

# Meituan Dianping-W (3690 HK)

## Investment in new businesses drags earnings outlook in near term

- Mixed 4Q20 results due to higher-than-expected core net losses despite solid revenue growth
- Ongoing investments into new businesses may continue to drag near-term profitability
- Lower TP to HK\$ 400 to reflect weaker near-term profitability

**4Q20 review.** In 4Q20, revenue grew 35% YoY to RMB 37.9bn thanks to ongoing improvement in operating environment. Among the major segments, food delivery revenue was up 37% YoY to RMB21.5bn vs. 33% YoY in 3Q20, in-store, hotel, and travel resumed a 12% YoY revenue growth during the quarter vs. the 5% YoY increase in 3Q20; new initiatives/other revenue grew 52% YoY driven by the community e-commerce business. Core net losses, however, rose to RMB1.4bn, indicating a higher -than-expected cost pressure driven by the new community group purchase business.

**Ongoing investment drags near-term profitability.** In 4Q20, operating losses of the new initiative segment widened to RMB 6.0bn compared to RMB 2.0bn in 3Q20, dragging down overall profitability. As the Group is committed to investing in new businesses, near-term profitability will be squeezed in coming quarters.

**Business outlook.** The management expects ongoing operating losses for the next few quarters due to ongoing investments in the new businesses. We expect revenue to expand at 42% CAGR in 2020-22E driven by 42% CAGR in food delivery gross transaction volume. Near-term earnings outlook remains dim as we estimate RMB4.8bn in core net losses for 2021E.

**Revised TP.** We lower our DCF-based TP of HK\$ 400 to reflect the lackluster near-term earnings, which, in our view, would increase near-term share price volatility despite the Group's intact long-term fundamentals. On the flip side, investors' concerns might ease should signs of improving profitability emerge in the coming quarters.

### Results and Valuation

FY end Dec 31	2019A	2020A	2021E	2022E
Revenue (RMB mn)	97,528	114,794	169,066	230,635
Chg (% YoY)	49.5	17.7	47.3	36.4
Net profit (RMB mn)	2,239	5,176	-6,613	7,139
Chg (% YoY)	NA	NA	NA	NA
Core net profit (RMB mn)*	4,657	3,121	-4,823	9,231
Chg (% YoY)	NA	(33.0)	NA	NA
Underlying EPS (RMB)	0.39	0.81	-1.13	1.22
Chg (% YoY)	NA	107.5	NA	NA
Core EPS (RMB)*	0.81	0.53	-0.83	1.58
Chg (% YoY)	NA	-33.9	NA	NA
P/S (x)	14.6	12.6	8.5	6.2
Core P/E (x)*	305.3	461.8	NA	156.1
ROAE (%)	2.5	5.5	-7.0	7.5
ROAA (%)	1.8	3.5	-4.0	4.3

Source(s): Bloomberg, ABCI Securities estimates

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

## Company Report

Mar 30, 2021

Rating: BUY

TP: HK\$ 400

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Share price (HK\$)	293.6
Est. share price return	36.2%
Est. dividend yield	NA
Est. total return	36.2%
Previous Rating & TP	BUY/HK\$480
Previous Report Date	Feb 10, 2021

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	460.0/85.3
Issued shares (mn)	5,889
of which	
Listed B shares (mm)	5,153
Unlisted shares (mm)	736
B share market cap (HK\$ mn)	1,728,864
Avg daily turnover (HK\$ mn)	9,871
<b>Major shareholder(s)</b>	<b>Voting right</b>
Wang Xing	49.1%
Mu Rongjun	10.8%

Source(s): Bloomberg, ABCI Securities

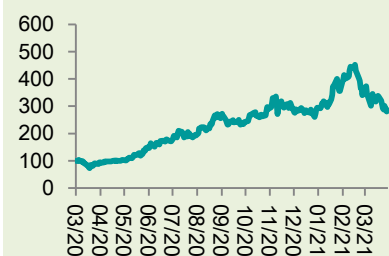
### Share Performance (%)

	Absolute	Relative*
1-mth	-16.5	-14.6
3-mth	-1.3	-6.0
6-mth	17.5	-3.7

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



## 4Q20 results highlights

In 4Q20, revenue grew 35% YoY to RMB 37.9bn, 3% above market expectation, higher than the 29% YoY revenue growth in 3Q20. Core net losses, however, reached RMB1.4bn, deeper than the RMB1.0bn expected by the market, which we believe can be attributed to the higher-than-expected cost pressure of the new community group purchase business.

