

Meituan Dianping (3690 HK)

Faster recovery ahead with expanding TAM

Meituan Dianping ("MD") delivered upbeat 1Q20 results, with revenue 7% above consensus, and net loss largely below consensus. Given its better-than-expected recovery pace and above-peer performance, we turn more bullish on its 2Q20E outlook and secular growth. We raised its revenue by 2%/3%/6%, and adj. net profit by 69%/8%/6% in FY20/21/21E, with higher TP of HK\$147 (from HK\$120).

- 1Q20 all-round beat.** 1Q20 revenue dropped 12.6% YoY, 7%/7% above consensus/our estimate. Adj. net loss reached -RMB216mn, largely better than consensus of -RMB1.1bn, mainly on lower S&M and narrowing loss of initiatives. By segment, revenue of food delivery/ in-store, hotel and travel/ new initiatives -11%/-31%/+5% YoY (vs. our estimate of -13%/-35%/+0% YoY). OPM of food delivery/ in-store, hotel and travel/ new initiatives came in at -1%/+22%/-33% in 1Q20, better than our estimate of -3%/+20%/-40%. We are impressed by this eye-catching results with upbeat margin and better-than-feared growth of all segments.
- Faster recovery with better outlook.** Despite short-term challenges from epidemic, MD performed more resilient than market expectation and peers. Food delivery GTV -5% YoY (vs. our estimate of -7% YoY), orders -17% YoY, with take rate at 13.3% (vs. 14% in 4Q19). AOV +14.4% YoY in 1Q20, a positive signal for users' rising demand. Supply side had recovered to 100% of pre-epidemic level, with higher mix of brand merchants. We expect food delivery GTV to achieve positive YoY growth from 2Q20E, and benefit from COVID-19, in terms of user adoption and merchant expansion. In-store, hotel and travel segment would still decline YoY in 2Q20E, in which hotel to see slower recovery with both decreasing room nights and ADR. Mgmt stated that competition was more moderate in the epidemic, thus hotel OPM would perform better than FY19. MD would step up its investment in new initiatives, to seize structural opportunities.
- Maintain BUY.** Given its strong 1Q20 results, we turn more bullish on MD's recovery pace and secular growth with margin improvement. We raised its revenue by 2%/3%/6%, and adjusted its bottom line by 69%/8%/6% in FY20/21/21E. Our new SOTP-based TP is HK\$147 (implying **5.0x** FY21E P/S, or **54x** FY21E P/E). 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	110,112	162,567	207,567
YoY growth (%)	92	50	13	48	28
Net income (RMB mn)	(8,517)	4,657	2,153	15,180	23,691
EPS (RMB)	(3.13)	0.79	0.35	2.42	3.67
YoY growth (%)	NA	NA	(55)	585	52
Consensus (RMB)	NA	NA	0.51	2.47	3.83
P/E (x)	NA	144	319	47	31
P/S (x)	10.1	6.7	6.0	4.0	3.2
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\$147.0
(Previous TP) HK\$120.0
Up/Downside +16.9%
Current Price HK\$125.8

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	733,023
Avg 3 mths t/o (HK\$ mn)	2809.2
52w High/Low (HK\$)	131/57
Total Issued Shares (mn)	5,081
Source: Bloomberg	

