



Meituan Dianping-W (3690 HK)

Post-epidemic recovery will be slow; maintain HOLD

- Solid 4Q19 results; expect with falling revenue and operating losses in 1Q20
- Recovery of in-store/hotel/gravel segment will be slow given the low demand of domestic travel and in-store consumption; food delivery segment may see better recovery as some large restaurant chains have resumed operations
- Near-term macro headwinds would result in higher share price volatility. Maintain **HOLD** with TP at HK\$ 95

Solid 4Q19 but expect a sluggish 1Q20. 4Q19 revenue grew 42% YoY and core net profit reached RMB 2.3bn, compared to RMB1.6bn core net loss in 4Q18. However, the Group expects to see revenue decline and operating losses in 1Q20 with limited business recovery so far.

In-store/hotel/travel – the hardest hit. We expect the in-store/hotel/travel segment to be the hardest hit in near term. Management reported the segment was virtually “shut down” in Feb 2020. We believe recovery will be slow given the low demand of domestic travel and in-store consumption. We expect segment gross transaction volume (GTV) to decline by 38% YoY in 1H20E and 1% YoY in 2H20E.

Food delivery – gradual recovery. The segment is affected by operational disruption since many restaurants were closed during the peak of the outbreak in Feb/Mar. This is illustrated by the 43.1% YoY drop in catering sales in 2M20, as reported by the NBS. On a positive note, several large restaurant chains such as HaiDiLao Hotpot (海底撈), Starbucks, McDonald's, etc. have re-opened most restaurants, implying a gradual industry recovery. We expect the segment GTV to drop by 19% YoY in 1H20E before resuming a 15% YoY growth in 2H20E.

Maintain HOLD. Despite its status as a leading player in the consumer service e-commerce market, we believe macro headwinds induced by the coronavirus outbreak would lead to share price volatility. Our SOTP-based TP is HK\$ 95, which warrants a **HOLD** rating.

Results and Valuation

	2018A	2019A	2020E	2021E
Revenue (RMB mn)	65,227	97,528	94,606	133,581
Chg (% YoY)	92.3	49.5	(3.0)	41.2
Net profit (RMB mn)	-115,477	2,239	1,200	8,062
Chg (% YoY)	510.5	(101.9)	(46.4)	571.9
Core net profit (RMB mn)*	-8,346	4,657	2,740	10,589
Chg (% YoY)	192.6	(155.8)	(41.2)	286.4
Underlying EPS (RMB)	-42.41	0.39	0.21	1.39
Chg (% YoY)	242.6	-100.9	-46.9	571.9
Core EPS (RMB)*	-3.06	0.81	0.47	1.82
Chg (% YoY)	64.2	-126.3	-41.7	286.4
P/S (x)	3.6	5.1	5.3	3.7
Core P/E (x)*	(28.0)	106.4	182.4	47.2
ROAE (%)	-502.0	2.5	1.3	8.3
ROAA (%)	-113.0	1.8	0.9	5.8

*Excluding share-based compensation, amortization, impairment, etc.

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 31, 2020
Rating: **HOLD**
TP: HK\$ 95

Analyst : Steve Chow
Tel: (852) 2147 8809
stevechow@abci.com.hk

Share price (HK\$)	93.65
Est. share price return	1.4%
Est. dividend yield	NA
Est. total return	1.4%
Previous Rating & TP	HOLD/HK\$100
Previous Report Date	Feb 10, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	116.0/50.2
Issued Class B shares (mn)	5,082
Class B market cap (HK\$ mn)	475,929
Avg daily turnover (HK\$ mn)	3,127
Major shareholder(s)	Voting right
Wang Xing	49.1%
Mu Rongjun	10.8%
Tencent	9.0%

Source(s): Bloomberg, HKEx, ABCI Securities

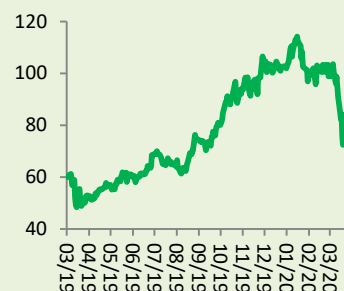
Share Performance (%)

	Absolute	Relative*
1-mth	-5.3	4.4
3-mth	-8.1	8.2
6-mth	16.9	26.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Meituan Dianping (MD, 3690 HK)
Internet Media and Consumer Commerce Sector
Mar 31, 2020

Content

4Q19 highlight and 1Q20 outlook	3
Near-term headwinds to persist	5
Long-term outlook still intact.....	8
Financial analysis	12
Maintain HOLD; TP at HK\$ 95	18
Risk factors	20
Disclosures.....	24

4Q19 highlights and 1Q20 outlook

Expecting a sluggish 1Q20

Due to the coronavirus outbreak, the Group expects to experience revenue decline and operating loss in 1Q20. According to the management, visibility in coming quarters remains low given the uncertainty.

For the food delivery business, business volume was down by more than 50% YoY in Feb 2020. Despite some improvements in Mar 2020, the overall recovery pace was sluggish. According to the management, there are bottlenecks on both the supply and demand sides. On the demand side, consumers generally are concerned on the food preparation process in restaurants and potential physical contacts during the delivery staff. On the supply side, many restaurants were closed in Feb 2020. On a positive note, there is no bottleneck on delivery capacity.

For the in-store/hotel/travel business, the situation is much worse. Overall, the in-store business was shut-down in Feb 2020. In addition, the hotel business has been heavily impacted since Feb. Some recovery was seen in March but the pace has slower than that of food delivery segment.

In addition, the new initiatives segment also experienced business volume declines in 1Q20.

4Q19 highlights

Overall, Meituan reported a set of upbeat results in 4Q19. Revenue grew 42% YoY to RMB 28.2bn, 6% above consensus. Driven by higher revenue and improved margins, core net profit rose to RMB 2.3bn in 4Q19, significantly higher than market expectation of RMB 470mn for the quarter. Gross margin was 34.5% in 4Q19 vs. 22.6% in 4Q18 and 34.9% in 3Q19. Core net margin improved sequentially from 7.1% in 3Q19 to 8.1% in 4Q19.

