

Hong Kong

ADD (no change)

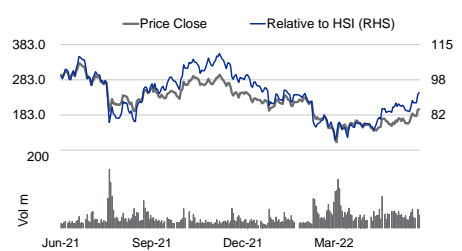
Consensus ratings*: Buy 55 Hold 5 Sell 1

Current price:	HK\$199.0
Target price:	HK\$220.0
Previous target:	HK\$220.0
Up/downside:	10.6%
CGI / Consensus:	-7.1%
Reuters:	3690.HK
Bloomberg:	3690 HK
Market cap:	US\$156,842m
	HK\$1,230,567m
Average daily turnover:	US\$772.8m
	HK\$6,057m
Current shares o/s:	6,038m
Free float:	50.0%

*Source: Bloomberg

Key changes in this note

- FY22F EPS decreased by 24.0%.
- FY23F EPS decreased by 20.9%.
- FY24F EPS decreased by 8.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	26.8	36.1	-33.7
Relative (%)	19.2	33.8	-8.5

Major shareholders	% held
Tencent	18.0
Wang Xing	10.0

Analysts

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Meituan

Resilient during the Omicron lockdown

- Meituan reported that 1Q22 revenue grew by 25% yoy to Rmb46.3bn, slightly better than we expected, due to resilient food delivery revenue growth.
- The non-GAAP net loss was Rmb3.6bn, narrowing by 7.8% yoy, in line with our expectation.
- Management guided flattish adjusted EBITDA yoy in FY22F.
- Management said that food delivery order volume was expected to remain flattish yoy in 2Q22F and that revenue was expected to grow by 9–10% yoy.
- Reiterate Add with a new DCF-based TP of HK\$220, as we expect its investment in its retail business and other new initiatives to drive long-term growth.

Resilient 1Q22 results

Food delivery revenue grew by 17.4% yoy to Rmb24.2bn in 1Q22, driven by an increase in both order volume (15.8% yoy) and average order value (AOV). The food delivery operating profit margin (OPM) reached 6.5% in 1Q22, up from 5.4% in 1Q21, driven by the increasing AOV and lower subsidy levels. Hotel and in-store business revenue grew by 15.8% yoy to Rmb7.6bn in 1Q22, driven by 30% yoy gross transaction value (GTV) growth. Its OPM improved to 45.6% in 1Q22, from 41.7% in 1Q21. Hotel room nights dropped by single digits yoy in 1Q22, mainly due to the Omicron outbreak since Mar. High-star hotels accounted for 17.4% of total room nights, hitting a historical high. New initiatives revenue grew by 47% yoy to Rmb14.5bn in 1Q22, driven mainly by retail goods business expansion. The loss ratio of new initiatives also narrowed to 62.3% in 1Q22, from 81.6% in 1Q21. The number of annual active users grew by 21.7% yoy to 693m, and the number of active merchants grew by 26.6% yoy to 9m in 1Q22, indicating Meituan's improving user base and user stickiness.

Continued margin improvement for the food-delivery segment

During the Omicron outbreak, Meituan launched community group meals to aggregate demand and delivery capacity under delivery restrictions. It also deployed autonomous delivery vehicles to deliver food, groceries and other orders in residential areas, hospitals and universities under the lockdowns in Shanghai and Beijing. We believe the Omicron outbreak has enabled Meituan to improve the efficiency of its delivery system. In 1Q22, 1P orders continued to be profitable, but there was still an over Rmb1.5 gap between delivery revenue and costs, indicating room for 1P margin growth. In Apr, because of the stricter pandemic control measures in multiple cities, order volume growth was slightly negative. But the volume drop recovered in May, and in the last two weeks of May, volume growth returned to positive territory. We expect the 2Q22F subsidy level to be lower yoy as fewer orders are placed, especially in the top-tier cities, where the subsidy rate is usually high. We expect 2Q22F AOV to be high since the restaurants that remain open under lockdown usually have higher ASPs. Management expects food delivery order volume to be flattish yoy in 2Q22F, revenue to grow by 9–10% yoy because of fewer subsidies and higher AOV, and the food delivery OPM to improve yoy in 2Q22F.

Reiterate Add with a new DCF-based TP of HK\$220

We cut our EPS forecasts for FY22–24F by 24.0%, 20.9% and 8.6%, respectively, to factor in the possible continued pandemic impact. We reiterate Add with a new DCF-based TP of HK\$220 (WACC: 10.2%, beta: 1.0x, RFR: 3.0%). But in the longer term, we are confident about Meituan's development, as we expect its investment in its retail business 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. Key risks: 1) more intense competition in the online retail market, 2) slower lower-tier market development, 3) management risks, 4) a further impact from a pandemic rebound, and 5) any risks related to the existing VIE structure.