Among the major segments, food delivery revenue was up 37% YoY to RMB21.5bn vs. 33% YoY in 3Q20, driven by the 13% YoY growth in annual transaction users and 33% YoY growth in the number of food delivery transactions. In addition, in-store, hotel, and travel resumed a 12% YoY revenue growth during the quarter vs. the 5% YoY increase in 3Q20, thanks to the gradual turnaround in business environment marked by a 9% increase in the number of domestic hotel room nights in 4Q20. In our view, this indicates a recovery in domestic travelling after the pandemic. New initiatives/other revenue grew 52% YoY driven by the community e-commerce business.

In terms of margins, operating margin (OPM) of the food delivery business was 4.1% vs. 3.7% in 3Q20, thanks to ongoing cost control and operating leverage. OPM for in-store, hotel, and travel operating margin was 39.6% during the quarter; OPM for new initiatives/other was -64.9% as these businesses are still in the development stage. Overall core net margin was -3.8%, dragged by losses of the new initiatives segment.

The management expects ongoing operating losses for the next few quarters due to ongoing investments in the new businesses. In our view, this could increase near-term share price volatility although we believe its long-term fundamentals are still intact.



Exhibit 1: 4Q20 highlight

(RMB m)	4Q19	4Q20	YoY	Remarks
Annual transacting users (m)	450	511	13%	
No. of food delivery transaction (m)	2,505	3,331	33%	
Number of domestic hotel room nights (m)	110	120	9%	
Food delivery GTV (RMB bn)	112	156	39%	
<b>Financials (RMB m)</b>				
<b>Revenue</b>	<b>28,158</b>	<b>37,917</b>	<b>35%</b>	3% above expectation
<i>Food delivery</i>	<i>15,716</i>	<i>21,538</i>	<i>37%</i>	
<i>In-store, hotel and travel</i>	<i>6,357</i>	<i>7,135</i>	<i>12%</i>	
<i>New initiatives and others</i>	<i>6,086</i>	<i>9,244</i>	<i>52%</i>	
Cost of sales	(18,440)	(28,462)	54%	
<b>Gross profit</b>	<b>9,718</b>	<b>9,455</b>	<b>(3%)</b>	
<b>Operating profit</b>	<b>1,424</b>	<b>(2,852)</b>	<b>NA</b>	
<b>PAT</b>	<b>1,461</b>	<b>(2,244)</b>	<b>NA</b>	
<b>Core profit (non-GAAP)</b>	<b>2,270</b>	<b>(1,437)</b>	<b>NA</b>	vs. expectation of RMB1bn core net losses
<b>Profitability (%):</b>				
	<b>4Q19</b>	<b>4Q20</b>	<b>ppt YoY</b>	
Gross margin	34.5	24.9	(9.6)	
Operating margin	5.1	(7.5)	(12.6)	
Net margin	5.2	(5.9)	(11.1)	
Core net margin (non-GAAP)	8.1	(3.8)	(11.9)	

Source(s): Company, ABCI Securities



## Financial analysis

We expect food delivery GTV to increase at 42% CAGR in 2020-22E, driven by the 30% 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 27% CAGR in 2020-22E as domestic travel resumes momentum in the post-pandemic era. For the new business initiatives, we expect segment revenue to expand at 42% CAGR during the period. As a result of the above assumptions, we expect revenue to grow at 42% CAGR in 2020-22E.

### Exhibit 2: Major assumptions

	2019	2020	2021E	2022E
Annual transacting users (mn)	451	511	551	596
No. of food delivery transactions (mn)	8,722	10,147	13,699	17,124
No. of domestic hotel room nights (mn)	392	355	443	576
Food delivery GTV (RMB bn)	393	489	726	980

Source(s): Company, ABCI Securities estimates

### Exhibit 3: Revenue forecasts

	2019	2020	2021E	2022E
<b>Revenue (RMB mn)</b>	<b>97,528</b>	<b>114,794</b>	<b>169,066</b>	<b>230,635</b>
Food delivery	54,843	66,265	101,622	137,189
In-store, hotel and travel	22,275	21,252	27,893	38,074
New initiatives and others	20,410	27,277	39,551	55,372

Source(s): Company, ABCI Securities estimates

Overall gross margin dropped to 29.7% in 2020 vs. 33.1% in 2019, mainly due to cyclical factors such as pandemic and increased cost relating to new business initiatives. Looking forward, we expect gross margin to drop to 27.5% for 2021E before recovering to 29.0% for 2022E.

