

Hong Kong

March 2, 2022 - 4:00 PM

ADD (no change)

Consensus ratings*: Buy 52 Hold 6 Sell 1

| | |
|-------------------------|----------------|
| Current price: | HK\$173.4 |
| Target price: | HK\$300.0 |
| Previous target: | HK\$300.0 |
| Up/downside: | 73.0% |
| CGS-CIMB / Consensus: | -4.5% |
| Reuters: | 3690.HK |
| Bloomberg: | 3690 HK |
| Market cap: | US\$136,157m |
| | HK\$1,064,150m |
| Average daily turnover: | US\$609.2m |
| | HK\$4,750m |
| Current shares o/s | 6,138m |
| Free float: | 50.0% |

*Source: Bloomberg

Key financial forecasts

| | Dec-21F | Dec-22F | Dec-23F |
|-----------------------|----------|---------|---------|
| Net Profit (Rmbm) | (16,958) | (826) | 21,411 |
| Normalised EPS (Rmb) | (2.76) | (0.13) | 3.16 |
| Normalised EPS Growth | (618%) | (95%) | |
| FD Normalised P/E (x) | NA | NA | 43.21 |
| Recurring ROE | (19.9%) | (1.2%) | 28.6% |
| P/BV (x) | 11.82 | 13.25 | 11.63 |
| DPS (Rmb) | - | - | - |
| Dividend Yield | 0% | 0% | 0% |



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|-------|
| Absolute (%) | -21 | -29.1 | -52.7 |
| Relative (%) | -16.6 | -25.3 | -30 |

| Major shareholders | % held |
|--------------------|--------|
| Tencent | 18.0 |
| Wang Xing | 10.0 |

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Meituan

Six measures to support SME merchants

- Answering the recent government guidance to help the catering industry recover from the pandemic rebound, Meituan announced six measures to support small to medium-sized enterprises (SMEs).
- We expect this round of merchant support measures to reduce the food delivery take rate by 0.3–0.5% pts and Meituan's total revenue by 1–2%. We expect the measures to have a limited impact on Meituan's performance.
- Ele.me announced that it will invest Rmb20m in commission reductions and exemptions for merchants in the mid-to-high risk pandemic areas.
- Reiterate Add for Meituan with an unchanged DCF-based TP of HK\$300.

Meituan announced six measures to support SME merchants

The first three measures aim to help SME merchants get through the pandemic and the latter three measures aim to improve merchants' food delivery operation capability.

- Commissions (technology service fees) will be halved and capped at Rmb1 per order for SME merchants whose daily transaction value decreased by over 30% in the mid-to-high risk pandemic areas and local districts and counties. The benefit for merchants will be implemented whenever a mid-to-high risk pandemic area is locked down and until one month after the lockdown ends.
- Commissions will be capped at 5% (the normal technology service fee is 6–8%) for SME merchants that have adopted the new fee structure and are facing difficulties, such as a monthly transaction value below Rmb5k. The offer period will be from Mar 2022 to Dec 2022; over 1m SME merchants are expected to benefit from the measure.
- The new fee structure, launched in 2H21, has been adopted by 70% of total merchants nationwide, and Meituan plans for the new structure to cover all merchants by the end of 2022.
- To improve food delivery operations capability for SME merchants, Meituan launched the Food Delivery Butler Service in Jun 2021 and invested Rmb150m to offer free three-month service to 30k SME merchants. This service helped merchants grow their monthly transaction value by 79%, and the survival rate of merchants using the service was 39% higher. In 2022, Meituan will expand the service scope by offering the service to 100k SME merchants.
- Meituan will offer free cloud printers to new SME merchants in the mid-to-high risk pandemic areas, free terminal devices to SME merchants facing difficulties nationwide, and traffic support to new SME merchants.
- Meituan will hold over 100 discussion sessions with merchants in 2022 to listen to merchants' opinions, solve problems, and continuously improve its service.

Limited impact on Meituan's performance

We expect this round of merchant support measures to reduce Meituan's food delivery take rate by 0.3–0.5% pts, and negatively affect Meituan's FY22F revenue by 1–2%. It may impact the OP of Meituan's food delivery segment by 4–5% and increase Meituan's net loss by Rmb400–500m in FY22F. We believe the overall impact of these measures will be limited. We expect both Meituan and Ele.me to consider reducing the subsidy level to mitigate the negative impact. Longer-term margin improvement will come from increasing order density and ticket size, automated delivery, etc.

