

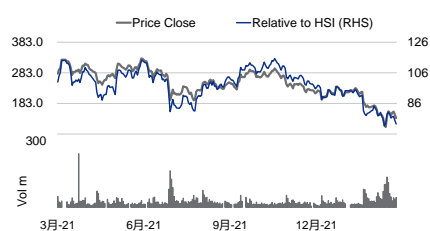
Hong Kong
ADD (no change)

Consensus ratings*: Buy 55 Hold 5 Sell 1

Current price:	HK\$135.0
Target price:	HK\$227.0
Previous target:	HK\$300.0
Up/downside:	68.1%
CGI / Consensus:	-24.7%
Reuters:	3690.HK
Bloomberg:	3690 HK
Market cap:	US\$105,851m
	HK\$828,509m
Average daily turnover:	US\$739.7m
	HK\$5,775m
Current shares o/s:	6,038m
Free float:	50.0%
*Source: Bloomberg	

Key changes in this note

- FY22F EPS decreased by 1593%.
- FY23F EPS decreased by 50%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-20.7	-40.3	-53
Relative (%)	-14.7	-32.5	-29.7

Major shareholders	% held
Tencent	18.0
Wang Xing	10.0

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Meituan
Pandemic rebound expected to affect 1H22F results

- Meituan reported 4Q21 revenue of Rmb49.5bn, up 30.6% yoy, and an adjusted net loss of Rmb3.9bn, compared to a net loss of Rmb1.4bn in 4Q20, slightly above our expectations because of a better gross margin and lower expenses.
- Meituan expects the food delivery subsidy ratio in FY22F to be lower than in the past few years and advertising revenue to steadily increase. But to support SME merchants, Meituan's monetization rate will be affected in the short term.
- We also expect the operating loss from new initiatives to narrow in FY22F.
- Reiterate Add with a DCF-based TP of HK\$227.

Results slightly above expectations with strong operating data

Revenue grew by 21.3%, 22.2% and 58.7% yoy for food delivery, in-store, hotel and travel and new initiatives, respectively, in 4Q21. Its 4Q21 gross margin fell by 0.7% pts yoy to 24.2%, but improved by 2.1% pts qoq, indicating margin improvement for new initiatives. Its 4Q21 adjusted operating loss was Rmb3.6bn, increasing by 76.2% yoy, because of the expansion of new initiatives. The food delivery segment had an operating profit of Rmb1.7bn (6.4% OPM vs. 4.3% in FY20), up 96.7% yoy, attributable to larger business scale, a reduction in user incentives, and a higher online marketing revenue contribution. Operating profit for the in-store, hotel and travel segment grew 38.1% yoy to Rmb3.9bn (43.3% OPM vs. 38.5% in FY20), attributable to improved operating efficiency, smaller revenue contribution from the hotel business, and lower promotional expenses. Its quarterly operating loss expanded to Rmb10.2bn for the new initiatives segment. Meituan had 690.5m annual transacting users in the quarter, up 35.2% yoy and 3.4% qoq, and 3.9bn food delivery transactions, up 17.4% yoy. During the Christmas period, peak daily order volume reached a new high of over 53m orders per day. Management maintains its target of 100m food delivery orders per day in the next 3–5 years.

Food delivery to be affected by the pandemic situation in 1H22F

In Jan–Feb, the food delivery growth rate gradually recovered, but in Mar, the pandemic rebounded, especially in top-tier cities such as Shenzhen and Shanghai, which contribute meaningfully to Meituan's transaction volume, so Meituan's food delivery business was affected in Mar. We expect food delivery revenue to grow by 16% and 2% yoy in 1Q22F and 2Q22F, respectively. But based on the past two years' experience, order volume will pick up right after the pandemic control measures are lifted. Focusing on high-quality growth, Meituan expects the subsidy ratio in FY22F to be lower than that in the past few years. But to support SME merchants, Meituan's monetization rate in the short term will be affected. Meituan will focus more on high frequency users in FY22F. National guidance for occupational injury insurance is expected to be announced in a few months, but the provincial implementation guidance may take some time to be announced. Management expects to implement occupational injury insurance for its drivers on a trial basis in couple of provinces in July, which will affect delivery cost by Rmb0.06 per order.

