

## Meituan Dianping-W (3690 HK)

### COVID resurgence to affect near-term outlook

- Recent resurgence of COVID in China could lead to lower revenue growth in 2022E due to lockdowns in cities and supportive measures to merchants
- New businesses may see more cost control to narrow losses
- Lower TP to HK\$ 190 to reflect weaker near-term outlook. Present valuation provides entry point for long investors. Maintain **BUY**

**COVID resurgence impacts near-term outlook.** Recent resurgence of COVID in China could affect near-term outlook due to lockdowns in cities. In addition, it has announced supportive measures, such as lower commission charged to merchants in selected areas hit hardest by COVID, could impact near-term margins.

**New businesses might see more cost control.** Operating losses of new initiatives and other businesses narrowed slightly to RMB 10.2bn in 4Q21 vs. RMB 10.9bn in the 3Q21 with segment OPM improving to -69.5% from -79.5%. Looking forward, the management plans to adopt a more prudent and measured approach in developing new businesses to reduce losses in 2022.

**Recent business update.** In 4Q21, revenue grew 31% YoY to RMB 49.5bn. Core net losses narrowed from RMB5.5bn in 3Q21 to RMB 3.9bn in 4Q21 due to narrowing losses in the new businesses segment. Overall, core net margin was -7.9% vs. -11.3% in 3Q21.

**Revised TP.** We lower our DCF-based TP of HK\$ 190 to reflect the dimmed near-term outlook, which, in our view, would increase share price volatility. After the recent share price corrections, the Company's current valuation at 2.7x 2023E P/S might appeal investors with a longer-term investment horizon. In our view, investors' concerns on profitability would ease on a consistent trend of narrowing losses in coming quarters.

#### Results and Valuation

FY end Dec 31	2020A	2021A	2022E	2023E
Revenue (RMB mn)	114,794	179,128	216,070	289,132
Chg (% YoY)	17.7	56.0	20.6	33.8
Net profit (RMB mn)	4,708	(23,536)	(14,099)	(190)
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)*	3,121	(15,572)	(8,583)	5,404
Chg (% YoY)	(33.0)	NA	NA	NA
Underlying EPS (RMB)	0.81	(3.90)	(2.30)	(0.03)
Chg (% YoY)	107.5	NA	NA	NA
Core EPS (RMB)*	0.53	(2.58)	(1.40)	0.88
Chg (% YoY)	(33.9)	NA	NA	NA
P/S (x)	6.4	4.2	3.6	2.7
Core P/E (x)*	235.1	NA	(89.7)	142.5
ROAE (%)	5.0	(21.1)	(11.9)	(0.2)
ROAA (%)	3.2	(11.6)	(6.0)	(0.1)

\*Excl. share-based compensation, amortization, impairment, etc.

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 28, 2022

Rating: **BUY**

TP: HK\$ 190

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Share price (HK\$)	150.6
Est. share price return	26.2%
Est. dividend yield	NA
Est. total return	26.2%
Previous Rating & TP	BUY/HK\$400
Previous Report Date	Mar 30, 2021

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L(HK\$)	345.0/103.5
Issued shares (mn)	6,136
of which	
Listed B shares (mm)	5,458
Unlisted shares (mm)	678
B share market cap (HK\$ mn)	821,975
Avg daily turnover (HK\$ mn)	6,192
<b>Major shareholder(s)</b>	<b>Voting right</b>
Wang Xing	44.9%

Source(s): Bloomberg, ABCI Securities



## Recent business development

4Q21 revenue grew 31% YoY to RMB 49.5bn, higher than the market expectation of RMB 49.3bn. Core net losses were RMB 3.9bn, better than the RMB 5.8bn core net losses expected by the market thanks to cost control.

Among the major segments, food delivery revenue was up 21% YoY to RMB 26.1bn, driven by the 21% YoY growth in food delivery gross transaction value (GTV) and 17% YoY growth in the number of food delivery transactions. In addition, in-store, hotel, and travel reported a 22% YoY revenue growth in 4Q21 despite a 4% YoY drop in the number of domestic hotel room nights. New initiatives/other revenue grew 59% YoY, driven by the community group-purchase business.