Ele.me to invest Rmb20m in merchant support

Alibaba's food delivery platform Ele.me announced that it would implement commission reductions and exemptions for all merchants in the 87 districts and counties that were classified as mid-to-high risk pandemic areas in Jan and Feb 2022. Merchants will enjoy at least 15 days of commission reductions and exemptions. The refunded commissions will be transferred directly to merchants' accounts before the end of Mar 2022. Merchants in mid-to-high risk pandemic areas announced after Mar 1 will enjoy the same commission reduction measures.

BY THE NUMBERS

Profit & Loss

| (Rmbm) | Dec-20A | Dec-21F | Dec-22F | Dec-23F |
|--|----------------|-----------------|----------------|----------------|
| Total Net Revenues | 114,795 | 177,606 | 247,793 | 316,866 |
| Gross Profit | 34,050 | 40,130 | 67,594 | 95,419 |
| Operating EBITDA | 9,945 | (17,817) | 2,775 | 24,850 |
| Depreciation And Amortisation | (5,615) | (7,305) | (8,019) | (8,732) |
| Operating EBIT | 4,330 | (25,122) | (5,244) | 16,118 |
| Financial Income/(Expense) | (156) | (388) | (530) | (460) |
| Pretax Income/(Loss) from Assoc. | 0 | 0 | 0 | 0 |
| Non-Operating Income/(Expense) | 264 | 300 | 200 | 500 |
| Profit Before Tax (pre-EI) | 4,438 | (25,210) | (5,574) | 16,158 |
| Exceptional Items | | | | |
| Pre-tax Profit | 4,438 | (25,210) | (5,574) | 16,158 |
| Taxation | 270 | 252 | 948 | (2,747) |
| Exceptional Income - post-tax | | | | |
| Profit After Tax | 4,708 | (24,958) | (4,626) | 13,411 |
| Minority Interests | 1 | 1 | 1 | 1 |
| Preferred Dividends | | | | |
| FX Gain/(Loss) - post tax | | | | |
| Other Adjustments - post-tax | (1,588) | 7,999 | 3,799 | 7,999 |
| Preference Dividends (Australia) | | | | |
| Net Profit | 3,121 | (16,958) | (826) | 21,411 |
| Normalised Net Profit | 4,708 | (24,958) | (4,626) | 13,411 |
| Fully Diluted Normalised Profit | 3,121 | (16,958) | (826) | 21,411 |

Balance Sheet

| (Rmbm) | Dec-20A | Dec-21F | Dec-22F | Dec-23F |
|--------------------------------------|---------------|---------------|----------------|----------------|
| Total Cash And Equivalents | 73,869 | 71,738 | 84,218 | 120,316 |
| Total Debtors | 1,031 | 1,611 | 2,075 | 2,639 |
| Inventories | 466 | 796 | 859 | 1,175 |
| Total Other Current Assets | 12,940 | 12,940 | 12,940 | 12,940 |
| Total Current Assets | 88,306 | 87,086 | 100,092 | 137,070 |
| Fixed Assets | 13,917 | 9,055 | 5,225 | 682 |
| Total Investments | 23,438 | 23,438 | 23,438 | 23,438 |
| Intangible Assets | 31,676 | 30,488 | 29,299 | 28,111 |
| Total Other Non-Current Assets | 9,237 | 9,237 | 9,237 | 9,237 |
| Total Non-current Assets | 78,269 | 72,218 | 67,200 | 61,468 |
| Short-term Debt | 6,395 | 7,161 | 7,926 | 8,309 |
| Current Portion of Long-Term Debt | | | | |
| Total Creditors | 38,469 | 55,156 | 66,770 | 84,105 |
| Other Current Liabilities | 6,283 | 6,283 | 6,283 | 6,283 |
| Total Current Liabilities | 51,148 | 68,600 | 80,979 | 98,698 |
| Total Long-term Debt | 1,957 | 2,192 | 2,426 | 2,543 |
| Hybrid Debt - Debt Component | | | | |
| Total Other Non-Current Liabilities | 15,835 | 15,835 | 15,835 | 15,835 |
| Total Non-current Liabilities | 17,793 | 18,027 | 18,262 | 18,379 |
| Total Provisions | 0 | 0 | 0 | 0 |
| Total Liabilities | 68,941 | 86,627 | 99,241 | 117,077 |
| Shareholders' Equity | 97,693 | 72,736 | 68,111 | 81,522 |
| Minority Interests | (59) | (59) | (60) | (61) |
| Total Equity | 97,634 | 72,677 | 68,050 | 81,461 |

