

## Meituan Group, Inc. (SEHK: 03690)

### Douyin is the next swing factor, DG to HOLD

- Meituan reported a weak 4Q21 guidance, in which food delivery (FD)/in-store revenues are expected to grow 18%/22% YoY, vs 3Q21's 28%/33%. This is due to high penetration, weak macro, sporadic COVID cases and competition from Eleme.
- In the mid-to-long run, we worry more about Douyin's impact on local service, in which we argue investors underestimate. Our recent channel check suggests that there has been great enthusiasm among local restaurants to embrace Douyin as a new marketing channel.
- We downgrade Meituan to HOLD with TP HK\$ 260, which implies 3X PS/40X PE/2X PS for FD/in-store/new initiative in 2022.

### Slowed growth of FD will be a mid-to-long trend

We think penetration rate of FD has been reaching high level, and the slowed revenue growth will continue for the next several years. We estimate that Meituan/Elemé's food delivery daily volume reached to about ~44mn/20mn in 3Q21, so total daily food delivery volume is est. to be about ~65mn. Among customer groups, we estimate that FD penetration rate within college students and white collars, the two core customer groups of food delivery, reached to about 65%/50% in 2021. Alternatively, FD market size as % of dining industry increased from 2015's 2% to 2021's 21%, and is likely to slowly increase to 2025's ~30%. Therefore, we cut our forecasts of Meituan's 2022 food delivery volume growth from 28% to 21%, and suggest that it will reach 72 mn per day by 2025, lower than company's 100 mn long-term guidance.

### Douyin regains momentum in local service business

We recently visited some chain store restaurants in Shanghai, where most of the innovative breakthroughs in the dining industry took place. The key takeaway is restaurants have been leveraging much resources to Douyin after Douyin made some key changes in product design and subsidy policies to support local service merchants in July/August. Previously, Douyin only had ranking pages for restaurants, but now include more restaurant review videos by food influencers (探店视频) and restaurants live-streaming shows to sell coupons. The new video programs have a higher conversion rate because it's more matched with Douyin's original video format. Meanwhile, Douyin launched more subsidy (TBC)

### Summary financial data

Highlights	2019A	2020A	2021E	2022E	2023E
Revenues (RMB mn)	97,529	114,795	178,853	243,108	318,875
Non-IFRS operating profit (RMB mn)	3,070	159	(16,314)	5,385	16,009
Non-IFRS EPS (RMB)	0.92	0.58	(2.70)	0.64	2.92
P/E (non-IRFR)	220	346	(75)	316	69
P/S	11	9	6	4	3

Source: Bloomberg, Blue Lotus (as of Dec. 1, 2021)

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All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

BUY

**HOLD**

SELL

Target Price: HK\$ 260

Current Price: HK\$ 244

RIC: (SEHK: 03690)

BBG: 3690 HK

Market cap (HK\$ mn)

1,494,441

Average daily volume (HK\$ mn)

7,678

Shares out/float (m)

5,456/4,034

Source: Bloomberg, Blue Lotus (as of Dec. 1, 2021)

### Key Changes

	New	Old	Diff
BLRI Recommendation	HOLD	BUY	-
BLRI Target Price	HK\$260	HK\$330	(21.3%)
2021E EPS (HK\$)	(3.24)	(2.72)	(19.1%)
2022E EPS (HK\$)	2.27	2.84	(20.1%)
2023E EPS (HK\$)	4.76	4.96	(4.0%)

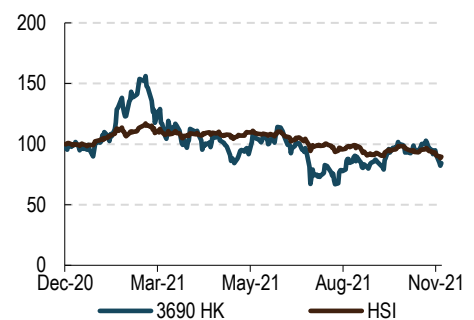
Source: Blue Lotus (as of Dec. 1, 2021)

### BLRI vs. The Street

No. of Bloomberg Recommendations	59
Target price vs. Bloomberg mean	(19.1%)
1-year-fwd EPS vs. Bloomberg mean	NM
Bloomberg recommendation	4.69

