

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

### 1H22 is priced in, UG to BUY for eased competition

- Douyin's commission policy starting 2Q22 is likely to hurt its growth momentum, and pressure on Meituan's in-store segment will be eased. We estimate Douyin's local service GTV to reach RMB 35bn in 2022, vs. Meituan's RMB 370bn.
- We cut 2Q22 FD/in-store revenue growth estimate from 20%/20% YoY to 5%/3% YoY for lockdown in major cities throughout second quarter.
- Price of Meituan has been adjusted (40%) YTD, which reflected concerns over poor 1H22 performance. We upgrade Meituan to BUY rating for eased competitive pressure, as well as narrowed loss of RMB 3bn from new initiatives. Our TP of HK\$ 170 implies 2X PS/20X PE/1X PS for Food delivery/in-store/new initiatives in FY2022.

### Competition from Douyin is limited

We previously pointed out that Douyin was actively promoting in-store dining/entertainment videos and achieve substantial GTV starting 4Q21. Recent channel check shows that the growth momentum may slow this year: 1) Higher requirements for merchants. Merchants either have to continuously upload videos onto Douyin, or hire third-party service providers to create such content. 2) Higher marketing cost. If hiring third-party service providers, merchants could pay up to 15% of revenue as advertising budget, which is relatively high compared to Dianping's 5-8%. 3) Douyin may start to charge 2-8% commission fee starting 2Q22, which further increases merchants' spending. We estimate that Douyin's GMV of in-store dining/entertainment will reach RMB 15bn/20bn in 2022, vs. Meituan's 130bn /140bn.

### Lockdowns lead to flattish local service growth

Our house view believes is that the lockdowns will continue to prevent most Shanghai citizens to access Meituan's service until May. Other major cities, like Beijing, are also impacted. Channel check data also shows that two weeks lockdown in March dragged FD order growth from 19% YoY to 10% YoY. Since Shanghai/Beijing each contributes about 15%/10% of Meituan's orders, we cut 2Q22 revenue growth estimate of FD/in-store from 20%/20% YoY to 5%/3% YoY. On the other hand, we see that Meituan Maicai (美团买菜) has (TBC)

### Summary financial data

| Highlights                   | 2020A   | 2021A    | 2022E   | 2023E   | 2024E   |
|------------------------------|---------|----------|---------|---------|---------|
| Revenues (RMB mn)            | 114,795 | 179,128  | 225,753 | 304,849 | 375,203 |
| Non-IFRS net profit (RMB mn) | 3,121   | (15,572) | (3,248) | 13,141  | 15,821  |
| Non-IFRS EPS (RMB)           | 0.58    | (2.58)   | (0.52)  | 2.09    | 2.50    |
| P/E (non-IFRR)               | 205     | (46)     | (230)   | 57      | 48      |
| P/S                          | 5.7     | 3.7      | 2.9     | 2.1     | 1.7     |

Source: Bloomberg, Blue Lotus (as of Apr. 25, 2022)

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Blue Lotus Capital Advisors Limited

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**BUY** **HOLD** **SELL**

|                                |                                |
|--------------------------------|--------------------------------|
| <b>Target Price: HK\$ 170</b>  | <b>Current Price: HK\$ 141</b> |
| RIC: (SEHK: 03690)             | BBG: 3690 HK                   |
| Market cap (HK\$ mn)           | 855,626                        |
| Average daily volume (HK\$ mn) | 6,403                          |
| Shares out/float (m)           | 5,504/4,082                    |

Source: Bloomberg, Blue Lotus (as of Apr. 25, 2022)

### Key Changes

|                     | New     | Old     | Diff  |
|---------------------|---------|---------|-------|
| BLRI Recommendation | BUY     | HOLD    | -     |
| BLRI Target Price   | HK\$170 | HK\$158 | 7.6%  |
| 2022E EPS (HK\$)    | (0.62)  | (0.91)  | 31.8% |
| 2023E EPS (HK\$)    | 2.51    | 2.44    | 2.9%  |
| 2024E EPS (HK\$)    | 3.00    | 2.92    | 2.7%  |