In-store, hotel and travel business will also be under pressure

In-store dining and other domestic services achieved strong growth, with over 30% yoy growth in GTV and revenue in 4Q21. Yoy growth of in-store business commission revenue and online marketing revenue was 33% and over 30%, respectively. But with the weak macro environment and pandemic uncertainty, domestic hotel room nights purchased on the Meituan platform fell by 3.7% yoy in 4Q21. There was some progress in high-end hotel penetration in FY21, with the room nights contribution over 16.5%. Given the current pandemic situation, we expect in-store, hotel and travel segment revenue to grow by 15% in 1Q22F and drop by 10% yoy in 2Q22F. Management maintains its longer-term guidance of a 25% yoy CAGR for segment revenue.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	114,795	179,128	212,269	270,564	349,624
Operating EBITDA (Rmbm)	9,554	-14,823	-7,578	17,517	35,889
Net Profit (Rmbm)	3,121	-15,572	-13,759	10,457	24,499
Normalised EPS (Rmb)	0.53	-2.58	-2.17	1.57	3.51
Normalised EPS Growth	(34%)	(583%)	(16%)		123%
FD Normalised P/E (x)	204.2	NA	NA	68.2	30.6
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	60.28	NA	NA	34.40	16.74
P/FCFE (x)	105.6	NA	405.2	29.6	18.6
Net Gearing	(67%)	(85%)	(99%)	(115%)	(129%)
P/BV (x)	6.57	5.27	6.51	6.59	5.96
ROE	3.3%	(13.9%)	(11.8%)	9.6%	20.4%
% Change In Normalised EPS Estimates			(1593%)	(50%)	
Normalised EPS/consensus EPS (x)			1.68	0.93	0.67

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Pandemic rebound expected to affect 1Q22F results

Loss from new initiatives expected to narrow in FY22F

Meituan Select delivered a healthy increase in both GTV and sales volume qoq, and the operating loss as a percentage of GTV continued to narrow in 4Q21. The absolute amount of Meituan Select's operating loss also narrowed qoq for the first time, illustrating Meituan's continued improvement in product mix and operating efficiency. In 4Q21, new initiatives resulted in a total loss of Rmb10.2bn; of this, the loss for Meituan Select was Rmb6.6bn. We expect the operating loss ratio from new initiatives to narrow from 76.4% in FY21 to 61.5% in FY22F. Management guided a loss of Rmb9.5bn for new initiatives in 1Q22F, with Meituan Select's loss expected to be about Rmb6bn. Management said Meituan will be more cautious on new business investment to improve its unit economy in FY22F. Meituan will improve its logistics network, supply chain, SKU selection and group leader ecosystem for Meituan Select in FY22F.

The instant shopping business also grew fast in FY21, and Meituan will continue to invest in it in FY22F. Management maintained its target of 10m transactions per day for its instant shopping business in the next 3–5 years. The instant shopping GTV equaled c.12% of Meituan's food delivery GTV in FY21, and management expects to improve this ratio in FY22F.

Reiterate Add with a DCF-based TP of HK\$227

We cut our EPS forecasts for FY22–23F by 1,593% and 50%, respectively, to reflect the pandemic impact in 1H22F. But in the longer term, we are confident about Meituan's development, as we expect its investment in Meituan Select and other new initiatives to drive long-term growth. Positive catalysts include quicker-than-expected stabilization of the pandemic situation and improvement in the macro economy.

