

# China / Hong Kong Company Update

## Meituan Dianping

Version 1 | Bloomberg: 3690 HK Equity | Reuters: 3690.HK

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DBS Group Research . Equity

25 Aug 2020

### BUY

Last Traded Price (24 Aug 2020): HK\$265.8 (HSI : 25,552)  
Price Target 12-mth: HK\$380.0 (43% upside) (Prev HK\$227.0)

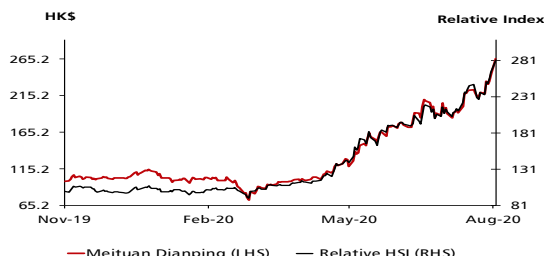
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#### What's New

- Non-IFRS 2Q20 net profit climbed 82% y-o-y to Rmb2.7bn, above market expectations
- Higher mix of branded merchants enhances monetisation potential
- Raised P/S multiple of its food and delivery business to 11x from 6x to reflect its substantial growth potential
- Reiterate BUY; TP lifted to HK\$380 from HK\$227

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2019A	2020F	2021F	2022F
Turnover	97,528	122,885	191,701	260,713
EBITDA	6,970	7,317	28,592	44,734
Pre-tax Profit	2,762	3,791	24,013	39,467
Net Profit	2,236	2,458	19,170	30,764
Net Profit Gth (Pre-ex) (%)	N/A	57.0	464.9	62.4
EPS (RMB)	0.39	0.42	3.26	5.18
EPS (HK\$)	0.43	0.47	3.65	5.80
EPS Gth (%)	N/A	8.8	672.3	58.9
Diluted EPS (HK\$)	0.42	0.46	3.55	5.65
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	17.89	18.91	20.08	22.13
PE (X)	612.1	562.5	72.8	45.8
P/Cash Flow (X)	245.6	236.2	227.2	218.6
P/Free CF (X)	1962.2	383.9	358.5	335.6
EV/EBITDA (X)	187.9	179.2	45.4	28.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	14.9	14.1	13.2	12.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.5	2.6	18.8	27.6
Earnings Rev (%)		1	1	3
Consensus EPS (RMB)		0.70	2.77	4.62
Other Broker Recs:		B:46	S:0	H:5

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Solid future ahead

#### Investment Thesis

**Largest online goods delivery and local services platform with significant GTV growth potential.** Its expanding addressable gross transaction volume (GTV) should bolster its revenue, as online penetration of consumer services will grow to 24% in FY23F from 18% in FY18 according to iResearch.

**Shifting revenue mix to high margin ads** will lift profitability due to advertising demand from growing increasing branded merchants. We expect online marketing revenue as % of GTV will reach 2.9%/6% in FY20/21F from 2.3% in FY19.

**Improving delivery efficiency** will help improve non-IFRS net profit margin to 3%/11% in FY20/21F from 2.3% in FY19. This will be via optimising its delivery network on the back of better dispatching algorithm and order frequency.

#### Valuation:

Our TP of HK\$380 is based on SOTP methodology: (i) 11x FY21F Price/Sales for food delivery segment (HK\$292/share), 2 S.D. from its peers, and (ii) 24x FY21F PE for in-store, hotel and travel business, in line with industry peers (HK\$88/share).

#### Where we differ:

**Above-sector-revenue growth.** We believe MTDP will grow its revenue at c.34% CAGR, faster than the sector CAGR of c.20% during FY20-22F, as we believe MTDP's core business will be more resilient against the macro headwinds than peers given of its steady demand nature.

#### Key Risks to Our View:

Government regulation risk, irrational market competition.

#### At A Glance

Issued Capital (m shrs)	5,808
Mkt Cap (HK\$/US\$m)	1,543,766 / 199,188
Major Shareholders (%)	
Tencent Holdings Ltd	20.5
Sequoia Capital Partners	7.7
Baillie Gifford & Co.	5.0
Free Float (%)	66.8
3m Avg. Daily Val. (US\$m)	730.67
GICS Industry: Consumer Discretionary / Retailing	



Live more, Bank less

**WHAT'S NEW****2QFY20 result highlights**

Meituan Dianping (MTDP) reported better-than-expected 2Q20 results. Revenue was back to growth and increased by 9% to Rmb24.7bn. The rapid growth of online marketing revenue (+62% y-o-y) offset the slow growth of commission revenue (+9% y-o-y), driven by the increase in online marketing by active merchants. Non-IFRS 2Q20 net profit climbed 82% y-o-y to Rmb2.7bn, substantially above market expectations.

Segment-wise, revenue from food delivery and new initiatives rose 13% and 22% y-o-y respectively, while in-store dining/hotel/travel narrowed its decline to 13% y-o-y.