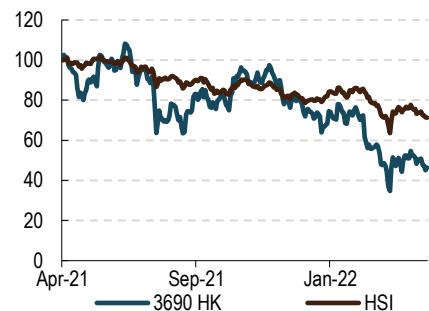
Source: Blue Lotus (as of Apr. 25, 2022)

### BLRI vs. The Street

|                                   |         |
|-----------------------------------|---------|
| No. of Bloomberg Recommendations  | 63      |
| Target price vs. Bloomberg mean   | (28.3%) |
| 1-year-fwd EPS vs. Bloomberg mean | 60.7%   |
| Bloomberg recommendation          | 4.71    |

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of Apr. 25, 2022)

### Price performance and volume data



Source: Bloomberg (as of Apr. 25, 2022)

### Research team



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# Meituan Group, Inc.: Financial Summary

Fiscal year ends 31-Dec

## Exhibit 1. Income statement

| RMB mn                         | 2021A    | 2022E    | 2023E    |
|--------------------------------|----------|----------|----------|
| Revenues                       | 179,128  | 225,753  | 304,849  |
| Food delivery                  | 96,312   | 111,463  | 135,768  |
| In-store, hotel & travel       | 32,530   | 37,614   | 48,641   |
| New initiatives and others     | 50,286   | 76,676   | 120,440  |
| Gross profit                   | 42,474   | 62,474   | 97,221   |
| Operating expenses             | (65,601) | (73,594) | (93,353) |
| Selling and marketing expenses | (40,683) | (43,523) | (57,247) |
| Research and development       | (16,676) | (20,142) | (26,284) |
| General and administrative     | (8,613)  | (9,930)  | (12,494) |
| Fair value changes on inv.     | 807      | 0        | 1,921    |
| Other (losses)/ gains, net     | (437)    | 0        | 752      |
| Share base compensation        | (5,194)  | (6,164)  | (7,713)  |
| Amortization of intangibles    | (1,791)  | (2,258)  | (3,048)  |
| Operating profit, IFRS         | (23,127) | (11,120) | 3,868    |
| Operating margin               | (12.9%)  | (4.9%)   | 1.3%     |
| Operating profit, non-IFRS     | (17,259) | (3,404)  | 13,141   |
| Operating margin               | (9.6%)   | (1.5%)   | 4.3%     |
| Pre-tax income                 | (23,566) | (11,505) | 4,014    |
| Income taxes expenses          | 30       | 18       | (401)    |
| Loss for the period            | (23,536) | (11,487) | 3,613    |
| Loss for the period-non IFRS   | (15,572) | (3,248)  | 13,141   |
| Net margin                     | (8.7%)   | (1.4%)   | 4.3%     |

Source: Meituan Group, inc., Blue Lotus (as of Apr. 25, 2022)

## 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 estimated to account for about 66% of China's market share in 2021.

## Industry View

We estimate the GTV of online local living service market in CY2021 was about RMB 2.9tn and it would reach RMB 4.8tn in CY2024, growing at 3Yr CAGR of 18%.

## Exhibit 2. Balance sheet

| RMB mn                         | 2021A     | 2022E     | 2023E     |
|--------------------------------|-----------|-----------|-----------|
| Current assets                 | 147,829   | 151,688   | 176,927   |
| Inventory                      | 682       | 815       | 1,036     |
| Trade receivable               | 1,793     | 2,711     | 4,271     |
| Prepayments, deposit           | 15,282    | 18,259    | 23,218    |
| Short-term investments         | 84,282    | 84,282    | 84,282    |
| Restricted cash                | 13,277    | 16,733    | 22,595    |
| Cash and cash equivalents      | 32,513    | 28,888    | 41,525    |
| Non-current assets             | 92,825    | 85,575    | 93,776    |
| PPE                            | 22,814    | 17,728    | 22,019    |
| Intangible assets              | 31,049    | 30,801    | 29,905    |
| Investments in equity method   | 13,869    | 13,969    | 14,069    |
| Financial assets through PL    | 14,300    | 17,300    | 20,300    |
| Total assets                   | 240,653   | 237,263   | 270,704   |
| Current liabilities            | 68,593    | 69,823    | 91,097    |
| Trade payable                  | 15,166    | 18,120    | 23,042    |
| Payables to merchants          | 10,951    | 12,921    | 16,223    |
| Advance from transacting users | 5,171     | 6,517     | 8,800     |
| Other payables and accruals    | 18,401    | 21,986    | 27,958    |
| Non-current liabilities        | 46,504    | 46,762    | 47,157    |
| Total liabilities              | 115,097   | 116,585   | 138,255   |
| Equity                         | 125,557   | 120,678   | 132,449   |
| Share premium                  | 311,221   | 311,666   | 312,111   |
| Accumulated losses             | (182,742) | (194,229) | (190,616) |
| Total equities and liabilities | 240,653   | 237,263   | 270,704   |