Operating margin (OPM) of the food delivery business was 6.6% in 4Q21 vs. 3.3% in 3Q21, thanks to ongoing cost control and operating leverage. OPM for in-store, hotel, and travel was 44.7% in 4Q21 vs. 43.9% in 3Q21 due to improved marketing efficiency. OPM of new initiatives and other businesses improved to -69.5% from -79.5% in 3Q21 due to cost control and operational improvement of the community group-purchase business. Operating losses of new initiatives and other businesses narrowed slightly to RMB10.2bn from RMB10.9bn in 3Q21. Overall, core net margin was -7.9%, as compared to -11.3% in 3Q21.

The management expects near-term weakness in food delivery business due to the resurgence of COVID that has led to lockdowns in various cities and relief measures provided to merchants in hard-hit areas. The Company plans to adopt a more prudent and measured approach in developing new businesses to reduce segment losses in 2022.



Exhibit 1: 4Q21 highlight

(RMB m)	4Q20	4Q21	YoY	Remarks
Annual transacting users (mn)	511	691	35%	
No. of food delivery transaction (mn)	3,331	3,911	17%	
Number of domestic hotel room nights (mn)	120	115	(4%)	
Food delivery GTV (RMB bn)	156	189	21%	
<b>Financials (RMB m)</b>				
<b>Revenue</b>	<b>37,917</b>	<b>49,523</b>	<b>31%</b>	In line with expectation
<i>Food delivery</i>	<i>21,538</i>	<i>26,126</i>	<i>21%</i>	
<i>In-store, hotel and travel</i>	<i>7,135</i>	<i>8,722</i>	<i>22%</i>	
<i>New initiatives and others</i>	<i>9,244</i>	<i>14,674</i>	<i>59%</i>	
Cost of sales	(28,462)	(37,541)	NA	
<b>Gross profit</b>	<b>9,455</b>	<b>11,982</b>	<b>27%</b>	
<b>Operating profit</b>	<b>(2,852)</b>	<b>(5,006)</b>	<b>NA</b>	
<i>Food delivery</i>	<i>882</i>	<i>1,736</i>	<i>97%</i>	
<i>In-store, hotel and travel</i>	<i>2,822</i>	<i>3,897</i>	<i>38%</i>	
<i>New initiatives and others</i>	<i>(6,003)</i>	<i>(10,205)</i>	<i>NA</i>	RMB 10.9bn losses in 3Q21
<b>PAT</b>	<b>(2,244)</b>	<b>(5,339)</b>	<b>NA</b>	
<b>Core profit (non-GAAP)</b>	<b>(1,437)</b>	<b>(3,936)</b>	<b>NA</b>	Lower than market expectation of RMB 5.8bn in core net losses
<b>Profitability (%):</b>				
	<b>4Q20</b>	<b>4Q21</b>	<b>ppt YoY</b>	
Gross margin	24.9	24.2	(0.7)	
Operating margin	(7.5)	(10.1)	(2.6)	
Net margin	(5.9)	(10.8)	(4.9)	
Core net margin (non-GAAP)	(3.8)	(7.9)	(4.2)	

Source(s): Company, ABCI Securities



## Financial outlook

To recall, when the pandemic first broke out, OPM of the food delivery segment fell to -0.7% in 1Q20 as compared to 3.1% in 4Q19. In 2Q20 when the COVID situation improved, OPM re-entered the positive territory. The Company's food delivery business has a low operating margin of single digit; therefore, its profitability is highly sensitive to cost pressure. In view of the recent resurgence of COVID in China, the food delivery segment results may suffer in the near term but recovery will follow as soon as the pandemic situation calms once again, in our view.

