lifted to HK\$278.

- **An eye-catching 2Q22, with positive profit.** 2Q22 rev +16% YoY (5% above consensus), in which core local commerce/ new initiatives +9%/41% YoY (new category method). We are surprised to see its positive adj. net profit at RMB2.1bn, largely above consensus of -RMB2.2bn, on better-than-expected margin of all segment.
- **More bullish on 2H22E recovery and margin outlook.** We reiterated our confidence on its LT target of food delivery daily order at 100mn and instashopping daily order at 10mn (similar UE), backed by rising online penetration. FD orders +5% YoY, and are estimated to rebound at +low-teens/ >20% YoY in Jul/Aug (vs. prior +10%), suggesting better recovery after lockdown relaxation. We forecast FD rev/orders +26%/17% YoY in 3Q22E, with lower subsidies ratio. Instashopping orders +60% YoY in 2Q22, and would climb up to 450mn in 3Q22E, with rev growth to surpass order by 7ppts, in our estimates. We expect in-store & hotel GTV to see double-digit growth in 3Q22E, and OPM to continuously improve QoQ with reopening. We forecast new initiatives rev +39% YoY in 3Q22E, with net loss at RMB7.3bn (Meituan Select UE still improved QoQ).
- **Maintain BUY.** We lifted our financials forecast in FY23-24E by 16%-33%, and raised our SOTP-based TP to HK\$278. 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 relaxation.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	114,795	179,128	220,498	281,916	352,655
YoY growth (%)	18	56	23	28	25
Net income (RMB mn)	3,121	(15,572)	(790)	11,346	25,255
EPS (RMB)	0.53	(2.58)	(0.13)	1.79	3.86
YoY growth (%)	NA	NA	NA	NA	NA
Consensus (RMB)	NA	NA	(1.32)	1.59	3.87
P/E (x)	NA	NA	NA	86	40
P/S (x)	8.3	5.3	4.3	3.4	2.7
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	5.0	(16.5)	(5.0)	3.3	11.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$278.0
(Previous TP	HK\$263.0)
Up/Downside	+53.6%
Current Price	HK\$181

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,062,393
Avg 3 mths t/o (HK\$ mn)	5,104.34
52w High/Low (HK\$)	298/103.5
Total Issued Shares (mn)	5,509

Source: Bloomberg

Shareholding Structure

Tencent	19.25%
BlackRock	5.0%
Baillie Gifford	4.9%

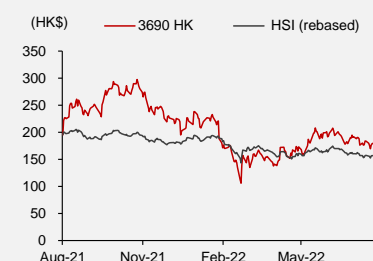
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-10.8%	-7.1%
3-mth	-1.8%	2.9%
6-mth	-5.9%	15.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

1. Recovery on good track – 19 Jul 2022
2. Recovery in sight with better margin outlook – 6 Jun 2022
3. Look beyond 2Q22E epidemic disruptions – 6 May 2022

Figure 1: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	220,498	281,916	352,655	216,276	282,975	353,428	2.0%	-0.4%	-0.2%
Gross Profit	52,826	70,239	91,354	55,322	85,809	111,557	-4.5%	-18.1%	-18.1%
Operating Profit	(6,034)	5,800	20,886	(13,877)	3,535	19,213	NA	64.1%	8.7%
Adj. net profit	(790)	11,346	25,255	(7,726)	10,125	25,365	NA	12.1%	-0.4%
EPS (RMB)	(0.12)	1.74	3.76	(1.32)	1.59	3.87	NA	9.5%	-2.9%
Gross Margin	24.0%	24.9%	25.9%	25.6%	30.3%	31.6%	-1.6ppts	-5.4ppts	-5.7ppts
Operating Margin	-2.7%	2.1%	5.9%	-6.4%	1.2%	5.4%	+3.7ppts	+0.8ppts	+0.5ppts
Adj. Net Margin	-0.4%	4.0%	7.2%	-3.6%	3.6%	7.2%	+3.2ppts	+0.4ppts	-0.0ppts