Food delivery: Segment revenue grew by 43% YoY to RMB 15.7bn, driven by 40% YoY growth of gross transaction volume (GTV) and 37% YoY growth in the no. of food delivery transactions during the quarter. Segment gross margin improved from 13.4% in 4Q18 to 17.7% in 4Q19, but lower than 19.5% in 3Q19. The growth was mostly driven by lower-tier cities. In addition, the Group continued to improve its value-added solutions to merchants, such as introducing dish-based recommendation feeds since Aug 2019; it also introduced intelligent diagnosis tool and four targeted solutions to merchants in 4Q19.

In-store/hotel/travel: Segment revenue grew by 38% YoY to RMB 6.4bn, largely in line with the 35% YoY growth in segment GTV. In addition, no. of domestic hotel room nights rose by 48% YoY to 110mn in 4Q19. For the in-store business, the Group has expanded coverage on high-quality restaurants and improved its product solutions to merchants with ongoing AI development. For the hotel business, the Group has improved its marketing position in lower-tier cities and low-star hotel segment by exploring more offline traffic conversions and new traffic channels. Segment gross margin was largely stable at 88.8% in 4Q19 vs. 88.6% in 3Q19.

New initiatives: Segment revenue grew by 45% YoY to RMB 6.1bn, driven by 33% YoY growth in segment GTV. Segment gross margin improved to 21.2% in 4Q19 versus 18.7% in 3Q19, indicating ongoing operational improvement of the bike-sharing and car-hailing services.



Exhibit 1:4Q19 highlight

	4Q18	4Q19	YoY	Remarks
Annual transacting users (m)	400	450	12%	
No. of food delivery transaction (m)	1,832	2,505	37%	
Number of domestic hotel room nights	74	110	48%	
Monetization rates	14.4%	14.8%	+0.4ppt	
Gross transaction volume (RMB bn)	138	190	38%	
Food delivery	80	112	40%	
In-store, hotel and travel	45	60	35%	
New initiatives and others	13	17	33%	
Financials (RMB m)				
Revenue	19,803	28,158	42%	6% above expectation
<i>Food delivery</i>	<i>11,006</i>	<i>15,716</i>	<i>43%</i>	
<i>In-store, hotel and travel</i>	<i>4,594</i>	<i>6,357</i>	<i>38%</i>	
<i>New initiatives and others</i>	<i>4,203</i>	<i>6,086</i>	<i>45%</i>	
Cost of sales	-15,323	-18,440	20%	
Gross profit	4,481	9,718	117%	
<i>Food delivery</i>	<i>1,472</i>	<i>2,787</i>	<i>89%</i>	
<i>In-store, hotel and travel</i>	<i>3,988</i>	<i>5,643</i>	<i>41%</i>	
<i>New initiatives and others</i>	<i>-979</i>	<i>1,289</i>	<i>NA</i>	
Operating profit	-3,735	1,424	NA	
Profit	-3,414	1,460	NA	
Core profit (non-GAAP)	-1,582	2,270	NA	Much higher than market expectation of RMB 470mn
Profitability (%):				
	4Q18	4Q19	ppt	
Gross margin	22.6	34.5	y-o-y	
<i>Food delivery</i>	<i>13.4</i>	<i>17.7</i>	<i>4.4</i>	
<i>In-store, hotel and travel</i>	<i>86.8</i>	<i>88.8</i>	<i>2</i>	
<i>New initiatives and others</i>	<i>-23.3</i>	<i>21.2</i>	<i>44.5</i>	
Operating margin	-18.9	5.1	23.9	
Profit margin	-17.3	5.2	22.5	
Core profit margin (non-GAAP)	-8.0	8.1	16.1	

Source(s): The company, ABCI Securities



Near-term headwinds to persist

Hotel and travel industry in demise

In our view, the recent outbreak of the novel coronavirus (COVID-19) is likely to pose significant near-term headwinds to Meituan (MD) in 1H20 or beyond.

Among MD's major segments, we believe the in-store, hotel, and travel segment would be the hardest hit due to disturbances in international and domestic inter-city transportations, in addition to the lower demand for traveling as a result of the enforcement of various quarantine measures; moreover, the public seek to avoid crowd in general. The segment accounted for 23% of revenue but 61% of gross profit in 2019.

A recent survey of over 600 hotel groups operating over 6,000 hotels by China Hospitality Association (CHA) reveals the following situation in the hotel industry.

- In Feb 2020, mid-to-high-end hotels (4-5 stars) in China have experienced an 86% YoY revenue decline; mid-to-low-end hotel (3 stars and below) suffered a 92% YoY revenue decline. Overall, mid-to-low-end hotel suffered a more significant revenue decline because of the smaller operating scale with fewer resources available to tackle the outbreak.
- About 73% of hotels have suspended operation during the coronavirus outbreak, with an average suspension period of 27.6 days. Over 90% of hotels expect business would only recover fully after six months.
- At end-Feb 2020, about 63.3% of hotels have resumed operation but demand is still weak. CHA expects occupancy rate of the hotel industry to be ~ 18% in 1Q20. Looking forward, CHA expects occupancy rate to gradually recover to 61% in 4Q20.

For the travel industry, Air China has reported that its total passenger traffic and domestic passenger traffic, measured by revenue passenger kilometers (RPK, number of passengers carried multiplied by distance travelled), have dropped by 80.5% YoY and 83.9% in Feb 2020. This is followed by the 2.9% YoY and 2.4% YoY declines in total passenger traffic and domestic passenger traffic in Jan 2020.

In addition, Cathay Pacific reported that RPK of mainland China dropped by 87.3% YoY in Feb 2020 and 52.4% YoY in 2M20.

Although the coronavirus outbreak has been alleviated in China recently with fewer reported new cases, we believe the industry recovery would be slow amid the weak economic backdrop as well as significant reduction in international traffics amid rising coronavirus cases outside China.

