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2019 年 7 月 9 日

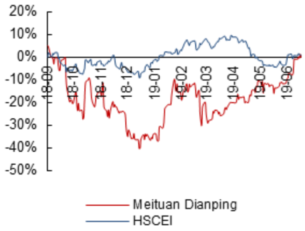
增持

首次覆盖

Market Data: 5 July, 2019

Closing Price (HK$)	69.10
Price Target (HK$)	79.00
HSCEI	10895
HSCCI	4519
52-week High/Low (HK$)	74.0/40.3
Market Cap (US$bn)	45
Market Cap (HK$bn)	348
Shares Outstanding (Mn)	5041
Exchange Rate (HK$-US$)	7.78

Price Performance Chart:



Source: Bloomberg

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生活服务生态逐渐完善，壁垒加强

美团点评 (03690:HK)

Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (Rmbm)	33,928	65,227	90,487	116,105	138,929
YoY (%)	161.2	92.3	38.7	28.3	19.7
Adj. Net income (Rmbm)	-2,853	-8,517	-3,020	4,085	10,951
YoY (%)	n.a.	n.a.	n.a.	n.a.	168.1
Adj. EPS (Rmb)	-1.87	-3.13	-0.60	0.81	2.18
Adj. Diluted EPS (Rmb)	-1.87	-3.13	-0.60	0.81	2.18
ROE (%)	8.62	-37.08	-3.61	5.02	12.86
Debt/asset (%)	32	-21	-34	-51	-84
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/E (x)	(31.7)	(18.9)	(98.1)	72.6	27.1
P/B (x)	(2.2)	1.9	3.7	3.6	3.3
EV/EBITDA (x)	(22.1)	(33.7)	84.8	23.3	12.2

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

美团点评是中国领先的生活服务公司，在餐饮外卖领域占有约 65%的市场份额，并为消费者提供各种的到店和按需服务。中国外卖市场不断扩张，到店业务的变现能力不断提高，非餐饮配送市场和相关 B2B 服务也迎来了更多的可能性。我们预计 2019 年调整后的每股收益为-0.6 元，2020 年转为正值 0.8 元，并在 2021 年达到 2.2 元，同比增长 168%。我们给予外卖 40 倍 2021 年的预期市盈率，到店业务 15 倍 2021 年的预期市盈率，其他业务 2 倍 2021 年的预期市销率，分部加总，我们将目标价定为 79 港元。股价仍有 14%的上涨空间，我们给予增持评级。

核心业务成长空间。餐饮外卖是公司的战略核心和收入核心。通过扩大和保持市场份额，日交易量和均价都有进一步上涨的空间。我们预计日交易量未来三年上涨空间 60%，GTV 接近翻一番的水平。由于行业竞争的加剧，该业务的变现率增长承压，长期将维持在 20%以下。同时，我们看到今年低线城市消费者的平均价格呈现上涨趋势。

到店变现率提升和业务拓展。到店、酒店及旅游业务为公司提供了强大的现金流，酒旅业务拉高了公司该业务总体的交易金额。我们预计变现率在这个版块有所提升，但利润率保持相对稳定。同时，鉴于打车业务转向平台的模型优化和摩拜单车的业务收缩，新业务及其他分部带来的损失会减少。非餐饮到家服务和 B2B 服务逐步扩张。

盈利可期。我们预计今年餐饮外卖经营利润率仍在-6%左右。随着外卖毛利明年预计提升到 23%，外卖版块或实现盈利。美团的补贴激励少于饿了么，补贴水平从 2018 年的 3.5%降至 2019 年预计的 2.5%。我们预计公司调整后的 EBITDA 在将 2019 年转正，利润将在 2020 年转正。

首次覆盖给予增持评级。我们预测经调整后的每股收益在 19 年、20 年和 21 年分别为- 0.6 元人民币、0.8 元人民币和 2.2 元人民币(同比增长 168%)。我们分部估值加总方法给予外卖业务 40 x 21E PE, 到店业务 15 x 21E PE 和其他新业务 2 x 21E PS，目标价为 79 港元, 相当于 0.5 x 19E P/GTV 和 3.7 x 19E PS。股价仍有 14%的上涨空间，我们给予增持评级。

Promising delivery

As a leading consumer services company in China, Meituan Dianping enjoys c.65% share of the food delivery market and offers various in-store and on-demand services. We see upside for the total addressable food delivery market in China, increasing monetisation for the in-store dining business, and opportunities in various non-food delivery markets and related business-to-business (B2B) services. We forecast adjusted EPS of –Rmb0.6 in 19E, Rmb0.8 in 20E, and Rmb2.2 in 21E (+168% YoY). We derive a target price of HK$79, based on sum of the parts methodology, assigning 40x 21E PE for food delivery, 15x 21E PE for in-store business and 2x PS 21E for others. With 14% upside, we initiate coverage with an Outperform rating.