In the longer term, we expect food delivery GTV to increase at 22% CAGR in 2021-23E, driven by the 17% CAGR in the number of food delivery transactions during the period on increasing penetration into the lower-tier cities. For the in-store, hotel and travel segment, we expect the number of domestic room nights to increase at 17% CAGR in 2021-23E. For the new business initiatives, we expect segment revenue to expand at 35% CAGR during the period. Based on the above assumptions, revenue would grow at 27% CAGR in 2021-23E.

### Exhibit 2: Major assumptions

	2020	2021	2022E	2023E
Annual transacting users (mn)	511	691	829	953
No. of food delivery transactions (mn)	10,147	14,368	16,523	19,827
No. of domestic hotel room nights (mn)	355	477	501	651
Food delivery GTV (RMB bn)	489	702	832	1,048

Source(s): Company, ABCI Securities estimates

### Exhibit 3: Revenue forecasts

	2020	2021	2022E	2023E
<b>Revenue (RMB mn)</b>	<b>114,794</b>	<b>179,128</b>	<b>216,070</b>	<b>289,132</b>
Food delivery	66,265	96,312	108,097	141,441
In-store, hotel and travel	21,252	32,530	37,572	56,171
New initiatives and others	27,277	50,286	70,400	91,520

Source(s): Company, ABCI Securities estimates

Overall gross margin dropped to 23.7% in 2021 vs. 29.7% in 2020, mainly due to increased cost relating to new business initiatives. Looking forward, we expect gross margin to drop to 23.5% for 2022E due to supportive measures provided to merchants amid COVID resurgence and recover to 26.0% for 2023E as we expect business environment to resume normalcy.

In terms of operating cost, we expect SG&A/revenue ratio to gradually fall to 15.0% in 2023E from 22.7% in 2021 on more prudent approach in new business development.

Based on the above assumptions, we expect core net losses to be RMB 8.5bn in 2022E before swinging into the black with a RMB 5.4bn core net profit in 2023E.



**Exhibit 4: SG &A forecasts**

	2020	2021	2022E	2023E
Selling & marketing expenses	(20,883)	(40,683)	(36,732)	(43,370)
R&D	(10,893)	(16,676)	(19,446)	(23,131)
General & admin expenses	(5,594)	(8,613)	(8,643)	(8,674)
<b>Total SG&amp;A</b>	<b>(37,370)</b>	<b>(65,971)</b>	<b>(64,821)</b>	<b>(75,174)</b>
<b>% of revenue</b>				
Selling & marketing expenses	18.2%	22.7%	17.0%	15.0%
R&D	9.5%	9.3%	9.0%	8.0%
General & admin expenses	4.9%	4.8%	4.0%	3.0%
<b>Total SG&amp;A</b>	<b>32.6%</b>	<b>36.8%</b>	<b>30.0%</b>	<b>26.0%</b>

Source(s): Company, ABCI Securities estimates

**Exhibit 5: Segment profitability**

	2020	2021	2022E	2023E
Food delivery	2,833	6,175	4,324	6,365
In-store, hotel and travel	8,181	14,093	14,278	21,907
New initiatives and others	(10,855)	(38,394)	(29,296)	(24,872)
Unallocated	4,171	(5,001)	(3,000)	(3,000)
<b>Operating profit</b>	<b>4,330</b>	<b>(23,127)</b>	<b>(13,695)</b>	<b>400</b>
<b>Operating margin</b>				
Food delivery	4.3%	6.4%	4.0%	4.5%
In-store, hotel and travel	38.5%	43.3%	38.0%	39.0%
New initiatives and others	(39.8%)	(76.4%)	(41.6%)	(27.2%)
<b>Total</b>	<b>3.8%</b>	<b>(12.9%)</b>	<b>(6.3%)</b>	<b>0.1%</b>

Source(s): Company, ABCI Securities estimates

**Exhibit 6: Forecast changes for 2022E**

(RMB m)	2022E		Diff.	Comment
	old	new		
Revenues	230,635	216,070	(6%)	
Core profit	9,231	(8,583)	NA	Ongoing investments in new business initiatives

Source(s): ABCI Securities estimates

## Valuation and TP

We lower our DCF-based TP of HK\$ 190 to reflect the soft near-term outlook. Our DCF-based valuation range is HK\$130-219, as shown in the table below.