In terms of operating cost, we expect SG&A/revenue ratio to increase to 33.2% in 2021E before falling to 27.2% in 2022E. Our forecast implies a more aggressive sales and marketing spending related to its new business initiatives in 2021E to gain market shares before returning to a more prudent approach in 2022E.



**Exhibit 4: SG &A forecasts**

	2019	2020	2021E	2022E
Selling & marketing expenses	-18,819	-20,883	-32,123	-36,902
R&D	-8,446	-10,893	-16,061	-16,606
General & admin expenses	-4,339	-5,594	-7,946	-9,225
<b>Total SG&amp;A</b>	<b>-31,604</b>	<b>-37,370</b>	<b>-56,130</b>	<b>-62,733</b>
<b>% of revenue</b>				
Selling & marketing expenses	-19.3%	-18.2%	-19.0%	-16.0%
R&D	-8.7%	-9.5%	-9.5%	-7.2%
General & admin expenses	-4.4%	-4.9%	-4.7%	-4.0%
<b>Total SG&amp;A</b>	<b>-32.4%</b>	<b>-32.6%</b>	<b>-33.2%</b>	<b>-27.2%</b>

Source(s): Company, ABCI Securities estimates

Based on the above assumptions, we expect core net losses to be RMB 4.8bn in 2021E before swinging into the black in 2022E with a RMB 9.2bn core net profit.

In our view, the profitability of the new business initiatives is the major swing factor of the company's future profit outlook. For example, in 4Q20, the company's new business initiatives recorded RMB6bn operating losses compared with RMB882m and RMB2.8bn operating profits for food delivery and in-store/hotel/travel segments respectively. Overall, the company recorded RMB2.9bn operating losses during the quarter.

As a result, our earnings forecast might be subject to further revisions if material changes in the operating environment emerge. For example, profitability could potentially improve should the management decides to adopt a more prudent approach in developing its community group purchase business leading to less respective segment losses.

**Exhibit 5: Forecast changes for 2021E**

(RMB m)	2021E		Diff.	Comment
	old	new		
Revenues	169,555	169,066	-0.3%	
Net income	12,600	-6,613	NA	
Core profit	16,568	-4,823	NA	Ongoing investments in new business initiatives

Source(s): ABCI Securities estimates



## Valuation and TP

We derive the valuation range based on the DCF approach with a WACC of 7%-10%. The DCF approach results in a valuation range of HK\$ 202- 452. We set our TP at HK\$ 400, which warrants a **BUY** rating.

Overall, our valuation range implies a wide trading range. Our TP indicates a medium-term target but we notice that short-term share price might deviate from it due to technical factors such as share supply/demand dynamics.

In our view, the lackluster near-term profitability could potentially increase near-term share price volatility despite its intact long-term fundamentals. Investors' concerns would ease on a clearer path to profitability to be marked by a trend of narrowing losses.

Exhibit 6: TP changes (HK\$ per share)

Segment	Old	New	Methodology -old	Methodology - new
Overall	480	400	DCF with a 7.5% WACC	Revised financial forecast