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	220,498	281,916	352,655	212,921	272,488	341,230	3.6%	3.5%	3.3%
Gross Profit	52,826	70,239	91,354	49,756	66,241	86,428	6.2%	6.0%	5.7%
Operating Profit	(6,034)	5,800	20,886	(12,525)	3,541	17,975	NA	63.8%	16.2%
Adj. net profit	(790)	11,346	25,255	(8,163)	8,509	21,833	NA	33.3%	15.7%
Adj. EPS (RMB)	(0.12)	1.74	3.76	(1.27)	1.30	3.25	NA	33.4%	15.7%
Gross Margin	24.0%	24.9%	25.9%	23.4%	24.3%	25.3%	+0.6ppts	+0.6ppts	+0.6ppts
Operating Margin	-2.7%	2.1%	5.9%	-5.9%	1.3%	5.3%	+3.1ppts	+0.8ppts	+0.7ppts
Adj. net margin	-0.4%	4.0%	7.2%	-3.8%	3.1%	6.4%	+3.5ppts	+0.9ppts	+0.8ppts

Source: CMBIGM estimates

Figure 3: Meituan's 2Q22 review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	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	50,938	10%	16%	48,585	5%	49,067	4%
Operating profit	(1,716)	2,175	6,724	(2,853)	(4,767)	(3,252)	(10,103)	(5,006)	(5,584)	(493)	NA	NA	(3,658)	NA	(3,110)	NA
Net profit	(1,579)	2,210	6,321	(2,244)	(4,846)	(3,356)	(9,994)	(5,339)	(5,703)	(1,116)	NA	NA	(3,245)	NA	(3,229)	NA
Adj. net profit	(216)	2,718	2,055	(1,437)	(3,892)	(2,217)	(5,527)	(3,936)	(3,586)	2,058	NA	NA	(2,173)	NA	(2,135)	NA
Adj. EPS (RMB)	(0.04)	0.45	0.34	(0.24)	(0.64)	(0.37)	(0.92)	(0.65)	(0.56)	0.32	NA	NA	(0.38)	NA	(0)	
Margin (%)																
Gross margin	31.0%	34.7%	30.6%	24.9%	19.5%	28.6%	22.1%	24.2%	23.2%	23.8%			25.6%		23.8%	
Operating margin	-10.2%	8.8%	19.0%	-7.5%	-12.9%	-7.4%	-20.7%	-10.1%	-12.1%	-1.0%			-7.5%		-6.3%	
Adj. net margin	-1.3%	11.0%	5.8%	-3.8%	-10.5%	-5.1%	-11.3%	-7.9%	-7.8%	4.0%			-4.5%		-4.4%	
Growth (%)																
Revenue (YoY)	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	37.9%	30.6%	25.0%	16.4%			11.0%		12.1%	
Revenue (QoQ)	-40.5%	47.6%	43.2%	7.1%	-2.4%	18.2%	11.6%	1.4%	-6.6%	10.1%			5.0%		6.0%	
Operating profit	NA	95.5%	364.6%	NA	NA	NA	NA	NA	NA	NA			NA		NA	
Adj. net profit	NA	82.0%	5.8%	NA	NA	NA	NA	NA	NA	NA			NA		NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 2Q22 Revenue breakdown

	2Q21	1Q22	2Q22	QoQ	YoY
Revenue (RMB mn)	43,759	46,269	50,938	10.1%	16.4%
Core local commerce	33,695	34,180	36,779	7.6%	9.2%
New Initiatives	10,064	12,089	14,159	17.1%	40.7%

Source: Company data, CMBIGM estimates

Figure 5: SOTP Valuation

Business (US\$ bn)	'23E Rev	OP Margin	'23E EBIT	Methodology	Multiple	Value
Food Delivery	22.2	8.0%	1.8	EV/EBIT	35.0x	62.1
In-Store, Travel and Hotel	7.1	42.9%	3.0	EV/EBIT	25.0x	76.0
New initiatives	15.0	-20.0%	(3.0)	EV/Sales	4.5x	67.4
Enterprise Value						205.6
(+) Net Cash						16.6
Equity Value						222.2
Diluted Shares Outstanding (mn)						6,201.0
FY23 Val. Per share(HK\$)						278.0