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)	9,513	(14,199)	(10,062)	15,880	34,515
Net Profit (Rmbm)	3,121	(15,572)	(17,064)	8,269	22,380
Normalised EPS (Rmb)	0.53	(2.58)	(2.69)	1.24	3.20
Normalised EPS Growth	(34%)	(583%)	4%		158%
FD Normalised P/E (x)	315.1	NA	NA	133.1	51.6
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	97.18	NA	NA	63.23	29.56
P/FCFE (x)	163.0	NA	NA	49.1	27.5
Net Gearing	(67%)	(85%)	(99%)	(117%)	(135%)
P/BV (x)	10.13	8.14	10.37	10.70	9.77
ROE	3.3%	(13.9%)	(14.9%)	7.9%	19.8%
Normalised EPS/consensus EPS (x)			1.82	0.92	0.74

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Resilient during the Omicron lockdowns

More serious impact on the in-store, hotel and travel segments

In Apr, the GTV of in-store business dropped by over 30% yoy due to the Omicron outbreak. We expect the in-store revenue drop to be less than GTV thanks to revenue from online marketing subscriptions. Hotel GTV dropped by 50% yoy in Apr. In-store business recovered in May according to management. Meituan helped the Shenzhen government distribute consumption vouchers during the May 1 holiday, driving GTV for in-store dining and other in-store services up by 50% and 30% yoy, respectively. However, hotel and travel continued to be weak under the travel restrictions. Management expects 2Q22F segment revenue to drop 22–23% yoy and OPM to be about 40%, but management still maintained its long-term guidance of a five-year segment CAGR of 25% yoy and OPM of 45%.

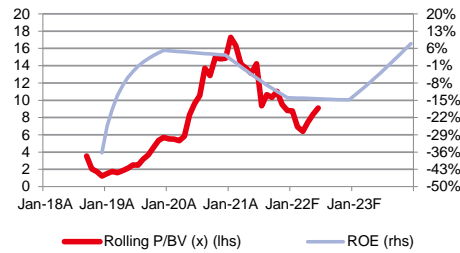
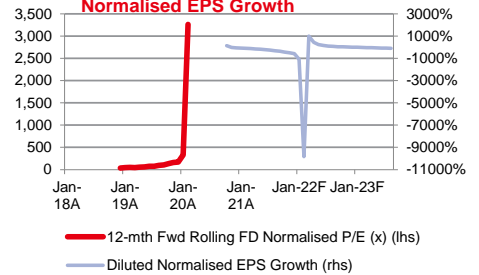
Losses continued to narrow for the new initiatives segment

The Omicron outbreak stimulated the improvement of user mindshare regarding on-demand services, which we expect to continue post-pandemic. In Apr and May, Meituan's on-demand services achieved strong growth. The 1Q22 operating loss of Meituan Select narrowed to Rmb6bn (4Q21: Rmb6.6bn) with improving unit economy (UE). In 1Q22, because of stockpiling amid pandemic controls, Meituan Grocery achieved order volume growth of over 85% yoy and GTV growth of over 110% yoy, driven by higher AOV, order density and delivery efficiency. The 1Q22 order volume and GTV growth of Meituan Instashopping was 70% and 80% yoy, respectively. Management saw revenue growth recover gradually since the last two weeks of May and expects revenue growth to further improve in June. Management said during analyst call that it will improve operating efficiency across the supply chain to empower industrial digitalization by increasing AOV and order density, optimizing its subsidy strategy, and upgrading warehousing and fulfillment capabilities. Meituan said it will adjust its investments in the segment according to market conditions and continue to narrow the related losses in FY22F. We now expect new initiatives revenue to grow by 37% yoy in 2Q22F, with the operating loss ratio falling further to 48.5%.

Figure 1: Meituan results review

(Rmb m)	1Q21	1Q22	yoy
Food delivery	20,575	24,157	17%
In-store, hotel & travel	6,584	7,622	16%
New initiatives and others	9,856	14,491	47%
Operating revenue	37,016	46,269	25%
Cost of revenues	(29,816)	(35,528)	19%
Gross profit	7,200	10,740	49%
GP margin	19.5%	23.2%	4% pts
Selling and marketing expenses	(7,206)	(9,106)	26%
Research and development expenses	(3,477)	(4,879)	40%
General and administrative expenses	(1,737)	(2,312)	33%
Net provision for impairment losses on financial assets	34	(153)	NA
Fair value changes on investments	42	(803)	NA
Other gains, net	378	929	146%
Operating profit/(loss)	(4,767)	(5,584)	17%
OP margin	-12.9%	-12.1%	1% pts
Finance income	78	110	42%
Finance costs	(166)	(330)	99%
Share of gains/(losses) of investments	(2)	46	NA
Profit/(loss) before income tax	(4,857)	(5,758)	19%
Income tax expenses	11	55	404%
Profit/(loss) for the year	(4,846)	(5,703)	18%
Non-controlling interests	1	(0)	NA
Profit/(loss) attributable to equity shareholders	(4,847)	(5,702)	18%
NP margin	-13.1%	-12.3%	1% pts
Adjusted net profit	(3,892)	(3,586)	-8%
Adjusted net profit margin	-10.5%	-7.8%	3% pts