**Exhibit 7: DCF sensitivity**

	WACC					
		12.0%	13.0%	14.0%	15.0%	16.0%
Terminal growth	2.0%	188.0	165.5	147.2	132.0	119.2
	2.5%	201.6	175.8	155.1	138.2	124.2
	3.0%	218.6	188.4	164.6	145.5	129.9
	3.5%	240.5	204.0	176.2	154.2	136.6
	4.0%	269.6	224.2	190.7	165.0	144.7

\*Assuming 17.2% cost of equity, 5.9% cost of debt, 15% tax rate, 25% long-term debt to capital ratio for the mid-point of WACC (14%)

Source (s): ABCI Securities estimates

The counter has experienced major price corrections recently due to the weakened market sentiment amid the rising global geopolitical risk, domestic regulatory risk, and weakened macro outlook. At its current valuation of 2.7x 2023E P/S, investors with a longer-term investment horizon may consider to accumulate shares. Having said that, the lackluster near-term profitability could potentially increase share price volatility despite its solid long-term fundamentals. In our view, investors' concerns would ease on a consistent trend of narrowing losses that indicates a turning point in profitability. .

**Exhibit 8: TP changes (HK\$ per share)**

Segment	Old	New	Methodology -old	Methodology - new
Overall	400	190	DCF	DCF with revised financial forecast

Source(s): ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

**Financial forecast**

Meituan Dianping-W (3690 HK, BUY)  
 Internet Media and Consumer Commerce Sector  
 Mar 28, 2022

**Consolidated income statement (FY20A-FY23E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Total revenue</b>	<b>114,794</b>	<b>179,128</b>	<b>216,070</b>	<b>289,132</b>
Cost of sales	(80,744)	(136,654)	(165,294)	(213,958)
<b>Gross profit</b>	<b>34,050</b>	<b>42,474</b>	<b>50,776</b>	<b>75,174</b>
Other gains/losses	8,117	630	500	500
Selling & marketing expenses	(20,883)	(40,683)	(36,732)	(43,370)
R&D expenses	(10,893)	(16,676)	(19,446)	(23,131)
General & admin expenses	(5,594)	(8,613)	(8,643)	(8,674)
Impairment	(468)	(260)	(150)	(100)
<b>Operating Profits</b>	<b>4,329</b>	<b>(23,127)</b>	<b>(13,695)</b>	<b>400</b>
Finance income, net	(156)	(585)	(500)	(700)
Other cost	264	146	110	110
<b>Profit before tax</b>	<b>4,437</b>	<b>(23,566)</b>	<b>(14,085)</b>	<b>(190)</b>
Tax	(270)	(30)	0	0
<b>Profit after tax</b>	<b>4,707</b>	<b>(23,536)</b>	<b>(14,085)</b>	<b>(190)</b>
Minority interests	(1)	0	14	0
<b>Profits attributable to shareholders</b>	<b>4,708</b>	<b>(23,536)</b>	<b>(14,099)</b>	<b>(190)</b>
Share-based compensation	3,277	5,194	5,402	5,494
Amortization and impairment	610	496	600	600
Adjustments on disposals/revaluation	(5,810)	(1,247)	(500)	(500)
Other adjustments	335	3,522	14	0
<b>Core profits</b>	<b>3,121</b>	<b>(15,572)</b>	<b>(8,583)</b>	<b>5,404</b>
<b>Growth</b>				
Total revenue (%)	17.7	56.0	20.6	33.8
Gross Profits (%)	5.4	24.7	19.5	48.0
Operating Profits (%)	61.6	NA	NA	NA
Net profit (%)	110.3	NA	NA	NA
Core profit (%)	(33.0)	NA	NA	NA
<b>Operating performance</b>				
Operating margin (%)	3.8	(12.9)	(6.3)	0.1
Net margin (%)	4.1	(13.1)	(6.5)	(0.1)
Core net margin (%)	2.7	(8.7)	(4.0)	1.9
ROAE (%)	5.0	(21.1)	(11.9)	(0.2)
ROAA (%)	3.2	(11.6)	(6.0)	(0.1)