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	114,795	179,128	220,498	281,916	352,655
Food delivery	66,265	96,312	115,770	141,345	172,108
In-store, hotel & travel	21,252	32,530	34,502	45,134	54,049
New initiatives	27,277	50,286	70,227	95,437	126,498
COGS	(80,744)	(136,654)	(167,672)	(211,678)	(261,302)
Gross profit	34,050	42,474	52,826	70,239	91,354
S&M	(20,558)	(40,169)	(33,569)	(39,380)	(43,700)
Admin. Exp.	(4,427)	(6,763)	(6,835)	(7,753)	(8,464)
R&D	(9,192)	(13,980)	(14,332)	(12,122)	(11,990)
Others	4,924	(4,429)	(4,124)	(5,184)	(6,314)
Operating profit	4,798	(22,867)	(6,034)	5,800	20,886
Financial Cost	(156)	(585)	(905)	(905)	(905)
Fair value change	-	-	-	-	-
Others	264	146	-	-	-
Pre-tax Income	4,906	(23,307)	(6,939)	4,895	19,981
Income Tax	270	30	-	(695)	(2,958)
Net profit	4,708	(23,536)	(7,199)	3,940	16,763
Adj. net profit	3,121	(15,572)	(790)	11,346	25,255

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	4,708	(23,536)	(7,199)	3,940	16,763
D&A	5,194	11,892	8,935	10,603	12,470
Change in WC	1,896	6,286	2,834	6,190	7,346
Others	(3,322)	5,053	5,071	6,160	7,320
Operating CF	8,475	(306)	9,642	26,893	43,899
Capex	(11,223)	(8,956)	(11,025)	(13,532)	(16,222)
Associates	2,679	-	-	-	-
Others	(12,688)	3,995	1,024	1,724	1,099
Investing CF	(21,232)	(4,961)	(10,001)	(11,808)	(15,124)
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	(360)	15,085	28,776
Cash (beg of yr)	13,396	17,094	74,120	73,760	88,845
FX	(964)	-	-	-	-
Cash (end of yr)	17,094	74,120	73,760	88,845	117,621

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	78,269	73,521	74,641	76,943	81,122
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	23,762	24,972	26,594
Current assets	88,306	150,073	151,280	169,491	201,271
Cash	17,094	74,120	73,760	88,845	117,621
Restricted cash	12,776	12,776	12,776	12,776	12,776
Account receivable	1,031	1,287	1,347	1,549	1,744
Others	57,406	61,891	63,398	66,321	69,130
Current liabilities	51,148	64,174	68,632	79,040	90,915
Trade payable	11,967	18,674	22,986	29,389	36,763
Payable to merchants	9,415	11,753	12,297	14,150	16,816
Advances from users	4,308	5,378	5,627	6,475	7,289
Deferred revenues	5,053	6,308	6,988	8,041	9,053
Others	20,405	22,062	20,733	20,985	20,994
Non-current liabilities	17,793	17,834	17,831	17,836	17,836
Borrowings	14,924	14,924	14,924	14,924	14,924
Others	-	-	-	-	-
Minority interest	2,869	2,910	2,907	2,912	2,912
Total Equity	(59)	(57)	(54)	(52)	(50)
Shareholders' equity	97,634	141,585	139,458	149,558	173,641

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Food delivery	57.7	53.8	52.5	50.1	48.8
In-store, hotel & travel	18.5	18.2	15.6	16.0	15.3
New initiatives	23.8	28.1	31.8	33.9	35.9
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	17.7	56.0	23.1	27.9	25.1
Gross profit	5.2	16.9	24.4	33.0	30.1
EBIT	35.9	NA	NA	NA	NA
Net profit	(33.0)	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	4.2	(12.8)	(2.7)	2.1	5.9
Pre-tax margin	4.3	(13.0)	(3.1)	1.7	5.7
Net margin	2.7	(8.7)	(0.4)	4.0	7.2
Effective tax rate	5.5	(0.1)	-	(14.2)	(14.8)
Returns (%)					
ROE	5.0	(16.5)	(5.0)	3.3	11.5
ROA	2.1	(8.0)	(0.4)	4.8	9.6
Per share					
EPS (RMB)	0.52	(2.58)	(0.1)	1.74	3.76
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	16.26	23.45	21.77	22.89	25.84

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