

Meituan (3690 HK)

Investment on groceries to step up

Meituan delivered solid 1Q21 with upbeat topline and better-than-feared bottom line. Food delivery performed well with higher take rate, and rider insurance cost seems to be more manageable. Meituan Select contributed half of QoQ net adds of transacting users. However, we expect groceries loss to widen in 2Q21E due to cold chain enhancement, intensified competition and regulations. We barely changed our forecast, but slightly trimmed our TP to HK\$383 for sector de-rating.

- 1Q20 mild beat.** 1Q21 rev +121% YoY, 4% above consensus. Adj. net loss reached RMB3.9bn (vs. consensus of RMB4.0bn), mainly on groceries investment. By segment, rev of food delivery/ in-store, hotel & travel/ new initiatives +117%/+113%/+137% YoY (vs. our estimates of +115%/+105%/+105% YoY), with OPM at +5.4%/+42%/-81.6% in 1Q21.
- Solid food delivery & better recovery of in-store.** Food delivery GTV/orders/AOV +100%/+114%/-5.5% YoY, with take rate at 14.4% (vs. 13.8% in 4Q20). Mgmt guided 2Q21E food delivery orders 2-year CAGR (28-30%) to be lower than that of 1Q21, suggesting 2Q21E orders increase of 53-57% YoY, while OPM is higher than 2Q20. We think market overreacted to social insurance issue, for 1) flexible staffing tends to buy only operational injury protection, not “five-insurance”, suggesting cost of RMB0.05 per order for Meituan; and 2) insurance will be covered by multiple parties. The new tier commission rate system would further optimize its order structure. In-store, hotel and travel rev +113% YoY in 1Q21 (vs. +12% YoY in 4Q20). We expect this segment rev +90% YoY in 2Q21E (with OPM lower than 1Q21).
- Groceries loss to widen in 2Q21E.** 1Q21 new initiatives rev +137% YoY, with EBIT loss at RMB8bn (Meituan Select at -RMB5.8bn). We are impressed by its QoQ net adds of transacting users (at 59mn) in 1Q21, half of which contributed by Meituan Select. Mgmt stated Meituan Select's daily orders would be slightly higher than peers, while net loss would be weaker than DDMC. We expect new initiatives net loss to widen in 2Q21E, in which Meituan Select will book RMB7.5bn-8.0bn loss. Given intensified competition and regulations, we expect stepping-up investment to continue, especially in 2Q21 & 3Q21E, coupled with summer cold chain enhancement.
- Maintain BUY.** We barely changed our forecast, but lower our SOTP-based TP to HK\$383 (implying 8x FY22E P/S). Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	97,529	114,795	180,899	249,250	320,130
YoY growth (%)	50	18	58	38	28
Net income (RMB mn)	4,657	3,305	(20,285)	(1,237)	14,820
EPS (RMB)	0.79	0.52	(3.29)	(0.20)	2.27
YoY growth (%)	NA	(34)	(733)	(94)	(1,264)
Consensus (RMB)	NA	NA	(1.07)	1.38	4.12
P/E (x)	283	428	NA	NA	98
P/S (x)	14.0	11.9	7.5	5.5	4.3
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	3.7	5.0	(42.1)	(13.0)	11.7
Net gearing (%)	Net cash				

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$383.0
(Previous TP	HK\$401.0)
Up/Downside	+44.5%
Current Price	HK\$265

China Internet Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,667,099
Avg 3 mths t/o (HK\$ mn)	9,100.20
52w High/Low (HK\$)	460.0/ 132.6
Total Issued Shares (mn)	5,375

Source: Bloomberg

Shareholding Structure

Tencent	19.7%
Sequoia Capital	6.7%
Baillie Gifford	4.8%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.3%	-9.0%
3-mth	-17.8%	-18.3%
6-mth	-9.2%	-16.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

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Figure 1: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	180,899	249,250	320,130	180,899	251,721	323,195	0.0%	-1.0%	-0.9%
Gross Profit	58,327	91,796	115,160	58,175	92,655	116,201	0.3%	-0.9%	-0.9%
Operating Profit	(27,062)	(8,264)	9,305	(27,634)	(8,822)	8,908	NA	NA	4.5%
Adj. net profit	(20,285)	(1,237)	14,820	(20,379)	(1,224)	14,977	NA	NA	-1.0%
EPS (RMB)	(3.29)	(0.20)	2.27	(3.30)	(0.19)	2.29	NA	NA	-1.0%
Gross Margin	32.2%	36.8%	36.0%	32.2%	36.8%	36.0%	+0.1ppcts	+0.0ppcts	+0.0ppcts
Operating Margin	-15.0%	-3.3%	2.9%	-15.3%	-3.5%	2.8%	+0.3ppcts	+0.2ppcts	+0.2ppcts
Adj. Net Margin	-11.2%	-0.5%	4.6%	-11.3%	-0.5%	4.6%	+0.1ppcts	-0.0ppcts	-0.0ppcts