Room for core business to grow. Food delivery represents the company's core business in terms of revenue and strategy. By gaining and maintaining market share, daily transactions and average price have room for further growth. Over the next three years, we expect daily transactions to rise by 60%, with gross transaction volume (GTV) growth near doubling during the period. We believe the monetisation rate for this segment will remain below 20%, with little likelihood for expansion in the short-term due to fierce competition. However, we are positive on increasing average prices for lower-tier cities this year.

Positive on monetisation and other businesses. In-store dining services and hotel and travel generate strong cash flows for the company, with hotel and travel driving GTV for the segment. Margins are relatively stable with improvement underpinned by an increasing monetisation rate. Losses should narrow from new initiatives and others thanks to the platform model for car-hailing services and cost-savings initiatives for bicycle-sharing operator Mobike. Non-food delivery and B2B services are on the rise and we expect these segments to continue to expand rapidly.

Profitability on the way. Operating margin for food delivery may not improve much this year. We expect gross margin expected to reach 23% for food delivery in 20E, and to see profitable next year for the food delivery segment. We forecast subsidies to fall from 3.5% of GTV in 2018 to 2.5% in 19E on the back of fewer user incentives, falling below Ele.me. We expect the company's adjusted Ebitda to turn positive in 19E, with adjusted profit turning positive in 20E.

Initiate with an Outperform. We forecast adjusted EPS of –Rmb0.6 in 19E, Rmb0.8 in 20E, and Rmb2.2 in 21E (+168% YoY). We employ a sum of the parts valuation methodology for the company, assigning 40x 21E PE for food delivery, 15x 21E PE for in-store business and 2x PS 21E for others, to arrive at our HK$79 target price, representing 0.5x 19E P/GTV and 3.7x 19E PS. With 14% upside, we initiate coverage with an Outperform rating.

Meituan dianping: at a glance

Meituan Dianping has three line of business, food delivery, in-store dining and hotel and travel, as well as new initiatives and others. Meituan is well-known for its food delivery business, where it enjoys a 65% market share in China. This segment is also the major contributor of GTV and revenue, with revenue growth of 32% in 19E. Economies of scale will gradually help this part of business become profitable and underpin sustained profits in 20E.

We see upside from annual transactions for food delivery, rather than average price per transaction. We expect daily average food delivery transactions to grow from 17.5m in 2018 to 22m in 19E and 28m in 21E driven by increasing daily active users (DAU), while average price is forecast to increase from Rmb44 in 2018 to Rmb46 19E and Rmb52 in 21E. 1P delivery currently accounts for 64% of total deliveries, and we expect this to remain steady in the future.

Meituan's food delivery take rate is expected to slightly increase to c.13.8% in 19E due to fierce competition with Ele.me. Revenue growth for food delivery, which follows GTV growth, is expected to decelerate over the next three years, expanding at a 23% Cagr. Revenue growth may accelerate from 20E if take-rate increases and Meituan successfully maintains its market share in the battle with Ele.me. Delivery costs account for 90% of the cost of revenue for food delivery. Thanks to economies of scale, gross margin is expected to rise from 14% in 2018 to 17% in 19E and 23% in 21E, when operating margin is expected to reach c.10% over our three-year forecast period.

While in-store dining is expected to remain stable, hotel and travel should expand at a moderate pace. We forecast GTV for hotel and travel to grow at 30%-plus YoY in 19E mainly driven by the number of nights and number of tickets sold. We may see increased monetisation on this business line in the short term with margins remaining stable.

We employ sum of the parts valuation for the company. We set the three-year net margin for food delivery at 8%, and in-store dining at 25%. As we forecast new initiatives and others will still in face losses in 21E, we use a PS multiple for this business segment and PE multiple for profitable business lines. We discount our three-year valuation to 19E, deriving WACC by applying 2.5% as the risk-free rate, and a 10% market risk premium based on the Bloomberg Hong Kong market risk premium, as well as a 4.0% cost of debt. Under these assumptions, we find a present value of HK$79 per share, representing 0.5x 19E P/GTV, 3.7x 19E PS or 50x PE 21E.