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of Dec. 1, 2021)

### Price performance and volume data



Source: Bloomberg (as of Dec. 1, 2021)

### Research team



**Zixiao Yang**

Managing Director

[research@blue-lotus.cn](mailto:research@blue-lotus.cn)

**Dingkun Chen**

# Meituan Group, Inc.: Financial Summary

Fiscal year ends 31-Dec

## Exhibit 1. Income statement

RMB mn	2020A	2021E	2022E
Revenues	114,795	178,853	243,108
Food delivery	66,265	95,780	120,912
In-store, hotel & travel	21,252	32,511	41,053
New initiatives and others	27,277	50,562	81,143
Gross profit	34,050	41,997	73,817
Operating expenses	(29,720)	(64,554)	(69,463)
Selling and marketing expenses	(20,883)	(38,821)	(44,259)
Research and development	(10,893)	(16,068)	(18,193)
General and administrative	(5,594)	(8,711)	(9,896)
Fair value changes on inv.	4,956	(37)	1,665
Other (losses)/ gains, net	2,693	(916)	1,221
Share base compensation	(3,277)	(5,054)	(6,383)
Amortization of intangibles	(1,131)	(1,789)	(2,431)
Operating profit, IFRS	4,330	(22,557)	4,354
Operating margin	3.77%	(12.6%)	1.8%
Operating profit, non-IFRS	159	(16,314)	12,769
Operating margin	0.1%	(9.1%)	5.3%
Pretax income	4,438	(22,758)	4,231
Income taxes expenses	270	28	(339)
Loss for the period	4,708	(22,730)	3,893
Loss for the period-non IFRS	3,121	(14,552)	10,276
Net margin	2.7%	(8.1%)	4.2%

Source: Meituan Group, inc., Blue Lotus (as of Dec. 1, 2021)

## Company Description

Meituan is one of the largest O2O local-living service platforms and its businesses include food delivery, in-store, hotel, travel, and others. In 2020, Meituan generated over 10.1bn (+16.3% YoY) transactions, totaling RMB 488bn (+24.5% YoY) in Gross Transaction Volume (GTV). Its GTV of the food delivery business is expected to account for about 68% of China's market share in 2020.

## Industry View

We estimate the GTV of online local living service market in CY2020 was about RMB 2.4tn and it would reach RMB 4.1tn in CY2023, growing at 3Yr CAGR of 20%.

## Exhibit 2. Balance sheet

RMB mn	2020A	2021E	2022E
Current assets	88,306	98,550	125,133
Inventory	466	791	978
Trade receivable	1,031	1,964	3,156
Prepayments, deposit	12,940	21,933	27,131
Short-term investments	43,999	43,999	43,999
Restricted cash	12,776	19,905	27,056
Cash and cash equivalents	17,094	10,287	22,802
Non-current assets	78,269	88,928	98,329
PPE	13,917	15,087	18,510
Intangible assets	31,676	31,708	30,805
Investments in equity method	13,181	13,281	13,381
Financial assets at f.v through PL	10,257	13,257	16,257
Total assets	166,575	187,478	223,462
Current liabilities	51,148	89,031	113,777
Trade payable	11,967	16,356	20,232
Payables to merchants	9,415	15,821	19,401
Advance from transacting users	4,308	6,712	9,123
Other payables and accruals	10,557	15,157	18,749
Non-current liabilities	17,793	18,045	18,561
Total liabilities	68,941	107,075	132,338
Equity	97,634	80,403	91,123
Share premium	263,155	263,600	264,045
Accumulated losses	(159,201)	(181,931)	(178,038)
Total equities and liabilities	166,575	187,478	223,462

Source: Meituan Group, inc., Blue Lotus (as of Dec. 1, 2021)

