

# Meituan (3690 HK)

## Reinvestment on new initiatives

Meituan delivered upbeat 4Q20 topline, while bottom line slightly missed (but largely expected by market for dynamic investment in groceries). Looking ahead, we expect food delivery & in-store rev with triple-digit YoY growth in 1Q21E. Meituan will step up investment in groceries with low-tier cities penetration, user expansion and infrastructure enhancement, suggesting net loss in next few quarters. We raised its rev by 2%/7% in FY21/22E, with higher TP of HK\$401 by rolling over to FY22E multiple.

- **4Q20 beat on topline.** 4Q20 rev accelerated to +35% YoY, 3% above consensus. Adj. net loss reached RMB1.44bn (vs. consensus of RMB969mn), mainly on reinvestment in groceries. By segment, rev of food delivery/ in-store, hotel & travel/ new initiatives +37%/+12%/+52% YoY (vs. our estimates of +35%/+11%/+51% YoY), with OPM at +4.1%/+39.5%/-64.9% in 4Q20.
- **Expecting food delivery & in-store with triple-digit growth in 1Q21E.** All segments rev accelerated in 4Q20. Food delivery GTV/orders/AOV +39%/33%/5% YoY, take rate at 13.8% (vs. 13.6% in 3Q20), with higher mix from branded restaurants. We expect food delivery rev +113% YoY in 1Q21E, with OPM at 4.5%. In-store, hotel and travel rev +12% YoY in 4Q20 (vs. +5% YoY in 3Q20), with hotel room nights +9% YoY (vs. +4% YoY in 3Q20). We expect this segment rev +104% YoY in 1Q21E (with OPM at 38%), backed by high-end hotel expansion and travel rebound after COVID resurgence.
- **Stepping-up investment in groceries.** 4Q20 new initiatives rev accelerated to +51% YoY (vs. +43% YoY in 3Q20), mainly on aggressive expansion of Meituan Select (>90% city coverage). Meituan Instashopping achieved daily peak orders of 4.5mn. Mgmt prioritized low-tier cities penetration, user expansion and infrastructure enhancement over profitability, backed by multiple grocery portfolio. In the mid-term, ramp-up of AOV per order and lower mix of fresh goods (higher mix of FMCG) would be the key for model evolving. We expect new initiatives non-GAAP operating loss to be RMB8.7bn 1Q21E, in which Meituan Select made up RMB6.0bn. As such, we expect Meituan at net loss position in FY21/22E, with reinvestment in community ecommerce.
- **Maintain BUY.** We raised its revenue by 2%/7%, but cut its margin in FY21/22E. Our new SOTP-based TP is HK\$401 (implying 8x FY22E P/S). Suggest to buy on dips on expanding TAM.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	97,529	114,795	180,899	251,721	323,195
YoY growth (%)	50	18	58	39	28
Net income (RMB mn)	4,657	3,121	(20,379)	(1,224)	14,096
EPS (RMB)	0.79	0.52	(3.30)	(0.19)	2.16
YoY growth (%)	NA	(34)	(736)	(94)	(691)
Consensus (RMB)	NA	NA	1.12	3.63	5.56
P/E (x)	324	489	NA	NA	118
P/S (x)	15.2	12.9	8.2	5.9	4.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.7	5.0	(44.8)	(17.0)	9.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$401.0
(Previous TP	HK\$348.0)
Up/Downside	+33%
Current Price	HK\$302.0

### China Internet Sector

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

**Miriam Lu**  
 (852) 3761 8728  
 miriamlu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	1,692,361
Avg 3 mths t/o (HK\$ mn)	9,002.55
52w High/Low (HK\$)	460.0/ 85.3
Total Issued Shares (mn)	5,153
Source: Bloomberg	

### Shareholding Structure

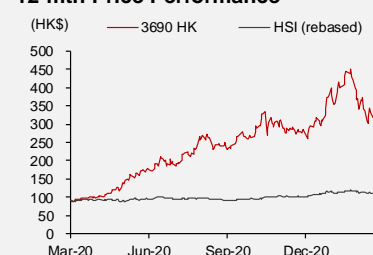
Tencent	20.5%
Sequoia Capital	7.4%
Baillie Gifford	5.0%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-22.4%	-16.4%
3-mth	2.9%	-2.6%
6-mth	23.9%	3.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. Upbeat 3Q20; Eyes on new initiatives – 1 Dec 2020
2. Eye-catching 2Q20 with record-high margin – 24 Aug 2020
3. Faster recovery ahead with expanding TAM – 26 May 2020

**Figure 1: Earnings revision**

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	180,899	251,721	323,195	178,025	236,437	NA	1.6%	6.5%	NA
Gross Profit	58,175	92,655	116,201	64,840	91,405	NA	-10.3%	1.4%	NA
Operating Profit	(27,634)	(8,822)	8,908	10,836	22,546	NA	-355.0%	-139.1%	NA
Adj. net profit	(20,379)	(1,224)	14,096	14,751	25,257	NA	-238.2%	-104.8%	NA
EPS (RMB)	(3.30)	(0.19)	2.16	2.39	3.97	NA	-238.4%	-104.9%	NA
Gross Margin	32.2%	36.8%	36.0%	36.4%	38.7%	NA	-4.3ppts	-1.9ppts	NA
Operating Margin	-15.3%	-3.5%	2.8%	6.1%	9.5%	NA	-21.4ppts	-13.0ppts	NA
Adj. Net Margin	-11.3%	-0.5%	4.2%	8.3%	10.7%	NA	-19.6ppts	-11.2ppts	NA