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	249,250	320,130	179,661	249,132	328,512	0.7%	0.0%	-2.6%
Gross Profit	58,327	91,796	115,160	49,783	77,760	107,719	17.2%	18.1%	6.9%
Operating Profit	(27,062)	(8,264)	9,305	(12,701)	4,788	20,747	NA	NA	-55.2%
Adj. net profit	(20,285)	(1,237)	14,820	(8,178)	10,204	28,305	NA	NA	-47.6%
EPS (RMB)	(3.29)	(0.20)	2.27	(1.07)	1.38	4.12	NA	NA	-44.9%
Gross Margin	32.2%	36.8%	36.0%	27.7%	31.2%	32.8%	+4.5ppcts	+5.6ppcts	+3.2ppcts
Operating Margin	-15.0%	-3.3%	2.9%	-7.1%	1.9%	6.3%	-7.9ppcts	-5.2ppcts	-3.4ppcts
Adj. Net Margin	-11.2%	-0.5%	4.6%	-4.6%	4.1%	8.6%	-6.7ppcts	-4.6ppcts	-4.0ppcts

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Meituan's 1Q21 Review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Revenue	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	-2%	121%	35,674	4%
Operating profit	(1,304)	1,113	1,447	1,424	(1,716)	2,175	6,724	(2,853)	(4,767)	67%	178%	(5,538)	NA
Net profit	(1,432)	877	1,333	1,463	(1,579)	2,210	6,321	(2,244)	(4,846)	116%	207%	(5,214)	NA
Adj. net profit	(1,039)	1,494	1,942	2,270	(216)	2,718	2,055	(1,437)	(3,892)	171%	1699%	(3,972)	NA
Margin (%)													
Gross margin	31.0%	34.7%	30.6%	24.9%	31.0%	34.7%	30.6%	24.9%	19.5%				22.1%
Operating margin	-6.8%	4.9%	5.3%	5.1%	-10.2%	8.8%	19.0%	-7.5%	-12.9%				-15.5%
Adj. net margin	-5.4%	6.6%	7.1%	8.1%	-1.3%	11.0%	5.8%	-3.8%	-10.5%				-11.1%
Growth (%)													
Revenue (YoY)	70.1%	50.6%	44.1%	42.2%	-12.6%	8.9%	28.8%	34.7%	120.9%				112.9%
Revenue (QoQ)	-3.2%	18.4%	21.1%	2.4%	-40.5%	47.6%	43.2%	7.1%	-2.4%				-5.9%
Operating profit	NA	NA	NA	NA	NA	95.5%	364.6%	NA	NA				222.8%
Adj. net profit	NA	NA	NA	NA	NA	82.0%	5.8%	NA	NA				1735.8%

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: 1Q21 Revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Revenue (RMB mn)	19,174	22,703	27,494	28,158	16,754	24,722	35,401	37,918	37,016	-2.4%	120.9%
Food Delivery	10,706	12,845	15,577	15,716	9,490	14,544	20,693	21,538	20,575	-4.5%	116.8%
In-Store, Hotel, Travel	4,492	5,245	6,181	6,357	3,095	4,544	6,478	7,135	6,584	-7.7%	112.7%
New Initiatives & Others	3,976	4,613	5,736	6,086	4,168	5,634	8,230	9,244	9,856	6.6%	136.5%

Source: Company data

Figure 5: SOTP valuation

Business (US\$ bn)	'22E Rev	OP Margin	'22E EBIT	Methodology	Multiple	Value
Food Delivery	19.8	10.8%	2.1	EV/Sales	6.5x	128.9
In-Store and Travel	4.7	35.1%	1.6	EV/EBIT	30.0x	49.2
Hotel	1.5	35.1%	0.5	EV/EBIT	30.0x	16.0
New initiatives	11.4	-41.2%	(4.7)	EV/Sales	8.0x	91.0
Enterprise Value					285.0	
(+) Net Cash						8.1
Equity Value					293.1	
Diluted Shares Outstanding (mn)						6,003.6
Price Target (HK\$)						383.0