Source: Meituan Group, inc., Blue Lotus (as of Apr. 25, 2022)

## Exhibit 3. Cash flow statement

| RMB mn   | 2021A    | 2022E    | 2023E    |
|--|----------|----------|----------|
| Profit/Loss before income tax                  | (23,566) | (11,505) | 4,014    |
| Adjustment For                                 |          |          |          |
| Depreciation and amortization                  | 7,258    | 8,545    | 10,185   |
| Share based compensation                       | 5,194    | 6,164    | 7,713    |
| Change in fv from investment                   | (807)    | 0        | (1,921)  |
| Change in working capitals                     | 7,458    | 3,830    | 6,307    |
| Cash flows from operating activities           | (4,042)  | 7,791    | 26,391   |
| Income tax paid                                | 30       | 18       | (401)    |
| Net cash generated from operating activities   | (4,011)  | 7,809    | 25,990   |
| Cash flows from investing activities           |          |          | 0        |
| Purchase of PPE                                | (9,296)  | (11,490) | (15,210) |
| Proceeds from disposals of PPE                 | 2,967    | 3,113    | 3,963    |
| Purchase of intangible assets                  | (42)     | (53)     | (71)     |
| Proceeds from disposals of intangible assets   | 723      | 23       | 23       |
| Payments for combination, net of cash acquired | (500)    | (500)    | (500)    |
| Acquisition and disposal of investments        | (4,043)  | (3,000)  | (3,000)  |
| Interest income received                       | 546      | 600      | 0        |
| Increase in prepayment for investments         | (5,407)  | 659      | 1,097    |
| Net cash generated from investing activities   | (58,492) | (10,748) | (13,798) |
| Cash flows from financing activities           |          |          | 0        |
| Proceed from issuance of ordinary shares       | 78,598   | (686)    | 445      |
| Exercise of option and RSU vesting             | 0        | 0        | 0        |
| Net cash generated from financing activities   | 78,598   | (686)    | 445      |
| Cash and cash equivalents, end of year         | 32,513   | 28,888   | 41,525   |

Source: Meituan Group, inc., Blue Lotus (as of Apr. 25, 2022)

See the last page of the report for important disclosures

## Layoff will save RMB 3bn cost

- **(Continued):** significantly acquire user mindshare during lockdowns: It was reported by Latepost(local media) that Dingdong, Meituan, and Freshippo were the only platforms that remained functional in the lockdowns, and each platform could contribute 10% of total grocery spending in Shanghai. The resilient last-mile delivery team and self-owned station fulfillment station was the key reason.
- **Expect narrowed loss brought by headcount adjustments:** It was reported that Meituan plans to lay off 15% of its employees in April, mainly from community group buying and in-store segment. Our channel check has revealed that Meituan is likely to withdraw from 4 western provinces of China, including Xinjiang, Jiangsu, Inner-Mongolia, and Ningxia. Our estimate indicates that these four provinces contribute RMB 20bn, or 10% of total community group buying GMV in 2022, with a 2bn operating loss. We estimate that the headcount decrease and regional shutdowns will help to decrease annual loss of RMB 3bn in FY2022. We adjust our 2022 non-IFRS loss estimate from RMB (5.7)bn to RMB(2.6)bn, vs consensus estimate of RMB(8.5)bn.
- **UG to BUY w/ TP HK\$ 170:** We upgrade Meituan to BUY rating for lower competitive pressure from Douyin, and significantly narrowed loss of RMB (2.6)bn in 2022, vs RMB (17.3)bn of 2021. We raise TP to HK \$ 170, implying 2X PS/20X PE/1X PS for FD/in-store/new initiatives.