**Food delivery**

GTV growth resumed to grow with y-o-y increase of 17% in 2Q. Revenue increased 13% y-o-y, supported by the rise in average food order value due to expanding contribution from branded restaurants. Operating margin rebounded substantially to the record high of 8.6%. The massive margin improvement is on the back of lower delivery cost per order, which is due to (1) increasing scale, (2) less rider incentive fee under favorable weather conditions and (3) better delivery rider capacity.

**In-store and hotel**

Revenue narrowed the y-o-y decline to 13% in 2Q from 31% in 1Q. Operating margin improved to a record high of 41.6% due to less promotion expenses on hotel business and increasing contribution of in-store business.

**New initiatives**

Revenue increased 22% y-o-y while its operating loss narrowed 11% y-o-y, driven by its grocery retail business including Meituan Instashopping (marketplace) and Meituan Grocery (self-operation).

**Outlook**

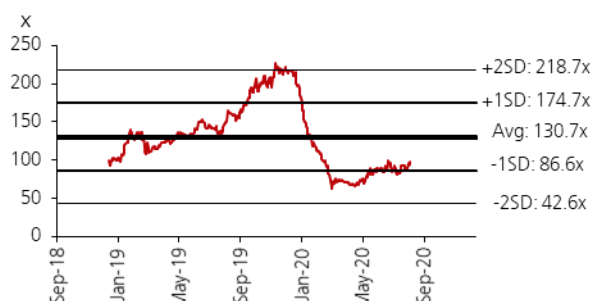
We believe revenue will be back-end loaded towards 2H20 due to pent-up demand for local consumption and travels after COVID. Though MTDP might consider increasing subsidies in 2H, we expect the amount would be rational given its dominant market leadership. This will also help increase the mix of branded merchants, implying better monetisation and ARPU in the longer term. We are optimistic on MTDP's margin recovery and forecast non-IFRS net profit margin to increase to 3%/11% in FY20/21F from 2% in FY19, driven by higher contribution from online marketing revenue. Lower rider and traffic acquisition costs will also support margin recovery on the back of a bigger scale.

We raised our FY20-/22F revenue by 1%/2%/3%, leading to an increase of 4%/6%/7% in FY20-22F non-IFRS EPS. We also raised P/S multiple of its food and delivery business to 11x from 6x, which is 2 standard deviation from its peers to reflect its substantial growth potential. In 2Q20, operating margin in this segment reached the record high, driven by growing branded merchants, though its revenue growth has not yet returned to pre-COVID level. Given the number of newly-onboard branded merchants increased by more than 110% already in 2Q20, we believe food and delivery's growth momentum will continue to outpace its peers and deserves a higher multiple.

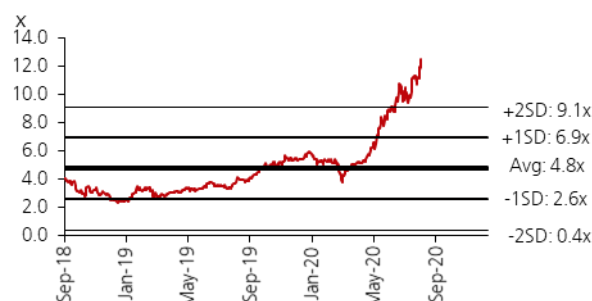
We reiterate our BUY rating and lift our TP to HK\$380 from HK\$227. Our TP of HK\$380 is based on SOTP methodology: (i) 11x FY21F Price/Sales for food delivery segment (HK\$292/share), and (ii) 24x FY21F PE for in-store, hotel and travel business, in line with industry peers (HK\$88/share).

## Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Bloomberg Finance L.P. DBS HK

## Income Statement (RMB m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	65,227	97,528	122,885	191,701	260,713
Cost of Goods Sold	(50,122)	(65,208)	(81,719)	(116,938)	(155,124)
<b>Gross Profit</b>	<b>15,105</b>	<b>32,320</b>	<b>41,167</b>	<b>74,763</b>	<b>105,589</b>
Other Opng (Exp)/Inc	(26,191)	(29,641)	(37,849)	(52,909)	(67,003)
<b>Operating Profit</b>	<b>(11,086)</b>	<b>2,679</b>	<b>3,318</b>	<b>21,854</b>	<b>38,586</b>
Other Non Opng (Exp)/Inc	(104,606)	107	500	2,000	500
Associates & JV Inc	(45)	0	0	0	0
Net Interest (Exp)/Inc	249	(24)	(27)	159	382
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(115,488)</b>	<b>2,762</b>	<b>3,791</b>	<b>24,013</b>	<b>39,467</b>
Tax	(2)	(523)	(1,896)	(2,401)	(3,947)
Minority Interest	(15)	(3)	562	(2,442)	(4,756)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>(115,505)</b>	<b>2,236</b>	<b>2,458</b>	<b>19,170</b>	<b>30,764</b>
Net Profit before Except.	(115,505)	2,236	2,458	19,170	30,764
EBITDA	(110,370)	6,970	7,317	28,592	44,734
<b>Growth</b>					
Revenue Gth (%)	92.3	49.5	26.0	56.0	36.0
EBITDA Gth (%)	(508.7)	N/A	5.0	290.7	56.5
Opg Profit Gth (%)	189.7	(124.2)	23.8	558.7	76.6
Net Profit Gth (%)	(510.6)	N/A	9.9	680.0	60.5
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	23.2	33.1	33.5	39.0	40.5
Opg Profit Margin (%)	(17.0)	2.7	2.7	11.4	14.8
Net Profit Margin (%)	(177.1)	2.3	2.0	10.0	11.8
ROAE (%)	(502.8)	2.5	2.6	18.8	27.6
ROA (%)	(113.1)	1.8	1.7	10.1	11.8
ROCE (%)	(14.4)	2.3	1.5	13.1	16.1
Div Payout Ratio (%)	N/A	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	111.6	123.7	NM	NM