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	97,529	114,795	180,899	249,250	320,130	Net income	2,236	4,708	(24,681)	(6,989)	7,800
Food delivery	54,843	66,265	97,507	132,164	163,374	D&A	4,846	4,466	2,581	5,301	6,311
In-store, hotel & travel	22,275	21,252	30,427	41,275	53,092	Change in WC	(3,697)	(1,044)	6,296	5,992	8,975
New initiatives	20,410	27,277	52,965	75,811	103,663	Others	2,189	345	4,522	5,920	7,223
COGS	(65,208)	(80,744)	(122,571)	(157,453)	(204,969)	Operating CF	5,574	8,475	(11,282)	10,224	30,309
Gross profit	32,320	34,050	58,327	91,796	115,160	Capex	(2,210)	(4,305)	(5,789)	(7,577)	(9,245)
S&M	(18,602)	(20,883)	(54,270)	(59,820)	(67,227)	Associates	(8,710)	(4,334)	(0)	(0)	(0)
Admin.Exp.	(3,559)	(5,594)	(9,045)	(12,462)	(9,604)	Others	746	(12,593)	(3,936)	893	2,031
R&D	(7,309)	(10,893)	(18,090)	(22,432)	(22,409)	Investing CF	(10,174)	(21,232)	(9,725)	(6,684)	(7,214)
Others	475	8,117	(3,985)	(5,346)	(6,615)	Equity raised	-	-	-	-	-
Operating profit	3,326	4,798	(27,062)	(8,264)	9,305	Change of Debts	1,749	4,333	-	-	-
Financial Cost	(25)	(156)	(91)	10	(160)	Others	(635)	13,085	-	-	-
Fair value change	-	-	-	-	-	Financing CF	1,114	17,418	-	-	-
Others	107	264	(2)	(2)	(2)	Net change in cash	(3,486)	4,661	(21,006)	3,540	23,095
Pre-tax Income	3,408	4,906	(27,155)	(8,256)	9,143	Cash (beg of yr)	17,044	13,396	17,094	(3,913)	(373)
Income Tax	(526)	270	2,441	1,233	(1,377)	FX	(173)	(964)	-	-	-
Net profit	2,236	4,708	(24,681)	(6,989)	7,800	Cash (end of yr)	13,396	17,094	(3,913)	(373)	22,722
Adj. net profit	4,657	3,121	(20,285)	(1,237)	14,820						

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	49,878	78,269	65,186	66,828	67,939
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	15,461	15,720	15,928
Current assets	82,135	88,306	60,121	65,338	90,105
Cash	13,396	17,094	(3,913)	(373)	22,722
Restricted cash	8,760	12,776	8,760	8,760	8,760
Account receivable	677	1,031	621	727	840
Others	59,302	57,406	54,653	56,224	57,782
Current liabilities	36,593	51,148	43,546	51,404	62,238
Trade payable	6,766	11,967	11,198	16,201	22,889
Payable to merchants	7,495	9,415	8,216	9,623	11,123
Advances from users	3,856	4,308	3,114	3,647	4,216
Deferred revenues	4,567	5,053	3,855	4,781	5,526
Others	13,908	20,405	17,162	17,153	18,484
Non-current liabilities	3,366	17,793	17,290	17,360	17,381
Borrowings	467	1,957	1,957	1,957	1,957
Others	-	-	-	-	-
Minority interest	2,899	15,835	15,333	15,402	15,423
Total Equity	(58)	(59)	(61)	(64)	(67)
Shareholders' equity	92,054	97,634	77,476	76,407	91,430

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	2,236	4,708	(24,681)	(6,989)	7,800
D&A	4,846	4,466	2,581	5,301	6,311
Change in WC	(3,697)	(1,044)	6,296	5,992	8,975
Others	2,189	345	4,522	5,920	7,223
Operating CF	5,574	8,475	(11,282)	10,224	30,309
Capex	(2,210)	(4,305)	(5,789)	(7,577)	(9,245)
Associates	(8,710)	(4,334)	(0)	(0)	(0)
Others	746	(12,593)	(3,936)	893	2,031
Investing CF	(10,174)	(21,232)	(9,725)	(6,684)	(7,214)
Equity raised	-	-	-	-	-
Change of Debts	1,749	4,333	-	-	-
Others	(635)	13,085	-	-	-
Financing CF	1,114	17,418	-	-	-
Net change in cash	(3,486)	4,661	(21,006)	3,540	23,095
Cash (beg of yr)	17,044	13,396	17,094	(3,913)	(373)
FX	(173)	(964)	-	-	-
Cash (end of yr)	13,396	17,094	(3,913)	(373)	22,722

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Food delivery	56.2	57.7	53.9	53.0	51.0
In-store, hotel & travel	22.8	18.5	16.8	16.6	16.6
New initiatives	20.9	23.8	29.3	30.4	32.4
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	49.5	17.7	57.6	37.8	28.4
Gross profit	114.0	5.4	71.3	57.4	25.5
EBIT	NA	35.9	NA	NA	NA
Net profit	NA	(33.0)	NA	NA	NA
P&L ratios (%)					
Operating margin	3.4	4.2	(15.0)	(3.3)	2.9
Pre-tax margin	3.5	4.3	(15.0)	(3.3)	2.9
Net margin	4.8	2.7	(11.2)	(0.5)	4.6
Effective tax rate	(0.5)	0.2	1.3	0.5	(0.4)
Returns (%)					
ROE	3.7	5.0	(42.1)	(13.0)	11.7
ROA	3.7	2.1	(13.9)	(1.0)	10.2
Per share					
EPS (RMB)	0.79	0.52	(3.29)	(0.20)	2.27
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	15.54	16.26	10.45	9.99	12.02

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