## Exhibit 3. Cash flow statement

RMB mn	2020A	2021E	2022E
Profit/Loss before income tax	4,438	(22,758)	4,231
Adjustment For			
Depreciation and amortization	5,194	7,256	8,635
Share based compensation	3,277	5,054	6,383
Change in f.v from investment	(4,956)	37	(1,665)
Change in working capitals	1,896	4,645	4,106
Cash flows from operating activities			
Income tax paid	(86)	28	(339)
Net cash generated from operating activities	8,475	(5,615)	21,665
Cash flows from investing activities			
Purchase of PPE	(11,223)	(9,282)	(12,373)
Proceeds from disposals of PPE	280	2,967	3,111
Purchase of intangible assets	(23)	(42)	(57)
Proceeds from disposals of intangible assets	0	723	23
Payments for combination, net of cash acquired	(27)	(500)	(500)
Acquisition and disposal of investments	(7,327)	(3,000)	(3,000)
Interest income received	0	438	273
Increase in prepayment for investments	(19)	6,107	3,530
Net cash generated from investing activities	(21,232)	(687)	(9,093)
Cash flows from financing activities			
Proceed from issuance of ordinary shares	0	0	0
Exercise of option and RSU vesting	445	445	445
Net cash generated from financing activities	17,418	(504)	(58)
Cash and cash equivalents, end of year	17,094	10,287	22,802

Source: Meituan Group, inc., Blue Lotus (as of Dec. 1, 2021)

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## Impact to local service is underestimated

- **(Continued):** campaigns to support food influencers, MCNs, and agencies. For example, Douyin offers a 10% rebate and traffic support to local service live streaming shows.
- **Restaurants have great enthusiasm about Douyin:** We listed the top 100 chain restaurant brands in China and find that: 1) Over 60% of the brands have tried live streaming with Douyin, while more than 20% of brands broadcast everyday. More than 75% of restaurants have coupons available-for-sale. 2) Traditional Chinese restaurants are more hesitant with live streaming, while foreign fast food chain stores are embracing Douyin. (See Exhibit 4). By researching coupons on Douyin and Dianping (fast food chain stores as samples), we found that coupons on Douyin was sold 5-10% cheaper than Dianping's.
- **We see there are several factors behind the trend:** 1) take rate from traditional channels like Dianping is too high, and restaurants emphasize more on building up multichannel strategy, just like what happened in the eCommerce industry; 2) Restaurant reviewing video is a popular content genre on Douyin; 3) Douyin's subsidy plan helps to build up the ecosystem, which include more MCNs, Douyin partners, and agencies. Participation of agencies lower the barriers for restaurants to produce video content.
- **Douyin has a long-term commitment to local service:** Douyin has been trying to penetrate to local service since 2019, but have had limited achievement. Yet, we see Douyin will continue to leverage resources to local service because: 1) the new strategy to cooperate local service merchants with video content proves to be successful, and the ecosystem is emerging; 2) Douyin's advertising revenue has been hit by the weak macro economy and regulation after 2Q21. However, local service becomes important advertisers. We estimate that total ads revenue and commissions from local service merchants to reach about RMB 15 bn on Douyin in 2021, making local service the third largest advertiser on Douyin, right after eCommerce and online gaming; 3) local service TAM is very large. Douyin also gained more experience from its success in eCommerce live streaming; 4) local service is very important to Douyin's content ecosystem. Kuaishou is well-known for its social connection in low-tier cities. If Douyin could provide more on-the-ground content, then more low-tier cities users will migrate to Douyin.
- **Difficulty still remains:** There are also some key challenges for local-service merchants, and we see some of these challenges could be resolved. But some are more related to the fundamental difference between Douyin and Dianping:
  - 1) The conversion rate is naturally low because customers watch Douyin without specific purpose. For restaurant reviewing videos, the conversion rate (number of people who come on site/number of total viewership) is less than 1%. For live-streaming shows, the verification rate (number of people who come to the restaurants and use the coupon/number of coupons sold) is about 30% in average vs Dianping's 70%-80%. We interviewed some agencies that could raise the verification rate to 50% by pushing notices to users, which is still lower than Dianping's.
  - 2) High cost with low profitability. Most of the restaurants outsource the livestreaming work to professional performer/agencies. So, enough number of offline chain stores will be very important because it ensures the verification rate and also dilutes the production cost paid to performers.