Note. Individual items may not sum to total due to rounding

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY20A-FY23E)

As of Dec 31 (RMB mn)	FY20A	FY21A	FY22E	FY23E
Fixed assets	13,917	22,814	23,314	23,814
Intangible assets	31,676	31,049	31,049	31,049
Investment in associates and JV	13,794	18,310	18,310	18,310
Financial assets	10,863	15,892	15,892	15,892
Other non-current assets	8,019	4,759	4,759	4,759
<b>Total non-current assets</b>	<b>78,268</b>	<b>92,824</b>	<b>93,324</b>	<b>93,824</b>
Cash & equivalents	17,094	32,513	19,896	24,162
Restricted cash	12,776	13,277	13,277	13,277
Account receivables	1,031	1,793	2,368	3,169
Deposit, prepayments and other assets	12,940	15,282	15,282	15,282
Inventories	466	682	1,326	1,774
Short term investment	43,999	84,282	84,282	84,282
<b>Total current assets</b>	<b>88,306</b>	<b>147,829</b>	<b>136,430</b>	<b>141,946</b>
<b>Total assets</b>	<b>166,574</b>	<b>240,653</b>	<b>229,754</b>	<b>235,769</b>
Accounts payable	11,967	15,166	18,351	24,556
Borrowings and notes	6,395	11,565	11,565	11,565
Deferred revenue	5,053	5,478	5,478	5,478
Other current liabilities	27,733	36,382	36,382	36,382
<b>Total current liabilities</b>	<b>51,148</b>	<b>68,591</b>	<b>71,777</b>	<b>77,982</b>
Deferred revenue	167	-	-	-
Borrowings	14,923	42,603	42,603	42,603
Other non-current liabilities	2,702	3,901	3,901	3,901
<b>Total non-current liabilities</b>	<b>17,792</b>	<b>46,504</b>	<b>46,504</b>	<b>46,504</b>
<b>Total liabilities</b>	<b>68,940</b>	<b>115,095</b>	<b>118,281</b>	<b>124,486</b>
<b>Net current assets</b>	<b>37,158</b>	<b>79,238</b>	<b>64,654</b>	<b>63,964</b>
Equity attributable to shareholders	97,693	125,613	111,514	111,324
Non-controlling interests	(58)	(57)	(43)	(42)
<b>Total equity</b>	<b>97,635</b>	<b>125,556</b>	<b>111,472</b>	<b>111,282</b>

Note. Individual items may not sum to total due to rounding

Individual items may vary from reported figures due to rounding /definition differences

Source(s): Company, ABCI Securities estimates



### Loss-making business

The Group reported core net losses in recent quarters. Unless the Group can reverse its loss-making situation, the current business model may not be sustainable in the long run. In such case, our forecast and DCF-valuation method cannot be justified.

### Market competition

The ecommerce industry is a competitive one. The competition will be on commission rate, promotion discount, brand advertising, technological investment, and more.

### Slowdown in ecommerce consumption

As the industry is dependent on consumer spending, any significant slowdown of consumption in China would hamper performance. In the long term, we believe consumption growth in domestic market would converge with income growth, which is usually in line with GDP growth.

### Non-GAAP financials

Ecommerce platforms generally disclosed the non-GAAP financial metrics, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation and other non-core items in the former.

Among these items, share-based compensation expense is related to various factors including price movement of ordinary shares, expected volatility, risk-free interest rate, etc.

While investors tend to exclude these items when performing analysis given their non-cash nature, we believe these non-GAAP financial measures should only serve as references.



## Disclosures

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The analyst, CHOW Sau Shing, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 10\%$ )
Hold	- Market return rate ( $\sim 10\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $+ \sim 10\%$ )
Sell	Stock return $<$ - Market return ( $\sim 10\%$ )

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2009 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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