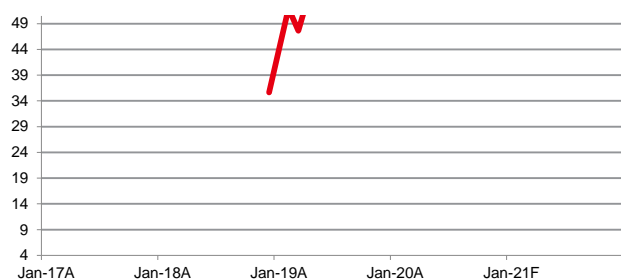
Cash Flow

| (Rmbm) | Dec-20A | Dec-21F | Dec-22F | Dec-23F |
|----------------------------------|-----------------|----------------|----------------|----------------|
| EBITDA | 9,945 | (17,817) | 2,775 | 24,850 |
| Cash Flow from Inv. & Assoc. | | | | |
| Change In Working Capital | 1,896 | 15,777 | 11,087 | 16,456 |
| (Incr)/Decr in Total Provisions | | | | |
| Other Non-Cash (Income)/Expense | | | | |
| Other Operating Cashflow | (2,061) | 621 | 459 | 888 |
| Net Interest (Paid)/Received | (1,218) | (321) | (259) | (388) |
| Tax Paid | (86) | 252 | 948 | (2,747) |
| Cashflow From Operations | 8,475 | (1,488) | 15,009 | 39,059 |
| Capex | (11,223) | (3,000) | (3,000) | (3,000) |
| Disposals Of FAs/subsidiaries | 280 | 0 | 0 | 0 |
| Acq. Of Subsidiaries/Investments | (211,090) | 0 | 0 | 0 |
| Other Investing Cashflow | 200,801 | 321 | 259 | 388 |
| Cash Flow From Investing | (21,232) | (2,679) | (2,741) | (2,612) |
| Debt Raised/(repaid) | 18,789 | 1,000 | 1,000 | 500 |
| Proceeds From Issue Of Shares | 0 | 0 | 0 | 0 |
| Shares Repurchased | 0 | 0 | 0 | 0 |
| Dividends Paid | 0 | 0 | 0 | 0 |
| Preferred Dividends | | | | |
| Other Financing Cashflow | (1,371) | 1,037 | (788) | (848) |
| Cash Flow From Financing | 17,418 | 2,037 | 212 | (348) |
| Total Cash Generated | 4,661 | (2,131) | 12,480 | 36,099 |
| Free Cashflow To Equity | 6,032 | (3,167) | 13,268 | 36,947 |
| Free Cashflow To Firm | (11,539) | (3,847) | 12,526 | 36,835 |

Key Ratios

| | Dec-20A | Dec-21F | Dec-22F | Dec-23F |
|---------------------------|---------|---------|---------|---------|
| Revenue Growth | 17.7% | 54.7% | 39.5% | 27.9% |
| Operating EBITDA Growth | 48% | (279%) | N/A | 796% |
| Operating EBITDA Margin | 8.7% | (10.0%) | 1.1% | 7.8% |
| Net Cash Per Share (Rmb) | 11.21 | 10.16 | 11.46 | 16.18 |
| BVPS (Rmb) | 16.71 | 11.85 | 10.57 | 12.05 |
| Gross Interest Cover | 11.70 | (35.47) | (6.65) | 19.00 |
| Effective Tax Rate | 0.0% | 0.0% | 0.0% | 17.0% |
| Net Dividend Payout Ratio | NA | NA | NA | NA |
| Accounts Receivables Days | 2.72 | 2.71 | 2.71 | 2.71 |
| Inventory Days | 1.68 | 1.68 | 1.68 | 1.68 |
| Accounts Payables Days | 110.0 | 96.3 | 102.1 | 106.9 |
| ROIC (%) | 24% | (102%) | (195%) | (120%) |
| ROCE (%) | 4.8% | (26.1%) | (6.0%) | 19.9% |
| Return On Average Assets | 2.2% | (10.2%) | (0.2%) | 12.0% |

12-mth Fwd FD P/E (x) - Meituan



Key Drivers

| | Dec-20A | Dec-21F | Dec-22F | Dec-23F |
|-------------------------------------|---------|---------|---------|---------|
| Food delivery monetization rate (%) | 24.5% | 43.1% | 31.3% | 18.5% |
| Food delivery GTV growth (%) | 13.6% | 13.7% | 14.7% | 15.2% |

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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| Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021 | | |
|---|-------------------------|--------------------------------|
| 619 companies under coverage for quarter ended on 31 Dec 2021 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 71.1% | 1.5% |
| Hold | 21.8% | 0.0% |
| Reduce | 7.1% | 0.0% |

Spitzer Chart for stock being researched (2 year data)

Meituan (3690 HK)

— Price Close



RECOMMENDATION FRAMEWORK

Stock Ratings Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| 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. |

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| | |
|-------------|--|
| 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. |
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