*At this time, logic behind Dianping and Douyin's coupon sales is still different. Users tend to use Dianping to "search" for coupons, while Douyin short video "promotes" coupons to users based on interest*

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Exhibit 5 shows our estimate of cost structure of two chain-store restaurants, and the final net margin is about 2%-5%, lower than the regular net margin 5%-10% in offline stores. Also, the subsidy to merchants is critical because it covers much of the cost. In the long run; we see that traffic acquisition spending on Douyin could have more leverage if merchants could accumulate enough number of followers. In general, although the margin is low, or sometimes even a loss, most restaurants are still willing to invest because it's just the beginning, and they could gain traffic and branding when Douyin offers subsidies.

3) Merchants still see Dianping as an important channel even though they launch marketing campaigns on Douyin. For example, some customer will go to Dianping to check the restaurants' scores and reviews after they see the ads on Douyin. Some restaurants complain that their Dianping scores will be dragged if they sell too many coupons but couldn't offer qualified service because too many customers come to the store.

- Douyin is also considering launching food delivery business:** There are several directions for Douyin in local service: 1) expand the live-streaming and food-reviewing videos to second and third low-tier cities because it's still greatly concentrated in a few first-tier cities and very few restaurants; 2) expand to more local service merchants, including hotels, pet stores, baby&mother product stores, entertainment facilities, gym and sports center, etc; 3) Xindong food delivery (心动外卖), or the food delivery business by Douyin. Douyin encountered a lot of issues in launching a food-delivery business because it's more emphasizing delivery efficiency. Yet, there could still be opportunity if Douyin could collect users' demand in advance through video content, and deliver to customers in a certain time slot, so the rider cost could be diluted.
- Impact to Dianping is largely underestimated:** Douyin's total revenue from local service is still small. Although we estimate that total ads revenue and commissions from local service merchants reaches about RMB 15 bn on Douyin in 2021, a detailed breakdown indicates that only 3-5 bn are advertisement fees paid by merchants, 5-7 bn are subsidies offered by Douyin, and 3-5 bn are coupon's GMV. So Douyin's ads/GMV are only about 25%/2% as of Meituan+Dianping's in 2021. Also, Douyin has been doing this business since 2019, and didn't pose much impact on Meituan for the past two years. However, as we present in this note, we see the recent months' momentum is growing very fast. Meituan's in-store business might not experience much impact from Douyin in the next 1-2 quarters, but will be likely be under increasing pressure in the long run.
- Cut forecast of in-store and DG to HOLD:** About 25%-30% of Meituan's in-store revenue is contributed by local dining merchants. If Douyin could impact some high-end and chain-store restaurants (which est. takes about 60%-70% of total ads), and successfully attract about 20%-30% ads spending from Dianping to Douyin in 2022, then Meituan will lose about 3%-5% (30%\*60%\*25%) in-store revenue to Douyin in 2022. Hence, we cut our forecast of Meituan's 2022 in-store revenue growth from 34% to 26% YoY. Our FY22 revenue estimate is 2% below consensus. We DG Meituan to HOLD with TP HK\$ 260, which implies 3X PS/40X PE/2X PS for FD/in-store/new initiative in 2022

*FD service is asset-heavier than in-store business due to fulfillment requirement. Douyin may overcome this problem and differentiate itself from Meituan, if they find opportunities in "pre-order food delivery".*

#### Exhibit 4. Restaurant Brands and live-streaming status

Name of Brand	Type	Live stream w/ Douyin?	Frequency
KFC	Western, Fast food	Yes	Daily
Dicos	Western, Fast food	Yes	Daily
Mcdonald	Western, Fast food	Yes	Daily
Burger King	Western, Fast food	Yes	Daily
Xibei	Chinese, Fast food	Yes	10 per month
Xiabuxiabu	Chinese, Hot Pot	Yes	Daily
Haidilao	Chinese, Hot Pot	No	-
HEYTEA	Bubble Tea	No	-
Tang Palace	Chinese, traditional	No	-
Wufangzhai	Chinese, Dim Sum	Yes	Daily