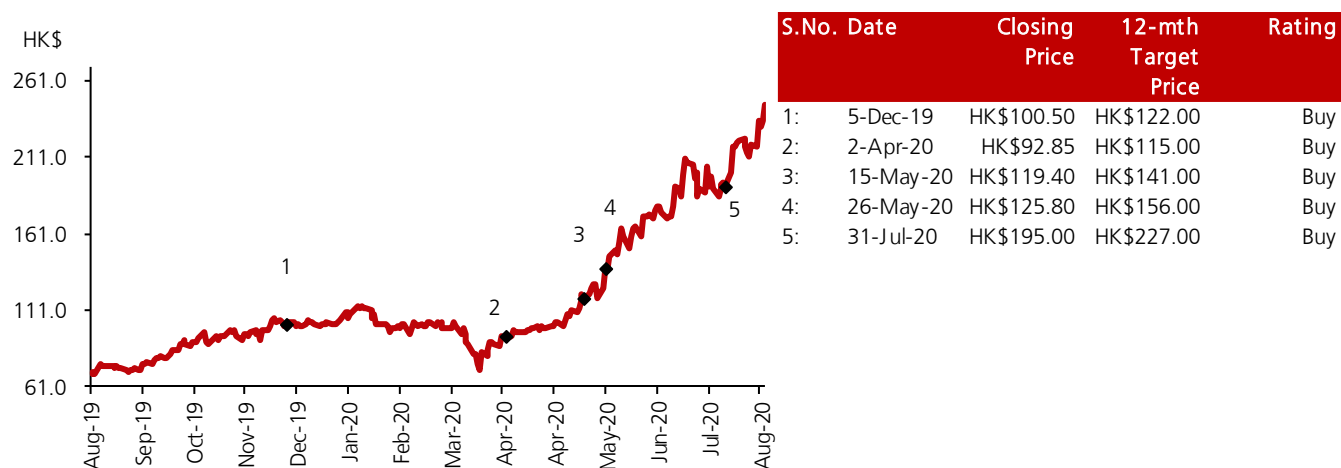
Source: Company, DBS HK

**Balance Sheet (RMB m)**

<b>FY Dec</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Net Fixed Assets	3,979	5,376	6,623	9,298	11,241
Invt in Associates & JVs	2,103	2,284	2,813	3,950	4,775
Other LT Assets	41,430	42,218	52,007	73,018	88,270
Cash & ST Invt	58,874	62,832	75,204	102,653	149,581
Inventory	4,256	8,760	10,485	14,312	20,855
Debtors	466	677	810	1,106	1,611
Other Current Assets	9,553	9,866	11,809	16,120	23,488
<b>Total Assets</b>	<b>120,662</b>	<b>132,013</b>	<b>159,751</b>	<b>220,456</b>	<b>299,820</b>
ST Debt	1,800	3,553	3,553	3,553	3,553
Creditors	0	0	0	0	0
Other Current Liab	30,025	33,040	39,457	40,539	48,590
LT Debt	470	467	467	467	467
Other LT Liabilities	1,857	2,899	17,966	70,463	129,890
Shareholder's Equity	86,504	92,112	98,370	105,502	117,395
Minority Interests	5	(58)	(62)	(66)	(74)
<b>Total Cap. &amp; Liab.</b>	<b>120,662</b>	<b>132,013</b>	<b>159,751</b>	<b>220,456</b>	<b>299,820</b>
Non-Cash Wkg. Capital	(15,749)	(13,737)	(16,353)	(9,001)	(2,636)
Net Cash/(Debt)	56,604	58,813	71,185	98,634	145,561
Debtors Turn (avg days)	2.5	2.1	2.2	1.8	1.9
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	35.5	38.9	44.9	40.3	42.9
Asset Turnover (x)	0.6	0.8	0.8	1.0	1.0
Current Ratio (x)	2.3	2.2	2.3	3.0	3.8
Quick Ratio (x)	1.9	1.7	1.8	2.4	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	99.2	121.3	56.0	56.0	56.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

## Target Price &amp; Ratings History



Source: DBS HK

Analyst: Kennis Lau

Tsz-Wang TAM, CFA

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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