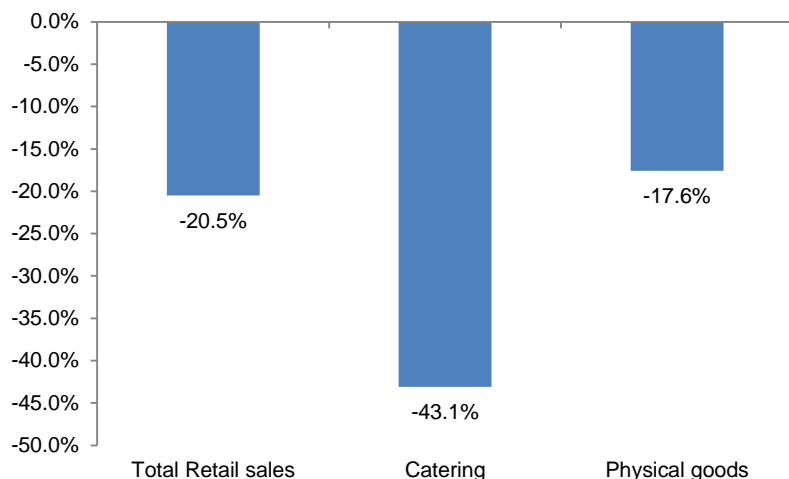
In addition, the current outbreak might have created some permanent changes in some business practices. E.g., more people are conducting business meetings via online meeting apps instead of face-to-face meeting. In our view, this structural change in business practice could potentially reduce the needs of business travel in the future, thus impacting the corresponding hotel and travel demand.



Gradual recovery in online food delivery

Compared with the hotel and travel segment, the online food delivery segment will have a more optimistic outlook. Overall, the industry was impacted by operational disturbance in the upstream restaurant supply chain due to temporary closure. This is illustrated by the 43.1% YoY drop in catering sales in 2M20 based on the NBS data. In addition, rider cost have increased as the Group raised incentives to compensate for the higher health risk.

Exhibit 2: 2M20 retail sales growth by product category



Source(s): NBS, ABCI Securities

A recent survey of over 71 catering enterprises operating over 61K restaurants under 201 brands by China Chain Store & Franchise Association (CCFA) reveals the following situation in the catering industry. Overall, these sample enterprises employed 1.3mn people and with an estimated total revenue of RMB 196.6bn in 2019.

- Significant revenue declines in 2M20, with about 78% of enterprises reported a revenue decline of 70% YoY or more in Feb. In Jan 2020, about 72% enterprises reported a revenue drop less than 30% YoY.
- As of Mar 1, 2020, 5% of enterprises said there was insufficient cash to support operation, while 79% said current cash reserve could not support operation of more than three months.
- 91.6% of enterprises now focus on delivery business but overall contribution is still small at the moment.
- Average shop operation rate was 37.6% and 33.3% in Jan and Feb 2020. Overall, enterprises face various operational challenges including significant reduction of in-store traffic, insufficient epidemic prevention supplies for staff and customers, and more.

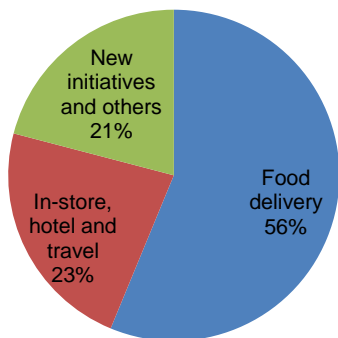
On a positive note, there are signs of gradual improvement in recent weeks, at least for the large restaurant chains. This could alleviate the upstream restaurant supply chain pressure for the food delivery segment.



- HaiDiLao Hotpot (海底撈), a major hotpot restaurant chain in China, has reopened most restaurants in mid-Mar, although the overall operation is still impacted by the outbreak.
- Starbucks has re-opened about 90% of its stores in China
- McDonald's said 95% of its stores in China are back in operations lately
- Yum Brands stated that about 95% of its restaurants in China are partially or fully open now.

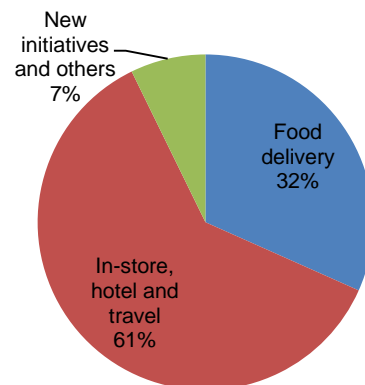
The food delivery segment only accounted for 32% of gross profit in 2019 despite its high revenue contribution of 56% during the same period.

Exhibit 3: Revenue mix (2019)



Source(s): Company, ABCI Securities

Exhibit 4: Gross profit mix (2019)



Source(s): Company, ABCI Securities

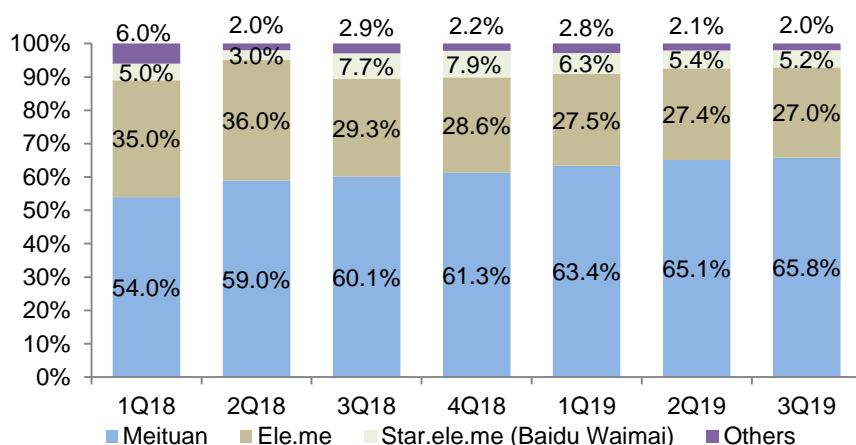


Long-term outlook remains intact

MD's long-term outlook remains intact in our view. After all, MD operates a leading e-commerce platform for services in China, connecting consumers and merchants on various services offerings for consumers' daily needs such as food, lifestyle, and travel services. In 2019 its platform generated RMB 682bn in gross transaction volume. Also, it served 451mn of annual transacting users and 6.2mn of active merchants as of Dec 2019.

The Group enjoys a dominant market position in the online food delivery market. According to Trustdata, its market share has increased steadily from 54% in 1Q18 to 65.8% in 3Q19. In contrast, the market share of its major competitor, Alibaba's Ele.me, has been sliding gradually in recent quarters despite its effort to restructure the business.