Figure 1: Meituan results review

(Rmb m)	4Q20	4Q21	yoy	FY20	FY21	yoy
Food delivery	21,538	26,127	21%	66,265	96,312	45%
In-store, hotel & travel	7,135	8,722	22%	21,252	32,530	53%
New initiatives and others	9,244	14,674	59%	27,277	50,286	84%
Operating revenue	37,918	49,523	31%	114,795	179,128	56%
Cost of revenues	(28,462)	(37,541)	32%	(80,744)	(136,654)	69%
Gross profit	9,456	11,983	27%	34,050	42,474	25%
GP margin	24.9%	24.2%	-1% pts	29.7%	23.7%	-6% pts
Selling and marketing expenses	(7,675)	(11,240)	46%	(20,883)	(40,683)	95%
Research and development expenses	(3,249)	(4,582)	41%	(10,893)	(16,676)	53%
General and administrative expenses	(1,951)	(2,435)	25%	(5,594)	(8,613)	54%
Net provision for impairment losses on financial assets	(54)	(52)	-3%	(468)	(260)	-44%
Fair value changes on investments	(662)	727	NA	4,956	816	-84%
Other gains, net	1,283	594	-54%	3,161	(186)	NA
Operating profit/(loss)	(2,853)	(5,006)	75%	4,330	(23,127)	NA
OP margin	-7.5%	-10.1%	-3% pts	3.8%	-12.9%	-17% pts
Finance income	70	157	125%	214	546	156%
Finance costs	(150)	(332)	122%	(370)	(1,131)	206%
Share of gains/(losses) of investments	117	(164)	NA	264	146	-45%
Profit/(loss) before income tax	(2,815)	(5,344)	90%	4,438	(23,566)	NA
Income tax expenses	571	5	-99%	270	30	-89%
Profit/(loss) for the year	(2,244)	(5,339)	138%	4,708	(23,536)	NA
Non-controlling interests	0	(0)	NA	(1)	2	NA
Profit/(loss) attributable to equity shareholders	(2,245)	(5,339)	138%	4,708	(23,538)	NA
NP margin	-5.9%	-10.8%	-5% pts	4.1%	-13.1%	-17% pts
Adjusted net profit	(1,437)	(3,936)	174%	3,121	(15,572)	NA
Adjusted net profit margin	-3.8%	-7.9%	-4% pts	2.7%	-8.7%	-11% pts

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: Meituan food delivery UE model

	1P	3P
Commission (before subtract subsidy)	9.24	1.67
Take rate (%)	18.9%	3.4%
Commission (after subtract subsidy)	8.28	0.72
Take rate (%)	16.9%	1.5%
Online marketing services	0.80	0.80
Take rate (%)	1.6%	1.6%
Other services and sales	0.15	0.15
77% subsidy to subtract revenue	0.96	0.96
Subsidy rate (%)	2.8%	2.8%
Revenue (before subtract subsidy)	10.18	2.62
Revenue (after subtract subsidy)	9.23	1.66
Delivery costs	8.60	0.00
Payment costs	0.28	0.28
Gross profit	0.34	1.38
Gross margin (%)	3.7%	83.1%
23% subsidy to subtract profit	0.41	0.41
Other operating costs	(0.15)	(0.15)
Operating profit	0.08	1.12
Operating profit margin (%)	0.9%	67.6%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 3: Meituan earnings revisions

(Rmb m)	FY22F			FY23F			FY24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	247,793	212,269	-14.3%	316,866	270,564	-14.6%	N/A	349,624	N/A
Gross margin	27.3%	24.0%	-3.2% pts	30.1%	26.6%	-3.5% pts	N/A	31.2%	N/A
Operating margin	-2.1%	-8.7%	-6.6% pts	5.1%	1.9%	-3.2% pts	N/A	6.3%	N/A
Net income	-4,626	-18,759	-305.5%	13,411	3,957	-70.5%	N/A	17,999	N/A
Adjusted net income	-826	-13,759	-1565.5%	21,411	10,457	-51.2%	N/A	24,499	N/A
EPS	-0.13	-2.17	-1593.1%	3.16	1.57	-50.4%	N/A	3.51	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 4: Meituan DCF valuation