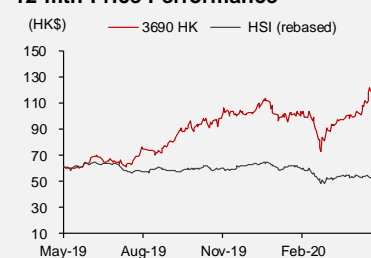
Shareholding Structure

Tencent	20.7%
Sequoia Capital	8.4%
Baillie Gifford	5.1%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	19.5%	24.2%
3-mth	17.9%	37.9%
6-mth	20.9%	40.2%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- Looking beyond 1H20E – 31 Mar 2020
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Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	110,112	162,567	207,567	107,841	157,310	195,165	2.1%	3.3%	6.4%
Gross Profit	34,181	62,184	81,961	32,635	59,414	77,157	4.7%	4.7%	6.2%
Operating Profit	(1,039)	11,732	21,511	(1,858)	10,593	20,318	-44.1%	10.8%	5.9%
Net profit	2,153	15,180	23,691	1,277	14,012	22,383	68.6%	8.3%	5.8%
EPS (RMB)	0.35	2.42	3.67	0.21	2.24	3.47	68.6%	8.3%	5.8%
Gross Margin	31.0%	38.3%	39.5%	30.3%	37.8%	39.5%	+0.8ppts	+0.5ppts	+0.0ppts
Operating Margin	-0.9%	7.2%	10.4%	-1.7%	6.7%	10.4%	+0.8ppts	+0.5ppts	+0.0ppts
Net Margin	2.0%	9.3%	11.4%	1.2%	8.9%	11.5%	+0.8ppts	+0.4ppts	-0.1ppts

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	110,112	162,567	207,567	111,698	157,775	198,381	-1.4%	3.0%	4.6%
Gross Profit	34,181	62,184	81,961	36,424	58,381	75,935	-6.2%	6.5%	7.9%
Operating Profit	(1,039)	11,732	21,511	1,404	14,525	24,932	-174.0%	-19.2%	-13.7%
Net profit	2,153	15,180	23,691	3,313	14,971	24,612	-35.0%	1.4%	-3.7%
EPS (RMB)	0.35	2.42	3.67	0.51	2.47	3.83	-30.2%	-2.1%	-4.0%
Gross Margin	31.0%	38.3%	39.5%	32.6%	37.0%	38.3%	-1.6ppt	+1.2ppts	+1.2ppts
Operating Margin	-0.9%	7.2%	10.4%	1.3%	9.2%	12.6%	-2.2ppts	-2.0ppts	-2.2ppts
Net Margin	2.0%	9.3%	11.4%	3.0%	9.5%	12.4%	-1.0ppts	-0.2ppts	-1.0ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: MD's 1Q20 Review

RMB mn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	19,803	19,174	22,703	27,494	28,158	16,754	-40.5%	-12.6%	15,589	7%	16,204	7%
Operating profit	(3,735)	(1,304)	1,113	1,447	1,424	(1,716)	NA	NA	(1,419)	NA	(1,681)	NA
Net profit	(3,425)	(1,432)	877	1,335	1,458	(1,579)	NA	NA	(1,789)	NA	(1,659)	NA
Adj. net profit	(1,582)	(1,039)	1,494	1,942	2,270	(216)	NA	NA	(1,111)	NA	(1,166)	NA
Margin (%)												
Gross margin	34.5%	24.3%	28.6%	33.2%	31.2%	31.0%			24.5%			
Operating margin	-18.9%	-6.8%	4.9%	5.3%	5.1%	-10.2%			-9.1%			
Adj. net margin	-8.0%	-5.4%	6.6%	7.1%	8.1%	-1.3%			-7.1%			
Growth (%)												
Revenue (YoY)	89.0%	70.1%	50.6%	44.1%	42.2%	-12.6%			-18.7%			
Revenue (QoQ)	3.8%	-3.2%	18.4%	21.1%	2.4%	-40.5%			-44.6%			
Operating profit	NA	NA	NA	NA	NA	NA			NA			
Adj. net profit	NA	NA	NA	NA	NA	NA			NA			

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 1Q20 Revenue breakdown

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	QoQ	YoY
Revenue (RMB mn)	19,803	19,174	22,703	27,494	28,158	16,754	-40.5%	-12.6%
Food Delivery	11,006	10,706	12,845	15,577	15,716	9,490	-39.6%	-11.4%
In-Store, Hotel, Travel	4,594	4,492	5,245	6,181	6,357	3,095	-51.3%	-31.1%
New Initiatives & Others	4,203	3,976	4,613	5,736	6,086	4,168	-31.5%	4.9%