Exhibit 5: Market share trend in China's online food delivery

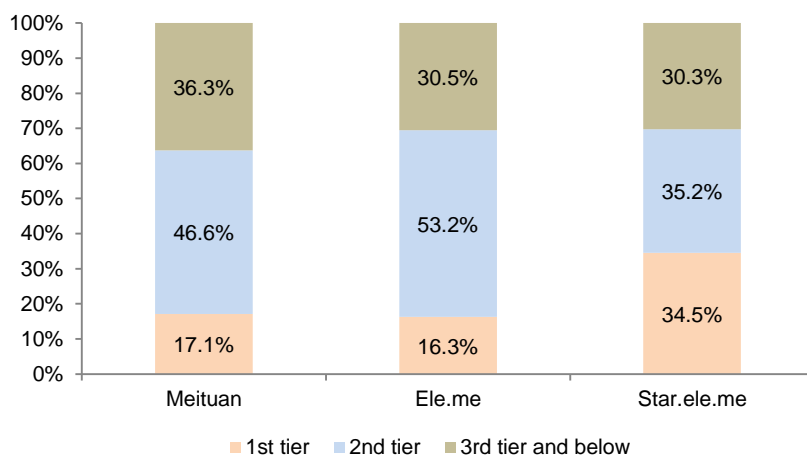


Source(s): Trustdata

Strong brand equity, substantial user base, and high user stickiness. As China's largest online food delivery platform, MD has become a household brand in the country. In our view, MD's strong brand equity has led to substantial user base and high consumer stickiness. E.g., the annual no. of transactions made by each transacting user increased from 10.4 in 2015 to 27.4 in 2019, according to Trustdata. About 36.3% of MD's users were located in third-tier cities or below in June 2019, higher than its major peers.



Exhibit 6: User distribution by city tier (June 2019)



Source(s): Trustdata

Empowering merchants with a wide range of solution services: The Group provides merchants with various valued-added tools to help them succeed in the platform. These include targeted online marketing tools, a cost-effective on-demand delivery infrastructure, cloud-based ERP systems, integrated payment systems, and supply chain, and financing solutions. In our view, these services help merchants attract more consumers, increase sales, and enhance profitability.

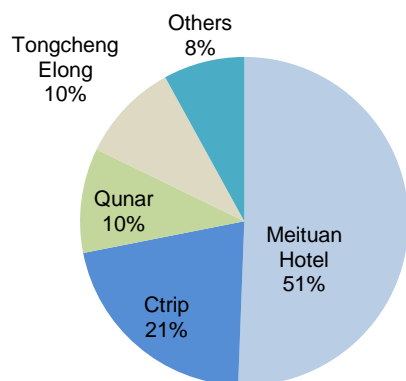
As a result, the Group has increased its merchant base while cultivating long-term loyalty. Its active merchant increased from 2mn in 2015 to 6.2mn as of Dec 2019.

Comprehensive intra-city on-demand delivery network: The Group has one of the leading intra-city on-demand delivery networks in China with about 2.7mn of delivery riders. In our view, this comprehensive delivery network creates a significant entry barrier for potential new entrants. It also lays the logistic foundation for future product category expansion.

One-stop platform capturing cross-selling opportunities: Its one-stop platform offers diversified services in various high-frequency consumer services, which in turn enables it to capture cross-selling opportunities to a broad range of new categories such as beauty, entertainment, hotel, travel, and other lifestyle services. In 1H19, it has the largest market share in China's online hotel booking industry both in terms of order volume and room nights.

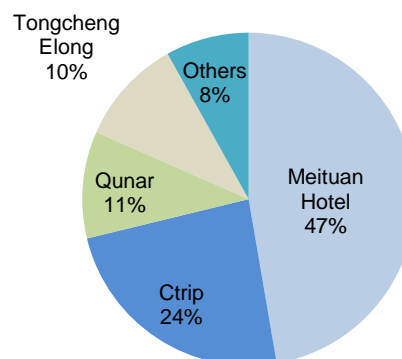


Exhibit 7: China's online hotel booking market by order volume (1H19)



Source(s): Trustdata

Exhibit 8: China's online hotel booking market share by room nights (1H19)



Source(s): Trustdata

In addition to hotel booking, the Group is currently developing various new businesses, including cloud-based ERP systems, integrated payment services, supply chain solutions to merchants, small and medium-sized merchants financing services, local transportation services, and more.

Long-term drivers to remain

In our view, China's online food delivery market is benefiting from several positive structural trends.

Urbanization. China's ongoing urbanization has led to the emergence of a large number of cities, accelerating the growth of the consumer service industry.

Consumer upgrade. The improvement in Chinese consumers' standard of living has led to an ongoing consumer upgrade from basic needs to more discretionary spending, and from physical goods-oriented purchase to services/experience-oriented ones.

Labor supply for the consumer service industry. There is a shift in the labor supply from the traditional agricultural and manufacturing sectors to the services sector. In our view, this accelerates the emergence of new business models such as on-demand delivery.

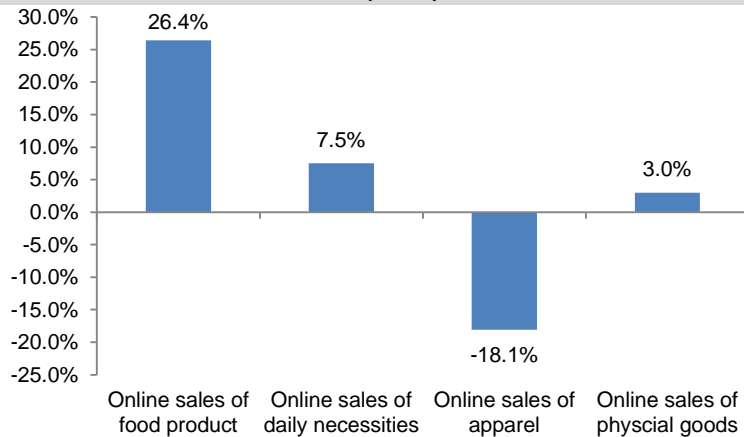
Telecom infrastructures. In our view, the growing penetration of mobile internet and mobile payment solutions, such as AliPay and TenPay in China, has provided the infrastructure required to support the growth of online food delivery.



In 2019, online sales of food products in China, which included online food delivery, were up 30.9% YoY, significantly higher than the 19.5% YoY growth of online sales of physical goods and 15.4% YoY growth of online sales of apparels.

In 2M20, although overall retail sales has dropped by 20.5% YoY amid coronavirus outbreak, online sales of food products still grew by 26.4% YoY, significantly higher than the 3.0% YoY growth recorded in online sales of physical goods during the same period.