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	180,899	251,721	323,195	173,894	240,976	297,132	4.0%	4.5%	8.8%
Gross Profit	58,175	92,655	116,201	57,919	84,477	112,360	0.4%	9.7%	3.4%
Operating Profit	(27,634)	(8,822)	8,908	2,558	20,098	41,425	-1180.5%	-143.9%	-78.5%
Adj. net profit	(20,379)	(1,224)	14,096	6,190	21,530	37,410	-429.2%	-105.7%	-62.3%
EPS (RMB)	(3.30)	(0.19)	2.16	1.12	3.63	5.56	-396.3%	-105.3%	-61.2%
Gross Margin	32.2%	36.8%	36.0%	33.3%	35.1%	37.8%	-1.1ppts	+1.8ppts	-1.9ppts
Operating Margin	-15.3%	-3.5%	2.8%	1.5%	8.3%	13.9%	-16.7ppts	-11.8ppts	-11.2ppts
Adj. Net Margin	-11.3%	-0.5%	4.2%	3.6%	8.9%	12.6%	-14.8ppts	-9.4ppts	-8.4ppts

Source: Company data, Bloomberg, CMBIS estimates

**Figure 3: Meituan's 4Q20 Review**

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	Consensus	Diff %
Revenue	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	7%	35%	36,810	3%
Operating profit	(1,304)	1,113	1,447	1,424	(1,716)	2,175	6,724	(2,853)	-142%	-300%	(1,982)	44%
Net profit	(1,432)	877	1,333	1,458	(1,579)	2,210	6,321	(2,244)	-136%	-254%	(1,856)	21%
Adj. net profit	(1,039)	1,494	1,942	2,270	(216)	2,718	2,055	(1,437)	-170%	-163%	(969)	48%
<b>Margin (%)</b>												
Gross margin	31.0%	34.3%	29.8%	33.1%	31.0%	34.7%	30.6%	24.9%			29.7%	
Operating margin	-6.8%	4.9%	5.3%	5.1%	-10.2%	8.8%	19.0%	-7.5%			-5.4%	
Adj. net margin	-5.4%	6.6%	7.1%	8.1%	-1.3%	11.0%	5.8%	-3.8%			-2.6%	
<b>Growth (%)</b>												
Revenue (YoY)	70.1%	50.6%	44.1%	42.2%	-12.6%	8.9%	28.8%	34.7%			30.7%	
Revenue (QoQ)	-3.2%	18.4%	21.1%	2.4%	-40.5%	47.6%	43.2%	7.1%			4.0%	
Operating profit	NA	NA	NA	NA	NA	95.5%	364.6%	NA			-239.2%	
Adj. net profit	NA	NA	NA	NA	NA	82.0%	5.8%	NA			-142.7%	

Source: Company data, Bloomberg, CMBIS estimates

**Figure 4: 4Q20 Revenue breakdown**

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
<b>Revenue (RMB mn)</b>	<b>19,174</b>	<b>22,703</b>	<b>27,494</b>	<b>28,158</b>	<b>16,754</b>	<b>24,722</b>	<b>35,401</b>	<b>37,918</b>	<b>7.1%</b>	<b>34.7%</b>
Food Delivery	10,706	12,845	15,577	15,716	9,490	14,544	20,693	21,538	4.1%	37.0%
In-Store, Hotel, Travel	4,492	5,245	6,181	6,357	3,095	4,544	6,478	7,135	10.1%	12.2%
New Initiatives & Others	3,976	4,613	5,736	6,086	4,168	5,634	8,230	9,244	12.3%	51.9%

Source: Company data

**Figure 5: SOTP valuation**

<b>Business (US\$ bn)</b>	<b>'21E Rev</b>	<b>OP Margin</b>	<b>'21E EBIT</b>	<b>Methodology</b>	<b>Multiple</b>	<b>Value</b>
Food Delivery	20.1	10.8%	2.2	EV/Sales	6.5x	130.9
In-Store and Travel	4.7	35.1%	1.7	EV/EBIT	30.0x	49.6
Hotel	1.5	35.1%	0.5	EV/EBIT	30.0x	16.0
New initiatives	11.4	-41.7%	(4.7)	EV/Sales	9.0x	102.5
<b>Enterprise Value</b>						<b>299.0</b>
(+) Net Cash						8.1
<b>Equity Value</b>						<b>307.1</b>
Diluted Shares Outstanding (mn)						6,003.6
<b>Price Target (HK\$)</b>						<b>401.0</b>