Source: Company data

Figure 5: SOTP valuation

Business (US\$ bn)	'21E Rev	OP Margin	'21E EBIT	Methodology	Multiple	Value
Food Delivery	13.7	8.8%	1.2	EV/Sales	3.5x	48.0
In-Store and Travel	3.7	34.8%	1.3	EV/EBIT	20.0x	25.7
Hotel	1.3	34.8%	0.5	EV/EBIT	20.0x	9.3
New initiatives	4.7	-13.3%	(0.6)	EV/Sales	4.0x	18.9
Enterprise Value						101.8
(+) Net Cash						12.1
Equity Value						113.9
Diluted Shares Outstanding (mn)						6,092.6
Price Target (HK\$)						147.0

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	65,227	97,529	110,112	162,567	207,567
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	24,239	32,680	41,370
COGS	(50,122)	(65,208)	(75,932)	(100,382)	(125,606)
Gross profit	15,105	32,320	34,181	62,184	81,961
S&M	(15,687)	(18,602)	(20,261)	(30,563)	(36,324)
Admin. Exp.	(5,168)	(3,559)	(4,184)	(5,852)	(7,099)
R&D	(6,104)	(7,309)	(8,093)	(10,079)	(12,226)
Others	768	475	(2,681)	(3,959)	(4,802)
Operating profit	(11,086)	3,326	(1,039)	11,732	21,511
Financial Cost	249	(25)	85	122	223
Fair value change	(104,606)	-	-	-	-
Others	(48)	107	-	-	-
Pre-tax Income	(115,491)	3,408	(953)	11,853	21,734
Income Tax	(2)	(526)	-	(1,067)	(3,260)
Net profit	(115,493)	2,236	(953)	10,787	18,474
Adj. net profit	(8,517)	4,657	2,153	15,180	23,691

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income	(115,491)	2,236	(953)	10,787	18,474
D&A	5,367	4,846	4,403	4,164	4,936
Change in WC	(4,987)	(3,697)	(1,736)	4,631	3,457
Others	105,931	2,189	2,753	3,933	4,635
Operating CF	(9,180)	5,574	4,467	22,073	29,556
Capex	(2,210)	(2,210)	(4,129)	(5,202)	(6,310)
Associates	(15,970)	(8,710)	0	0	0
Others	(5,259)	746	1	(23)	(9)
Investing CF	(23,439)	(10,174)	(4,129)	(5,225)	(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)	(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	48,661	49,870	51,398
Fixed asset	3,979	5,376	6,083	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	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	472	558	605
Others	51,383	59,302	57,209	58,700	59,008
Current liabilities	31,825	36,593	31,026	37,434	41,676
Trade payable	5,341	6,766	6,492	10,063	13,491
Payable to merchants	7,596	7,495	6,252	7,384	8,013
Advances from users	3,226	3,856	2,369	2,798	3,037
Deferred revenues	3,103	4,567	2,933	3,465	3,981
Others	12,558	13,908	12,980	13,724	13,153
Non-current liabilities	2,327	3,366	2,502	2,595	2,608
Borrowings	470	467	467	467	467
Others	-	-	-	-	-
Minority interest	1,857	2,899	2,035	2,129	2,142
Total Equity	5	(58)	(61)	(63)	(66)
Shareholders' equity	86,510	92,054	93,854	108,705	132,109

Source: Company data, CMBIS estimates

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Food delivery	58.5	55.7	56.8	55.6	53.9
In-store, hotel & travel	24.3	22.8	21.1	21.4	21.1
New initiatives	17.2	20.9	22.0	20.1	19.9
Total	100.0	99.5	100.0	97.1	94.9
Growth rate (%)					
Revenue	92.3	49.5	12.9	47.6	27.7
Gross profit	23.6	114.0	5.8	81.9	31.8
EBIT	NA	NA	(32.7)	679.9	65.8
Net profit	NA	NA	(53.8)	605.1	56.1
P&L ratios (%)					
Operating margin	(17.0)	3.4	(0.9)	7.2	10.4
Pre-tax margin	(177.1)	3.5	(0.9)	7.3	10.5
Net margin	(13.1)	4.8	2.0	9.3	11.4
Effective tax rate	(0.0)	(0.5)	-	(0.7)	(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	0.35	2.42	3.67
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	31.76	15.54	15.26	17.02	19.97

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