Exhibit 9: Online sales in China (2M20)



Source(s): NBS



Financial analysis

We expect GTV to drop by 5% YoY in 2020E due to coronavirus outbreak, to be followed by a 42% growth in 2021E as we assume business operation to recover fully by 2021E.

Annual transacting users: We expect annual transaction users to grow at 9% GAGR in 2019-2021E, driven by ongoing increasing penetration of online food delivery and consumer service ecommerce. In particular, we believe the recent virus outbreak have shifted demand from sit-in dining to delivery, which bodes well for the industry as a whole in the long run.

No. of food delivery transactions: The food delivery business is impacted by disruption in the upstream restaurant supply chain and recovery has been slow so far. We overall assume -30%/-10%/0%/30% growth in 1Q-4Q20E, implying a 1% YoY growth in 2020E. For 2021E, we assume a 47% YoY growth driven by low base and normalized business situation.

No. of domestic room nights: Overall, the hotel industry has been substantially hampered by the outbreak. We factor in -60%/-40%/-20%/0% growth in 1Q-4Q20E, which results in 27% YoY decline for 2020E. Assuming the industry to resume normalcy in 2021E, we estimate a 42% YoY growth, which is similar to the 2019 level.

Monetization rate: MD's monetization rate improved to 14.3% in 2019 vs. 12.7% in 2018, mainly driven by smoothening operations of its new business initiatives. Looking forward, we expect the monetization rate to improve slightly to 14.6% in 2020E and 2021E.

Exhibit 10: Major assumptions

	2018	2019	2020E	2021E
Annual transacting users (mn)	400	451	496	535
No. of food delivery transaction (mn)	6,393	8,722	8,766	12,273
No. of domestic hotel room nights (mn)	284	392	286	406
Monetization rates	12.7%	14.3%	14.6%	14.6%

Source(s): Company, ABCI Securities estimates



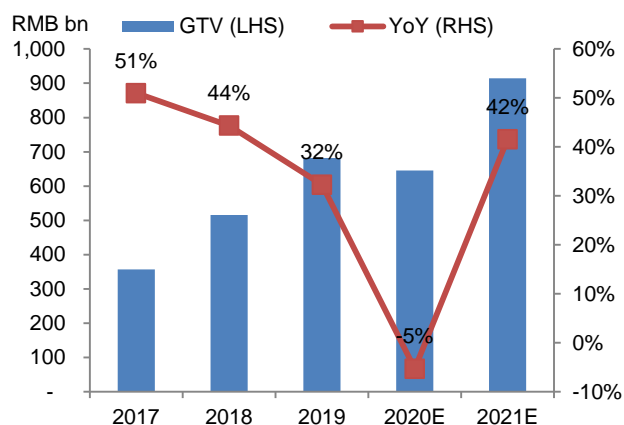
We expect MD's revenue to drop by 3% YoY in 2020E before increasing by 41% YoY in 2021E.

Food delivery: We overall expect food delivery revenue to stay flat in 2020E, to be followed by a 48% YoY growth in 2021E, largely in line with the business volume trend discussed above.

In-store, hotel and travel: Overall, we factor in an 17% revenue decline in 2020E given the significant impact faced by the hotel industry amid the outbreak. We expect a 32% growth in 2021E.

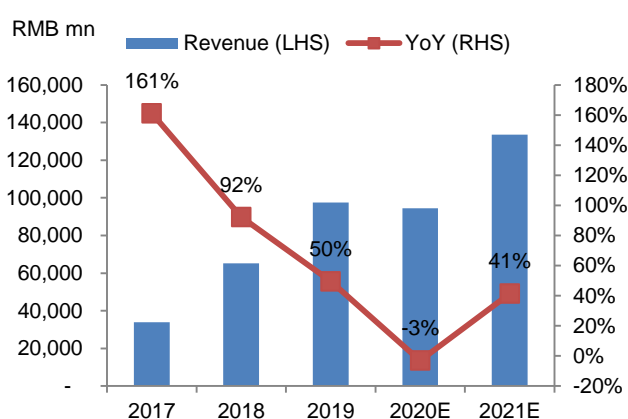
New initiatives and others: This segment includes the Group's various new initiatives including groceries retail/delivery, micro loan, local transaction, etc. Overall, the segment has shown rapid growth rate in recent quarters due to the low base; we estimate revenue to grow by 3% YoY and 33% YoY for 2020E and 2021.

Exhibit 11: GTV outlook



Source(s): Company, ABCI Securities estimates

Exhibit 12: Revenue outlook



Source(s): Company, ABCI Securities estimates

In terms of business mix, food delivery accounted for 56% of revenue in 2019, followed by in-store, hotel and travel (23%), and new initiatives and others (21%). We expect revenue share of food delivery business to increase to 61% by 2021E, given the ongoing expansion.

Exhibit 13: GTV and revenue forecasts

	2018	2019	2020E	2021E
Gross transaction volume (RMB bn)	516	682	646	914
Food delivery	283	393	394	580
In-store, hotel and travel	177	222	179	244
New initiatives and others	56	67	72	90
Revenue (RMB mn)	65,227	97,528	94,606	133,581
Food delivery	38,143	54,843	55,062	81,227
In-store, hotel and travel	15,840	22,275	18,478	24,392
New initiatives and others	11,244	20,410	21,065	27,962

Source(s): Company, ABCI Securities estimates



Among the three segments, in-store, hotel & travel has enjoyed the highest gross margin (GPM) of 88-90% in recent years, thanks to its business model as a pure online platform with a low fixed cost and the economies of scale. In addition, its segment gross margin has remained largely stable in recent quarters, indicating a stable cost structure. Looking forward, we expect this trend to continue in 2020E-21E.

Gross margin of food delivery rose to 18.7% in 2019 from 8.1% in 2017, thanks to improved market position conducive to higher pricing power, as well as improving economies of scale. Having said that, its segment gross margin is significantly lower than that of in-store, hotel & travel segment mainly due to the food delivery rider cost. Looking forward, we expect segment gross margin to dip to 17.5% in 2020E due to higher rider cost resulted from the latest health epidemic. Gross margin would recover to 18.5% in 2021E as impacts of virus outbreak fade and business recovers.

New initiatives and other businesses have turned around with a positive gross margin since 2Q19 because of the operating restructuring related to Mobike, as well as operating improvement of various new initiatives such as groceries retail/delivery. Looking forward, we expect segment gross margin to reach 20.0% by 2021E.