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	97,529	114,795	180,899	251,721	323,195
Food delivery	54,843	66,265	97,507	134,278	165,988
In-store, hotel & travel	22,275	21,252	30,427	41,549	53,441
New initiatives	20,410	27,277	52,965	75,894	103,766
<b>COGS</b>	(65,208)	(80,744)	(122,724)	(159,066)	(206,994)
<b>Gross profit</b>	32,320	34,050	58,175	92,655	116,201
S&M	(18,602)	(20,883)	(54,270)	(60,413)	(67,871)
Admin. Exp.	(3,559)	(5,594)	(9,045)	(12,586)	(9,696)
R&D	(7,309)	(10,893)	(18,090)	(22,655)	(22,624)
Others	475	8,117	(4,405)	(5,823)	(7,103)
<b>Operating profit</b>	3,326	4,798	(27,634)	(8,822)	8,908
Financial Cost	(25)	(156)	(91)	10	(168)
Fair value change	-	-	-	-	-
Others	107	264	-	-	-
Pre-tax Income	3,408	4,906	(27,726)	(8,812)	7,368
Income Tax	(526)	270	2,495	1,322	(1,105)
Net profit	2,236	4,708	(25,230)	(7,490)	6,263
<b>Adj. net profit</b>	4,657	3,121	(20,379)	(1,224)	14,096

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net income</b>	2,236	4,708	(25,230)	(7,490)	6,263
D&A	4,846	4,466	2,600	5,401	6,444
Change in WC	(3,697)	(1,044)	6,296	6,282	9,051
Others	2,189	345	4,575	6,189	7,582
<b>Operating CF</b>	5,574	8,475	(12,072)	9,846	29,829
Capex	(2,210)	(4,305)	(5,789)	(7,652)	(9,334)
Associates	(8,710)	(4,334)	(0)	(0)	(0)
Others	746	(12,593)	(3,888)	1,139	2,358
<b>Investing CF</b>	(10,174)	(21,232)	(9,744)	(6,784)	(7,346)
Equity raised	-	-	-	-	-
Change of Debts	1,749	4,333	-	-	-
Others	(635)	13,085	-	-	-
<b>Financing CF</b>	1,114	17,418	-	-	-
<b>Net change in cash</b>	(3,486)	4,661	(21,816)	3,062	22,482
Cash (beg of yr)	17,044	13,396	17,094	(4,723)	(1,660)
FX	(173)	(964)	-	-	-
<b>Cash (end of yr)</b>	13,396	17,094	(4,723)	(1,660)	20,822

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	49,878	78,269	65,199	66,889	68,016
Fixed asset	5,376	13,917	8,057	10,239	11,842
Financial assets at fair value	7,166	10,863	10,863	10,863	10,863
Intangible assets	32,700	31,676	30,805	30,007	29,307
Others	4,636	21,812	15,474	15,780	16,005
<b>Current assets</b>	82,135	88,306	59,442	64,641	88,930
Cash	13,396	17,094	(4,723)	(1,660)	20,822
Restricted cash	8,760	12,776	8,760	8,760	8,760
Account receivable	677	1,031	621	734	848
Others	59,302	57,406	54,777	56,781	58,466
<b>Current liabilities</b>	36,593	51,148	43,546	51,828	62,751
Trade payable	6,766	11,967	11,198	16,361	23,108
Payable to merchants	7,495	9,415	8,216	9,718	11,230
Advances from users	3,856	4,308	3,114	3,683	4,256
Deferred revenues	4,567	5,053	3,855	4,828	5,579
Others	13,908	20,405	17,162	17,238	18,579
<b>Non-current liabilities</b>	3,366	17,793	17,290	17,367	17,388
Borrowings	467	1,957	1,957	1,957	1,957
Others	-	-	-	-	-
Minority interest	2,899	15,835	15,333	15,410	15,430
Total Equity	(58)	(59)	(61)	(64)	(67)
<b>Shareholders' equity</b>	92,054	97,634	76,926	75,415	87,632

Source: Company data, CMBIS estimates

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Food delivery	56.2	57.7	53.9	53.3	51.4
In-store, hotel & travel	22.8	18.5	16.8	16.5	16.5
New initiatives	20.9	23.8	29.3	30.2	32.1
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Growth rate (%)</b>					
Revenue	49.5	17.7	57.6	39.2	28.4
Gross profit	114.0	5.4	70.9	59.3	25.4
EBIT	NA	35.9	NA	NA	NA
Net profit	NA	(33.0)	NA	NA	NA
<b>P&amp;L ratios (%)</b>					
Operating margin	3.4	4.2	(15.3)	(3.5)	2.8
Pre-tax margin	3.5	4.3	(15.3)	(3.5)	2.2
Net margin	4.8	2.7	(11.3)	(0.5)	4.2
Effective tax rate	(0.5)	0.2	1.4	0.5	(0.3)
<b>Returns (%)</b>					
ROE	3.7	5.0	(44.8)	(17.0)	9.9
ROA	3.7	2.1	(14.4)	(1.8)	9.8
<b>Per share</b>					
EPS (RMB)	0.79	0.52	(3.30)	(0.19)	2.16
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.54	16.26	10.28	9.58	11.43

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## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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