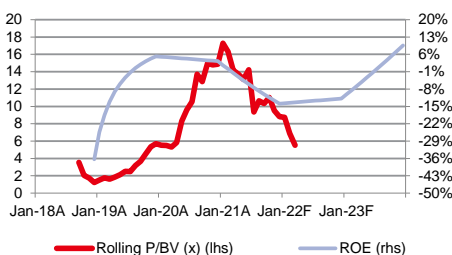
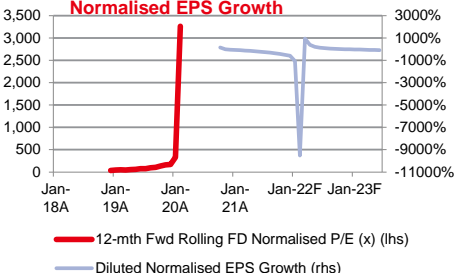
(RMB m)	FY22F	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
EBIT	(18,524)	5,144	22,090	28,717	37,332	48,531	60,664	75,830	94,788	118,485	148,106
Add: Depreciation & amortization	10,946	12,373	13,799	13,937	14,076	14,217	14,359	14,503	14,648	14,795	14,942
Less: Tax	(100)	810	3,687	4,792	6,230	8,099	10,124	12,655	15,819	19,774	24,717
Less: Capex	6,000	6,000	6,000	6,060	6,121	6,182	6,244	6,306	6,369	6,433	6,497
Less: Net change in working capital	(13,154)	(11,856)	(12,531)	(12,656)	(12,783)	(12,911)	(13,040)	(13,170)	(13,302)	(13,435)	(13,569)
Unlevered FCF	(324)	22,562	38,733	44,458	51,840	61,378	71,696	84,542	100,550	120,508	145,404
Terminal value											2,089,476
DCF	(324)	20,480	31,914	33,249	35,193	37,822	40,102	42,924	46,339	50,411	55,212

Assumptions

PV for the forecasted period	393,646	Risk-free Rate of Return	3.0%
PV for the terminal value	793,411	Equity Risk Premium	7.5%
Enterprise Value	1,187,057	Company Beta	1.00
Minus: Net debt + Minority interest	(8,123)	Cost of Equity	10.5%
NPV to equity shareholders	1,195,180	Pre-tax Cost of Debt	6.0%
Divided by: # of shares outstanding	6,340	Tax Rate	-6%
NPV per share to equity shareholders (RMB)	189	After-tax Cost of Debt	6.3%
HKD/CNY	0.83	Target debt to total capital	8%
NPV per share to equity shareholders (HKD)	227	WACC	10.2%
		Terminal growth ("g")	3%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth


Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	114,795	179,128	212,269	270,564	349,624
Gross Profit	34,050	42,474	51,016	72,082	109,188
Operating EBITDA	9,554	-14,823	-7,578	17,517	35,889
Depreciation And Amortisation	-5,224	-8,304	-10,946	-12,373	-13,799
Operating EBIT	4,330	-23,127	-18,524	5,144	22,090
Financial Income/(Expense)	-156	-585	-836	-877	-904
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	264	146	500	500	500
Profit Before Tax (pre-EI)	4,438	-23,566	-18,859	4,767	21,685
Exceptional Items					
Pre-tax Profit	4,438	-23,566	-18,859	4,767	21,685
Taxation	270	30	100	-810	-3,687
Exceptional Income - post-tax					
Profit After Tax	4,708	-23,536	-18,759	3,957	17,999
Minority Interests	1	-2	-2	-2	-2
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-1,588	7,967	5,002	6,502	6,502
Preference Dividends (Australia)					
Net Profit	3,121	-15,572	-13,759	10,457	24,499
Normalised Net Profit	4,708	-23,536	-18,759	3,957	17,999
Fully Diluted Normalised Profit	3,121	-15,572	-13,759	10,457	24,499