Overall gross margin improved to 33.1% in 2019 vs. 23.2% in 2018, mainly driven by improving gross margin of food delivery and new initiatives segments. Looking forward, we expect gross margin to drop to 31.0% in 2020E amid challenging business environment but recover to 31.7% in 2021E.

Exhibit 14: Gross margin trends

	2018	2019	2020E	2021E
Gross margin				
Food delivery	13.8%	18.7%	17.5%	18.5%
In-store, hotel and travel	89.0%	88.6%	88.8%	89.0%
New initiatives and others	-37.9%	11.5%	16.0%	20.0%
Overall	23.2%	33.1%	31.0%	31.7%

Source(s): Company, ABCI Securities estimates

In terms of operating cost, we expect SG&A/GTV ratio to rise to 4.8% in 2020E before dropping to 3.9% by 2021E vs. 4.6% in 2019.

Selling & marketing expenses: Selling & marketing expenses/GTV ratio has improved to 2.8% in 2019 vs. 3.1% in 2018, driven by the economies of scale and higher operation efficiency. Looking forward, we expect the ratio to increase to 2.9% in 2020E before dropping to 2.3% in 2021E.

R&D expenses: R&D expenses /GTV ratio was 1.2% in 2019. We expect this ratio to improve slightly in 2020-2021E on economies of scale.

General and admin expenses: General and admin expenses /GTV ratio was 0.6% in 2019. We expect this ratio remain largely stable going forward.

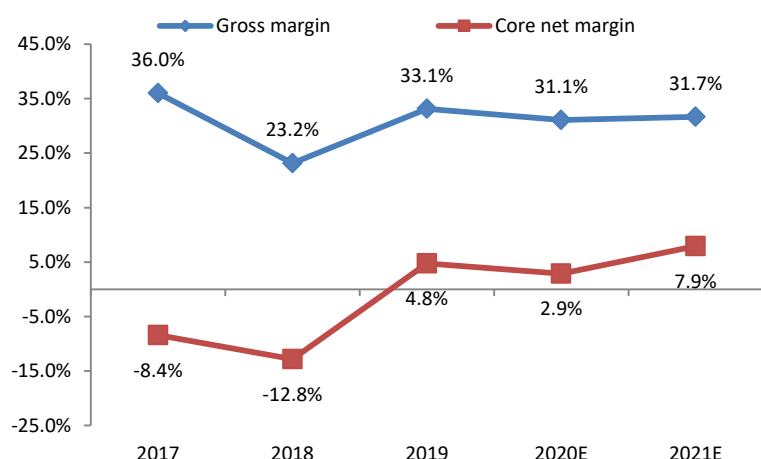


Exhibit 15: Cost trend (RMB mn)

	2018	2019	2020E	2021E
Selling & marketing expenses	-15,872	-18,819	-18,729	-21,029
R&D expenses	-7,072	-8,446	-7,879	-9,143
General & admin expenses	-5,546	-4,339	-4,198	-5,029
	-28,490	-31,604	-30,807	-35,201
% of GTV				
Selling & marketing expenses	-3.1%	-2.8%	-2.9%	-2.3%
R&D expenses	-1.4%	-1.2%	-1.2%	-1.0%
General & admin expenses	-1.1%	-0.6%	-0.7%	-0.6%
	-5.5%	-4.6%	-4.8%	-3.9%

Source(s): the Group, ABCI Securities estimates

Exhibit 16: Margin forecasts



Source(s): Company, ABCI Securities estimates

Based on the above assumptions, we expect core net profit to drop by 41.2% YoY to RMB2.7bn in 2020E amid challenging near-term operating environment. For 2021E, we expect core net profit to reach RMB10.6bn with a core net margin of 7.9%.



Sensitivity

In terms of earning sensitivity, we estimate that a 100bp improvement in core net margin would increase its 2020E and 2021E core net profits by 35.5% and 12.6%.

Exhibit 17: Earnings sensitivity

Changes in core net margin (bps)	Changes in 2020E core net profit	Changes in 2021E core net profit
100	35.5%	12.6%
75	26.6%	9.5%
50	17.8%	6.3%
25	8.9%	3.2%
-	0.0%	0.0%
-25	-8.9%	-3.2%
-50	-17.8%	-6.3%
-75	-26.6%	-9.5%
-100	-35.5%	-12.6%

Source(s): ABCI Securities estimates

Exhibit 18: Forecast changes

(RMB m)	2020E			Comment
	old	new	Diff	
Revenues	129,035	94,606	-27%	Lower GTV assumptions
Net income	4,172	1,200	-71%	
Core profit	6,187	2,740	-56%	

Source(s): ABCI Securities estimates

Exhibit 19: Forecast changes

(RMB m)	2021E			Comment
	old	new	Diff	
Revenues	173,271	133,581	-23%	Lower GTV assumptions
Net income	11,197	8,062	-28%	
Core profit	13,838	10,589	-23%	

Source(s): ABCI Securities estimates



Exhibit 20: Quarterly financials (RMB mn)