SOURCES: CGIS RESEARCH, COMPANY DATA

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	53,410	79,210	104,391
Operating EBITDA	9,513	(14,199)	(10,062)	15,880	34,515
Depreciation And Amortisation	(5,183)	(8,928)	(11,766)	(13,372)	(14,978)
Operating EBIT	4,330	(23,127)	(21,829)	2,508	19,537
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)	(22,164)	2,131	19,133
Exceptional Items					
Pre-tax Profit	4,438	(23,566)	(22,164)	2,131	19,133
Taxation	270	30	100	(362)	(3,253)
Exceptional Income - post-tax					
Profit After Tax	4,708	(23,536)	(22,064)	1,769	15,880
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)	(17,064)	8,269	22,380
Normalised Net Profit	4,708	(23,536)	(22,064)	1,769	15,880
Fully Diluted Normalised Profit	3,121	(15,572)	(17,064)	8,269	22,380

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,513	(14,199)	(10,062)	15,880	34,515
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,896	7,209	12,695	11,415	15,263
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,629)	4,566	1,000	1,000	1,000
Net Interest (Paid)/Received	(1,218)	(1,332)	(500)	(500)	(500)
Tax Paid	(86)	(255)	100	(362)	(3,253)
Cashflow From Operations	8,475	(4,011)	3,233	27,433	47,026
Capex	(15,824)	(9,010)	(6,000)	(6,000)	(6,000)
Disposals Of FAs/subsidiaries	280	106	0	0	0
Acq. Of Subsidiaries/investments	(206,512)	(414,103)	0	0	0
Other Investing Cashflow	200,824	364,515	500	500	500
Cash Flow From Investing	(21,232)	(58,492)	(5,500)	(5,500)	(5,500)
Debt Raised/(repaid)	18,789	35,057	1,000	500	500
Proceeds From Issue Of Shares	0	45,286	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	(1,371)	(1,745)	(1,336)	(1,377)	(1,404)
Cash Flow From Financing	17,418	78,598	(336)	(877)	(904)
Total Cash Generated	4,661	16,095	(2,603)	21,056	40,621
Free Cashflow To Equity	6,032	(27,446)	(1,267)	22,433	42,026
Free Cashflow To Firm	(11,539)	(61,171)	(1,767)	22,433	42,026

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	127,470	148,526	189,147
Total Debtors	1,031	1,793	1,553	2,712	2,800
Inventories	466	682	653	955	1,106
Total Other Current Assets	12,940	15,282	15,282	15,282	15,282
Total Current Assets	88,306	147,829	144,958	167,474	208,334
Fixed Assets	13,917	22,814	17,865	11,310	3,149
Total Investments	23,438	28,169	28,169	28,169	28,169
Intangible Assets	31,676	31,049	30,232	29,415	28,598
Total Other Non-Current Assets	9,237	10,793	10,793	10,793	10,793
Total Non-current Assets	78,269	92,825	87,058	79,686	70,708
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	62,115	74,991	90,493
Other Current Liabilities	6,283	7,339	7,339	7,339	7,339
Total Current Liabilities	51,148	68,593	81,506	94,625	110,370
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	128,524	141,899	157,901
Shareholders' Equity	97,693	125,613	103,547	105,314	121,192
Minority Interests	(59)	(57)	(54)	(52)	(50)
Total Equity	97,634	125,557	103,492	105,261	121,141

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	42%	(249%)	(29%)	N/A	117%
Operating EBITDA Margin	8.29%	(7.93%)	(4.74%)	5.87%	9.87%
Net Cash Per Share (Rmb)	11.21	17.60	16.20	18.51	23.37
BVPS (Rmb)	16.71	20.80	16.33	15.82	17.34
Gross Interest Cover	11.70	(20.45)	(16.34)	1.82	13.91
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	86.2	95.7	96.0
ROIC (%)	24%	(94%)	(86%)	36%	(165%)
ROCE (%)	4.8%	(17.6%)	(15.0%)	2.7%	14.8%
Return On Average Assets	2.19%	(7.36%)	(6.87%)	3.82%	8.85%

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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632 companies under coverage for quarter ended on 31 Mar 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

Meituan (3690 HK)

— Price Close



RECOMMENDATION FRAMEWORK

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Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

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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.

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