*It is possible that Meituan Select further withdraw from top tier cities like Shanghai and Beijing, due to increasing popularity of Meituan Maicai.*

**Exhibit 4. Meituan C1Q22 preview table**

| RMB mn                         | C1Q22E   | C1Q22C   | Diff% vs Cons | C4Q21A   | QoQ    | C1Q21A   | YoY    | C2Q22E   |
|--------------------------------|----------|----------|---------------|----------|--------|----------|--------|----------|
| Revenues                       | 45,523   | 45,581   | (0.1%)        | 49,523   | (8%)   | 37,016   | 23%    | 50,363   |
| Food delivery                  | 23,925   |          |               | 26,127   | (8%)   | 20,575   | 16%    | 24,295   |
| In-store, hotel & travel       | 7,575    |          |               | 8,722    | (13%)  | 6,584    | 15%    | 8,869    |
| New initiatives and others     | 14,023   |          |               | 14,674   | (4%)   | 9,856    | 42%    | 17,198   |
| Cost of revenues               | (33,475) | (35,457) | (5.6%)        | (37,541) | (11%)  | (29,816) | 12%    | (37,063) |
| Food delivery                  | (15,768) |          |               | (18,315) | (14%)  | (13,506) | 17%    | (16,374) |
| In-store, hotel & travel       | (758)    |          |               | (959)    | (21%)  | (724)    |        | (887)    |
| New initiatives and others     | (16,950) |          |               | (18,265) | (7%)   | (15,170) | 12%    | (19,801) |
| Gross profit                   | 12,048   | 10,124   | 19%           | 11,983   | 1%     | 7,200    | 67%    | 13,300   |
| Gross margin                   | 26%      | 22%      | 4.3ppt        | 24%      | 2.3ppt | 19%      | 7.0ppt | 26%      |
| Food delivery                  | 34%      |          |               | 30%      |        | 34%      |        | 33%      |
| In-store, hotel & travel       | 90%      |          |               | 89%      |        | 89%      |        | 90%      |
| New initiatives and others     | -21%     |          |               | -24%     |        | (53.9%)  |        | (15.1%)  |
| Operating expenses             | (15,139) |          |               | (16,988) |        | (11,967) |        | (16,417) |
| % of revenues                  | 33.3%    |          |               | 34%      |        | 32%      |        | 33%      |
| Selling and marketing expenses | (8,863)  |          |               | (11,240) |        | (7,206)  |        | (9,968)  |
| % of revenues                  | 19%      |          |               | 23%      |        | 19%      |        | 20%      |
| Research and development       | (4,276)  |          |               | (4,582)  |        | (3,477)  |        | (4,238)  |
| % of revenues                  | 9%       |          |               | 9%       |        | 9%       |        | 8%       |
| General and administrative     | (2,000)  |          |               | (2,435)  |        | (1,737)  |        | (2,212)  |
| % of revenues                  | 4%       |          |               | 5%       |        | 5%       |        | 4%       |
| Operating profit/loss, IFRS    | (3,091)  | (5,510)  | 44%           | (5,006)  | 38%    | (4,767)  | 35%    | (3,117)  |
| Operating margin               | (7%)     | (12%)    | 5.3ppt        | (10%)    | 3.3ppt | (13%)    | 6.1ppt | (6%)     |
| Loss for the period            | (3,116)  | (5,992)  | 48%           | (5,339)  | 42%    | (4,846)  | 36%    | (3,183)  |
| Loss for the period-non IFRS   | (1,351)  | (4,536)  | 70%           | (3,936)  | 66%    | (3,892)  | 65%    | (1,296)  |
| Net margin-non IFRS            | (3%)     | (10%)    | 7.0ppt        | (8%)     | 5.0ppt | (11%)    | 7.5ppt | (3%)     |

Source: Meituan Group, inc, Bloomberg, Blue Lotus (as of Apr. 25, 2022)

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