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Food delivery	7,056	8,908	11,173	11,006	10,706	12,845	15,577	15,716
In-store, hotel and travel	3,138	3,673	4,436	4,594	4,492	5,245	6,181	6,357
New initiatives and others	1,081	2,492	3,468	4,203	3,976	4,613	5,736	6,086
Revenue	11,275	15,073	19,076	19,803	19,174	22,703	27,494	28,158
Cost of revenue	-8,063	-12,232	-14,505	-15,323	-14,105	-14,762	-17,901	-18,440
Gross profit	3,212	2,841	4,571	4,481	5,069	7,941	9,592	9,718
Selling & marketing expenses	-2,846	-3,868	-4,622	-4,535	-3,706	-4,149	-5,615	-5,349
R&D expenses	-1,383	-1,704	-2,004	-1,982	-2,036	-2,032	-2,137	-2,240
Selling & marketing expenses	-667	-978	-1,238	-2,846	-1,075	-1,038	-1,056	-1,232
Provision of impairment losses		715	-84			-324	-112	-332
FV changes on investments	471	-17	-341	991	165	-139	164	72
Others	165	161	266	157	279	854	611	787
Profit from operations	-1,048	-2,851	-3,452	-3,735	-1,304	1,113	1,447	1,424
Finance income	47	62	69	116	53	22	38	54
Finance cost	-8	-5	-15	-15	-47	-50	-49	-45
FV changes of CB	-20,213	-4,637	-79,755					
Shares of gains of investments	-1	7	2	-57	8	18	24	58
PBT	-21,223	-7,424	-83,152	-3,690	-1,290	1,102	1,461	1,490
Income tax expenses	159	-292	-144	276	-143	-226	-127	-30
Profit	-21,065	-7,716	-83,296	-3,414	-1,434	876	1,333	1,461
Core profit	-981	-3,211	-2,472	-1,582	-1,039	1,492	1,942	2,270
YoY								
Revenue growth (%)	NA	NA	97.2%	89.0%	70.1%	50.6%	44.1%	42.2%
EBIT growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Net profit growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Core profit growth (%)	NA	NA	NA	NA	NA	NA	NA	NA
Margin								
Gross profit margin (%)	28.5%	18.8%	24.0%	22.6%	26.4%	35.0%	34.9%	34.5%
Operating margin (%)	-9.3%	-18.9%	-18.1%	-18.9%	-6.8%	4.9%	5.3%	5.1%
Profit margin (%)	-186.7%	-51.1%	-436.6%	-17.3%	-7.5%	3.9%	4.9%	5.2%
Core profit margin (%)	-8.7%	-21.3%	-13.0%	-9.4%	-5.4%	6.6%	7.1%	8.1%

Source: The Company, ABCI Securities



Maintain HOLD; TP at HK\$ 95

Peer valuation analysis

Overall, MD's listed peers include overseas listed online food delivery platforms and online travel platforms.

Major online food delivery platforms, such as Grubhub (GRUB US), Delivery Hero (DHER GY), and Just Eat Takeaway (TKWY NA), are currently trading at the averages of 8.8x/7.3x 2020E/2021E P/S. Overall, these platforms are still in the early stage of profitability, and investors tend to value them on a P/S basis.

On the other hand, major online travel platforms, including Trip.com (TCOM US) and Tongcheng-Elong (780 HK), are currently trading at the averages of 51.6x/11.9x 2020E/2021E P/E. In our view, online travel platforms generally have a longer operating history and profit track record so investors tend to value them on a P/E basis. The market is currently pricing in a profit slump in 2020E for Trip.com, leading to an inflated P/E for 2020E. As a result, we prefer to use the 2021E P/E as a valuation reference.

Exhibit 21: Peer valuation

		Market cap (Lcy)	Price (Lcy)	P/sales			P/E		
				2019	2020E	2021E	2019	2020E	2021E
Listed online food delivery platform									
GRUB US Equity	GRUBHUB	3,596	39.2	2.7	2.5	2.2	NA	748.5	62.9
DHER GY Equity	DELIVERY HERO	13,686	69.2	10.5	5.9	4.5	NA	NA	NA
TKWY NA Equity	JUST EAT TAKEAWAY	10,072	69.9	24.2	18.1	15.2	NA	132.2	67.5
				12.5	8.8	7.3	NA	440.3	65.2
Listed online travel platform									
TCOM US Equity	TRIP.COM	13,804	23.5	2.7	3.4	2.3	13.8	86.6	13.7
780 HK Equity	TONGCHENG-ELONG	21,973	10.3	2.7	2.7	2.0	28.8	16.6	10.0
				2.7	3.0	2.2	21.3	51.6	11.9
HK-listed major online platform									
700 HK Equity	TENCENT	3,559,424	372.6	8.5	6.9	5.7	34.5	28.3	23.0
9988 HK Equity	ALIBABA	3,835,221	178.7	6.8	5.2	4.2	26.1	22.4	17.5
				7.7	6.1	4.9	30.3	25.4	20.3

Source(s): Bloomberg, ABCI Securities



SOTP valuation and TP

We set our TP to HK\$ 95 using the SOTP approach, which warrants a **HOLD** rating. Despite the intact long-term outlook, we believe near-term macro headwinds related to coronavirus outbreak would hinder share performance in the near term.

We roll over our forecasts to 2021E as we look beyond the near-term peril in 2020E and focus on a normalized business operation in 2021E.

- For the food delivery business, we apply a target P/S range of 4.5-6.5x.
- For the In-store/Hotel/Travel business, we apply a target P/E range of 10-15x by referencing the listed online travel platforms.

Our SOTP-based valuation range is HK\$78-HK\$113 per share. We set our TP to HK\$95, around the mid-point of such range.

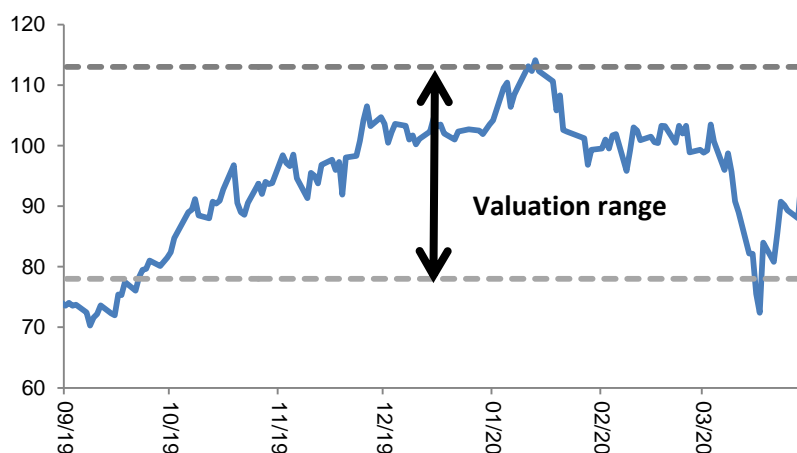
Exhibit 22: SOTP-based valuation range (HK\$ per share)

Segment	Low	Base	High	Comment
Food delivery	69	84	99	4.5-6.5x 2021E P/S
In-store/Hotel/Travel	9	11	14	10-15x 2021E P/E
Overall	78	95	113	

Source(s): ABCI Securities estimates

Overall, our valuation range is broadly in line with the counter's trading range in recent months.