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,554	-14,823	-7,578	17,517	35,889
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,896	24,954	13,154	11,856	12,531
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	-1,670	-13,627	1,000	1,000	1,000
Net Interest (Paid)/Received	-1,218	-546	-500	-500	-500
Tax Paid	-86	30	100	-810	-3,687
Cashflow From Operations	8,475	-4,011	6,176	29,062	45,233
Capex	-11,223	-16,221	-6,000	-6,000	-6,000
Disposals Of FAs/subsidiaries	280	0	0	0	0
Acq. Of Subsidiaries/investments	-211,090	0	0	0	0
Other Investing Cashflow	200,801	-42,271	500	500	500
Cash Flow From Investing	-21,232	-58,492	-5,500	-5,500	-5,500
Debt Raised/(repaid)	18,789	15,432	1,000	500	500
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	-1,371	63,166	-1,336	-1,377	-1,404
Cash Flow From Financing	17,418	78,598	-336	-877	-904
Total Cash Generated	4,661	16,095	340	22,685	38,829
Free Cashflow To Equity	6,032	-47,071	1,676	24,062	40,233
Free Cashflow To Firm	-11,539	-61,957	1,176	24,062	40,233

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	73,869	130,072	130,413	153,098	191,927
Total Debtors	1,031	1,793	1,553	2,712	2,800
Inventories	466	682	673	995	1,026
Total Other Current Assets	12,940	15,282	15,282	15,282	15,282
Total Current Assets	88,306	147,829	147,921	172,086	211,034
Fixed Assets	13,917	22,814	18,848	13,456	6,637
Total Investments	23,438	28,169	28,169	28,169	28,169
Intangible Assets	31,676	31,049	30,069	29,089	28,109
Total Other Non-Current Assets	9,237	10,793	10,793	10,793	10,793
Total Non-current Assets	78,269	92,825	87,879	81,506	73,707
Short-term Debt	6,395	11,565	12,051	12,295	12,538
Current Portion of Long-Term Debt					
Total Creditors	38,469	49,688	62,594	75,930	88,579
Other Current Liabilities	6,283	7,339	7,339	7,339	7,339
Total Current Liabilities	51,148	68,593	81,985	95,563	108,456
Total Long-term Debt	1,957	12,220	12,733	12,990	13,247
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	15,835	34,284	34,284	34,284	34,284
Total Non-current Liabilities	17,793	46,504	47,017	47,274	47,531
Total Provisions	0	0	0	0	0
Total Liabilities	68,941	115,097	129,002	142,838	155,988
Shareholders' Equity	97,693	125,613	106,852	110,807	128,803
Minority Interests	-59	-57	-54	-52	-50
Total Equity	97,634	125,557	106,797	110,754	128,753

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	17.7%	56.0%	18.5%	27.5%	29.2%
Operating EBITDA Growth	43%	(255%)	(49%)	N/A	105%
Operating EBITDA Margin	8.3%	(8.3%)	(3.6%)	6.5%	10.3%
Net Cash Per Share (Rmb)	11.21	17.60	16.66	19.20	23.77
BVPS (Rmb)	16.71	20.80	16.85	16.65	18.43
Gross Interest Cover	11.70	-20.45	-13.87	3.74	15.73
Effective Tax Rate	0.0%	0.0%	0.0%	17.0%	17.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	2.72	2.88	2.88	2.88	2.89
Inventory Days	1.68	1.53	1.53	1.53	1.54
Accounts Payables Days	104.9	76.1	85.4	93.5	97.2
ROIC (%)	24%	(94%)	(73%)	71%	(202%)
ROCE (%)	4.8%	(17.6%)	(12.5%)	4.6%	15.9%
Return On Average Assets	2.19%	(7.36%)	(5.42%)	4.63%	9.44%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Food delivery monetization rate (%)	24.5%	43.6%	31.3%	18.5%	18.5%
Food delivery GTV growth (%)	13.6%	13.7%	14.7%	15.2%	15.7%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Add	71.1%	1.5%
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Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

Meituan (3690 HK)

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings Definition:

Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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