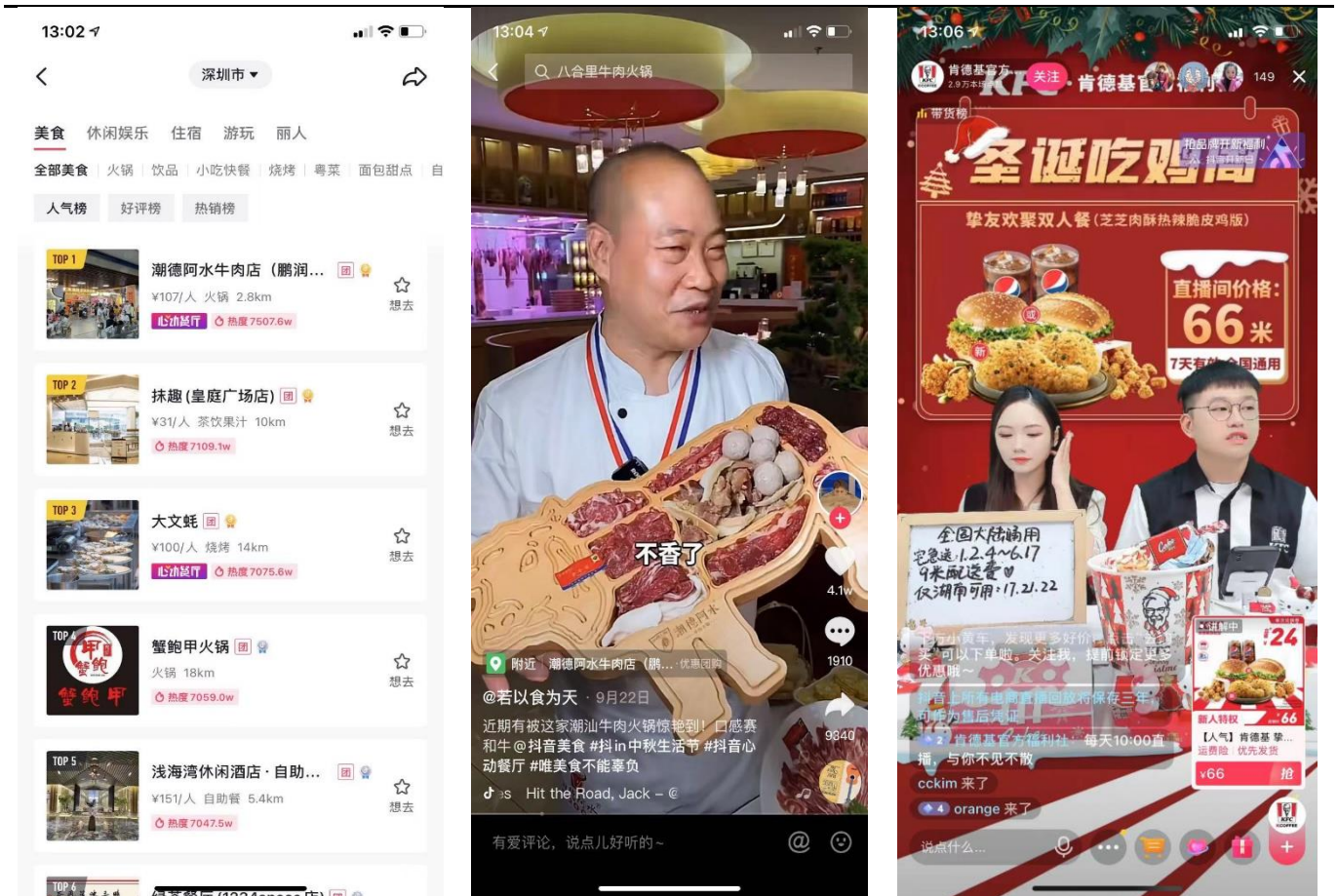
Source: Douyin, Blue Lotus (as of Dec. 1, 2021)

#### Exhibit 5. Cost Structure of Chinese restaurant brand

	Restaurant No.1 Chinese fast food	Restaurant No.2 Hot pot
Number of stores	200	150
ASP	30	200
Average GMV per live streaming show (RMB)	100K	20 mn
Live streaming frequency	4 times/month	1 time/month
Gross profit per live streaming show	5K	1 mn
+ Douyin's subsidy	10K	3 mn
- Payout to performers/agencies	10K	0.5 mn
- Traffic acquisition spending on Douyin	3K	2.5 mn
Net profit per live streaming show	2K	1 mn
Net margin	2%	5%