Source(s): ABCI Securities estimates



**Consolidated income statement (FY19A-FY22E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Total revenue</b>	<b>97,528</b>	<b>114,794</b>	<b>169,066</b>	<b>230,635</b>
Cost of sales	(65,208)	(80,744)	(122,573)	(163,751)
<b>Gross profit</b>	<b>32,320</b>	<b>34,050</b>	<b>46,493</b>	<b>66,884</b>
Other gains/losses	2,609	8,117	3,000	3,000
Selling & marketing expenses	(18,819)	(20,883)	(32,123)	(36,902)
R&D expenses	(8,446)	(10,893)	(16,061)	(16,606)
General & admin expenses	(4,339)	(5,594)	(7,946)	(9,225)
Impairment	(646)	(468)	0	0
<b>Operating Profits</b>	<b>2,680</b>	<b>4,797</b>	<b>(6,637)</b>	<b>7,151</b>
Finance income, net	(25)	(156)	(80)	(130)
Other cost	107	264	110	110
<b>Profit before tax</b>	<b>2,762</b>	<b>4,905</b>	<b>(6,607)</b>	<b>7,131</b>
Tax	526	(270)	0	0
<b>Profit after tax</b>	<b>2,236</b>	<b>5,175</b>	<b>(6,607)</b>	<b>7,131</b>
Minority interests	(3)	(1)	7	(7)
<b>Profits attributable to shareholders</b>	<b>2,239</b>	<b>5,176</b>	<b>(6,613)</b>	<b>7,139</b>
Share-based compensation	2,191	3,277	1,183	1,499
Amortization and impairment	751	610	600	600
Adjustments on disposals/revaluation	(547)	(5,810)	0	0
Other adjustments	23	(133)	7	(7)
<b>Core profits</b>	<b>4,657</b>	<b>3,121</b>	<b>(4,823)</b>	<b>9,231</b>
<b>Growth</b>				
Total revenue (%)	49.5	17.7	47.3	36.4
Gross Profits (%)	114.0	5.4	36.5	43.9
Operating Profits (%)	NA	79.0	NA	NA
Net profit (%)	NA	131.2	NA	NA
Core profit (%)	NA	(33.0)	NA	NA
<b>Operating performance</b>				
Operating margin (%)	2.7	4.2	(3.9)	3.1
Net margin (%)	2.3	4.5	(3.9)	3.1
Core net margin (%)	4.8	2.7	(2.9)	4.0
ROAE (%)	2.5	5.5	(7.0)	7.5
ROAA (%)	1.8	3.5	(4.0)	4.3

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY19A-FY22E)

As of Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E
Fixed assets	5,376	13,917	19,834	27,907
Intangible assets	32,700	31,676	31,676	31,676
Investment in associates and JV	2,284	13,794	13,794	13,794
Financial assets	7,166	10,863	10,863	10,863
Other non-current assets	2,352	8,019	8,019	8,019
<b>Total non-current assets</b>	<b>49,877</b>	<b>78,268</b>	<b>84,186</b>	<b>92,258</b>
Cash & equivalents	13,396	17,094	2,024	3,337
Restricted cash	8,760	12,776	12,776	12,776
Account receivables	677	1,031	4,008	6,099
Deposit, prepayments and other assets	9,591	12,940	12,940	12,940
Inventories	275	466	1,037	1,415
Short term investment	49,436	43,999	43,999	43,999
<b>Total current assets</b>	<b>82,135</b>	<b>88,306</b>	<b>76,784</b>	<b>80,567</b>
<b>Total assets</b>	<b>132,012</b>	<b>166,574</b>	<b>160,970</b>	<b>172,825</b>
Accounts payable	6,766	11,967	12,969	17,693
Borrowings and notes	3,553	6,395	6,395	6,395
Deferred revenue	4,567	5,053	5,053	5,053
Other current liabilities	21,706	27,733	27,733	27,733
<b>Total current liabilities</b>	<b>36,592</b>	<b>51,148</b>	<b>52,150</b>	<b>56,873</b>
Deferred revenue	389	167	167	167
Borrowings	467	14,923	14,923	14,923
Other non-current liabilities	2,510	2,702	2,702	2,702
<b>Total non-current liabilities</b>	<b>3,366</b>	<b>17,792</b>	<b>17,792</b>	<b>17,792</b>
<b>Total liabilities</b>	<b>39,958</b>	<b>68,940</b>	<b>69,942</b>	<b>74,665</b>
<b>Net current assets</b>	<b>45,542</b>	<b>37,158</b>	<b>24,634</b>	<b>23,693</b>
Equity attributable to shareholders	92,112	97,693	91,080	98,218
Non-controlling interests	(58)	(58)	(51)	(59)
<b>Total equity</b>	<b>92,054</b>	<b>97,635</b>	<b>91,028</b>	<b>98,160</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





## Risk factors

### **The company may continue to record operating losses in the next few quarters**

According to the company's 4Q20 earning release, the management states that the company may continue to record operating losses in the next few quarters due to increasing investments in new initiatives. As a result, investors should stay cautious and the stock may not be suitable to prudent investors who prefer to invest in companies operating with profitable business model.

### **Profitability in new business initiatives**

In 4Q20, the company's new business initiatives recorded RMB6bn operating losses compared with RMB882m and RMB2.8bn operating profits for food delivery and in-store/hotel/travel segments respectively. Overall, the company recorded RMB2.9bn operating losses during the quarter. In our view, the profitability of the new business initiatives is the major swing factor of the company's future profit outlook.

### **Loss-making business**

The Group reported core net losses in 4Q20. Unless the Group turnaround 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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### 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 2008 (HSI total return index 2008-20 CAGR 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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