Exhibit 23: Share price trend (HK\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 24: TP changes (HK\$ per share)

Segment	Old	New	Methodology- old	Methodology -new
Food delivery	82	84	5.5x 2020E P/S	5.5x 2021E P/S
In-store/Hotel/Travel	18	11	18.0x 2020E P/E	12.5x 2021 P/E
Overall	100	95		

Source(s): ABCI Securities estimates



Risk factors

Prolonged coronavirus epidemic

Prolonged coronavirus outbreak could significantly impact its In-store/travel/hotel segment, which accounted for 61% of gross profit in 2019 due to disturbances in the international and local inter-city transportations as well as lower traveling demand by consumers.

Business expansion risk

The Group has been expanding into new service categories, such as car-hailing, bike-sharing, and retail grocery store markets. Expansion into new service categories involves new risks and challenges, which might impact financial performance.

Market competition

The Group has to compete with other online e-commerce service platforms, in particular Alibaba and Ctrip. The competition will be in terms of commission rate, promotion discount, brand advertising, technological investment, etc.

Slowing down of service consumption

As the Group is exposed to consumer spending on services, any significant slowdown of consumption in China would impact financial performance.

Non-GAAP financials

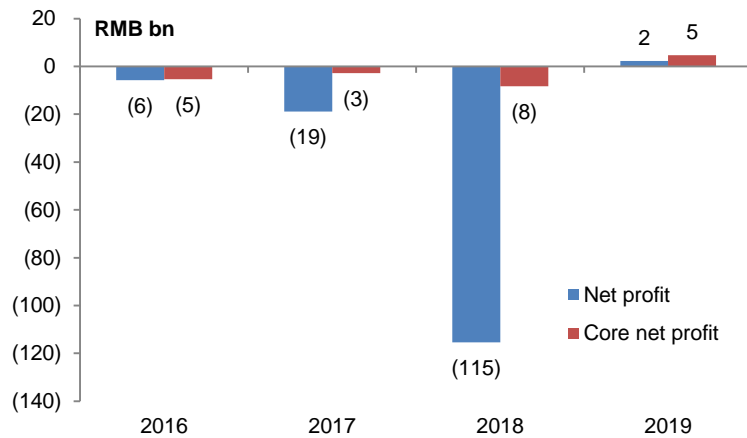
The Group has disclosed the non-GAAP financial metric, such as the non-GAAP net profit, to supplement its GAAP financial measures. Historically, there were differences between its GAAP net profit and non-GAAP net profit due to inclusion of items such as share-based compensation, impairment, fair valuation changes of investment, and disposal gains of asset 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. Its share-based compensation expenses have been trending up over the past few years, rising from RMB0.9bn in 2017 to RMB 2.2bn in 2019.

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 reference.



Exhibit 25: Net profit vs. Non-GAAP core net profit



Source(s): The Company, ABCI Securities



Consolidated income statement (FY18A-FY21E)

FY Ended Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
Total revenue	65,227	97,528	94,606	133,581
Cost of sales	-50,122	-65,208	-65,191	-91,253
Gross profit	15,105	32,320	29,415	42,328
Other gains/losses	2,585	2,609	2,850	2,850
Selling & marketing expenses	-15,872	-18,819	-18,729	-21,029
R&D expenses	-7,072	-8,446	-7,879	-9,143
General & admin expenses	-5,546	-4,339	-4,198	-5,029
Impairment	-286	-646		
Operating Profits	-11,086	2,680	1,458	9,977
Finance income, net	249	-25	-50	-20
Other cost	-104,654	107	90	110
Profit before tax	-115,491	2,762	1,498	10,067
Tax	2	526	300	2,013
Profit after tax	-115,493	2,236	1,199	8,054
Minority interests	-16	-3	-1	-8
Profits attributable to shareholders	-115,477	2,239	1,200	8,062
Share-based compensation	1,865	2,191	1,292	2,286
Amortization and impairment	2,367	751	600	600
Adjustments on disposals/revaluation	102,743	-547	-350	-350
Other adjustments	157	23	-1	-8
Core profits	-8,346	4,657	2,740	10,589
Growth				
Total revenue (%)	92.3	49.5	-3.0	41.2
Gross Profits (%)	23.6	114.0	-9.0	43.9
Operating Profits (%)	189.7	-124.2	-45.6	584.2
Net profit (%)	510.5	-101.9	-46.4	571.9
Core profit (%)	192.6	-155.8	-41.2	286.4
Operating performance				
Operating margin (%)	-17.0	2.7	1.5	7.5
Net margin (%)	-177.0	2.3	1.3	6.0
Core net margin (%)	-12.8	4.8	2.9	7.9
ROAE (%)	-502.0	2.5	1.3	8.3
ROAA (%)	-113.0	1.8	0.9	5.8

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

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (FY18A-FY21E)

As of Dec 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E
Fixed assets	3,979	5,376	3,542	8,218
Intangible assets	33,876	32,700	32,700	32,700
Investment in associates and JV	2,103	2,284	2,284	2,284
Financial assets	6,242	7,166	7,166	7,166
Other non-current assets	1,312	2,352	2,352	2,352
Total non-current assets	47,512	49,877	48,043	52,719
Cash & equivalents	17,044	13,396	15,307	20,253
Restricted cash	4,256	8,760	8,760	8,760
Account receivables	466	677	1,984	3,167
Deposit, prepayments and other assets	9,065	9,591	9,591	9,591
Inventories	400	275	580	820
Short term investment	41,918	49,436	49,436	49,436
Total current assets	73,149	82,135	85,658	92,026
Total assets	120,661	132,012	133,702	144,745
Accounts payable	5,341	6,766	7,257	10,247
Borrowings and notes	1,800	3,553	3,553	3,553
Deferred revenue	3,103	4,567	4,567	4,567
Other current liabilities	21,581	21,706	21,706	21,706
Total current liabilities	31,825	36,592	37,083	40,073
Deferred revenue	625	389	389	389
Borrowings	470	467	467	467
Other non-current liabilities	1,232	2,510	2,510	2,510
Total non-current liabilities	2,326	3,366	3,366	3,366
Total liabilities	34,151	39,958	40,449	43,439
Net current assets	41,324	45,542	48,575	51,953
Equity attributable to shareholders	86,504	92,113	93,312	101,374
Non-controlling interests	5	(58)	(59)	(67)
Total equity	86,510	92,055	93,253	101,307

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



Disclosures

Analyst Certification

I, Chow Sau Shing, being the person 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 (except "Disclosures of Interests" below) 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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-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 2008-19 CAGR at 10%)

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.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2020 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183