Source: Blue Lotus estimated (as of Dec. 1, 2021)

#### Exhibit 6. Restaurant rank pages vs. Food influencer visits and review vs. Live streaming of restaurants



Source: Douyin, Blue Lotus (as of Dec. 1, 2021)

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**Exhibit 7. Meituan C3Q21 review table**

RMB mn	C3Q21A	C3Q21E	Vs our est	C3Q21C	Vs Cons.	C3Q20A	YoY	C2Q21A	QoQ
Revenues	48,829	50,168	(2.7%)	48,573	0.5%	35,401	37.9%	43,759	11.6%
Food delivery	26,485	27,370	(3.2%)			20,693	28.0%	23,125	14.5%
In-store, hotel & travel	8,621	8,386	2.8%			6,478	33.1%	8,602	0.2%
New initiatives and others	13,723	14,413	(4.8%)			8,230	66.7%	12,032	14.1%
Cost of revenues	(38,051)	(40,889)	(6.9%)			(24,578)	54.8%	(31,246)	21.8%
Gross profit	10,778	9,279	16.2%	11,565	(6.8%)	10,823	(0.4%)	12,513	(13.9%)
Gross margin	22.1%	18.5%	3.6ppt	23.8%	(1.7ppt)	30.6%	(8.5ppt)	28.6%	(6.5ppt)
Operating expenses	(20,881)	(15,109)	38.2%			(4,099)	409.4%	(15,765)	32.4%
% of revenues	42.8%	30.1%	12.6ppt			11.6%	31.2ppt	36.0%	6.7ppt
Selling and marketing expenses	(11,388)	(9,775)	(16.5%)			(5,836)	95.2%	(10,849)	5.0%
% of revenues	23.3%	19.5%				16.5%		24.8%	
Research and development	(4,716)	(4,209)	(12.0%)			(2,970)	58.8%	(3,901)	20.9%
% of revenues	9.7%	8.4%				8.4%		8.9%	
General and administrative	(2,387)	(2,005)	(19.0%)			(1,415)	68.7%	(2,053)	16.3%
% of revenues	4.9%	4.0%				4.0%		4.7%	
Operating profit, IFRS	(10,103)	(5,829)	(73.3%)	(7,301)	(38.4%)	6,724	(250.3%)	(3,252)	211%
Operating margin, IFRS	(20.7%)	(11.6%)	(9.1ppt)	(15.0%)	(5.7ppt)	19.0%	(39.7ppt)	(7.4%)	(13.3ppt)
Food delivery	3.3%	3.2%	0.1ppt			3.7%	(0.4ppt)	10.6%	(7.3ppt)
In-store, hotel & travel	43.9%	40.0%	3.9ppt			43.0%	86.6%	42.6%	130.0%
New initiatives and others	(79.5%)	(69.6%)	(9.9ppt)			(24.7%)	(54.8ppt)	(76.8%)	(2.7ppt)
Pretax income/(loss)	(10,000)	(9,291)	(8%)	(7,021)	(42.4%)	6,751	NM	(3,365)	(197.2%)
Pre-tax margin	(20.5%)	(18.5%)	(2.0ppt)	(14.5%)	(6.0ppt)	19.1%	(39.5ppt)	(7.7%)	(12.8ppt)
Gain/Loss for the period IFRS	(9,994)	(9,269)	(7.8%)	(7,041)	(41.9%)	6,321	NM	(3,356)	(197.8%)
Gain/Loss for the period-non IFRS	(5,527)	(4,472)	(23.6%)	(5,244)	(5.4%)	2,055	NM	(2,217)	(149.3%)
Net margin-non IFRS	(11.3%)	(8.9%)	(2.4ppt)	(10.8%)	(0.5ppt)	5.8%	(17.1ppt)	(5.1%)	(6.3ppt)

Source: Meituan Group, inc, Bloomberg, Blue Lotus (as of Dec. 1, 2021)

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