Fig 1: Summary, breakdown by segment

	2017	2018	2019E	2020E	2021E
Food delivery					
GTV (Rmbm)	171100	282800	364343	459900	531440
Take-rate	12.3%	13.5%	13.8%	13.9%	14.1%
Revenue (Rmbm)	21,032	38,143	50,280	63,733	74,950
% growth	297%	81%	32%	27%	18%
% gross margin	8%	14%	17%	23%	27%
In-store, hotel & travel					
GTV	158,000	176,800	199,398	220,681	239,523
Take-rate	7%	9%	11%	12%	13%
Revenue	10,853	15,840	21,242	26,615	31,294
% growth	55%	46%	34%	25%	18%
% gross margin	88%	89%	88%	88%	88%
New initiatives and others					
GTV	27,900	56,000	72,800	88,816	102,138
Revenue	2,043	11,244	18,200	25,757	32,684
% growth	43%	101%	30%	22%	15%
Total					
GTV	357000	515600	636541	769397	873101
Take-rate	10%	13%	14%	15%	16%
Revenue	33928	65227	90487	116105	138929
% growth	161%	92%	39%	28%	20%
% gross margin	36%	23%	29%	34%	37%

Adj. net profit	-2853	-8517	-3020	4085	10951
% net margin	-8%	-13%	-3%	4%	8%

Source: Annual Report, SWS Research

Food delivery

According to iResearch, the customer service industry is expected to grow at a 10.2% Cagr, rising from Rmb18.4tn in 2017 to Rmb33.1tn in 23E, while the penetration rate of life services rises rapidly from 3.9% to 14.7%. It is estimated that the overall size of the life service market will reach Rmb33tn in 23E, nearly double the level in 2017.

The market is driven by consumer upgrade demand as improving living standards prompt consumers to seek better experiences through other services rather than via traditional physical goods. For merchants, the massive scale of labour also contributes to the development of customer service industry. On one hand, the accelerated process of urbanisation provides a greater labour pool in cities. On the other, as the economy develops, the labor force is more likely to shift from primary and secondary industries to the tertiary industry. According to the National Bureau of Statistics, by March 2019, China's tertiary industry will account for about 57.3% of GDP, which is about 10% lower than developed economies.

As a result, on-demand delivery services have experienced rapid development, which is mainly reflected in the lower labour cost per delivery order. This cost has declined from Rmb10.3 in 2018 to Rmb7.89 in 2019, and is expected to remain at approximately Rmb7.0 after 2019 due to increased transaction numbers per delivery rider and the improvement of logistics systems.

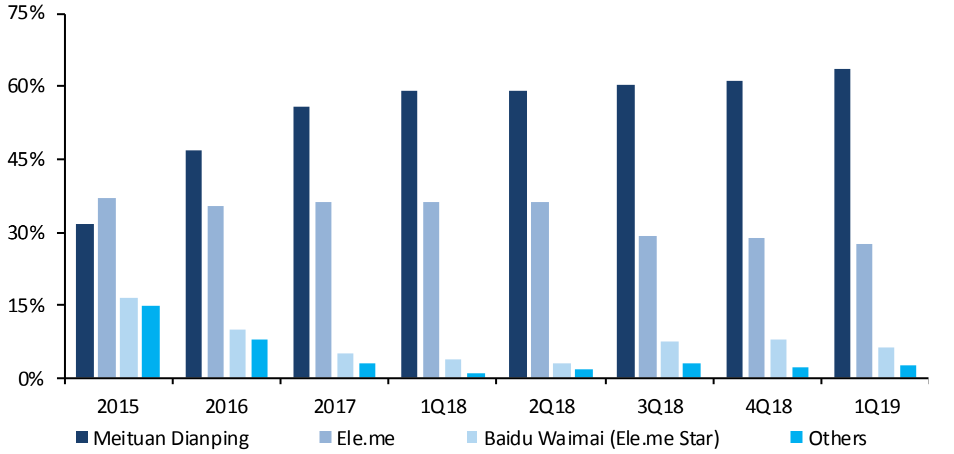
Rapid development of the customer service industry will boost the e-commerce industry. The growth rate of the customer service e-commerce industry was significantly faster than the traditional customer service industry. It has become a trend for catering brands to enter e-commerce to promote marketing.

For consumers, the demand for consumer service e-commerce has increased significantly thanks to the proliferation of information technology. For merchants, e-commerce platforms making full use of technological advantages provide greater convenience for the merchant. Meituan have invested and developed restaurant management system (RMS) business to embrace this fact based model and improve their overall operating efficiency. Among all the categories under customer service consumption, food consumption occupies the most essential part of people’s daily life.

Food consumption through consumer e-commerce platforms in China have experienced significant growth. Total GTV is expected to expand at a Cagr of 23.7% from 2017 to 23E, according to iResearch. The customers of food delivery are mainly the younger generation, among which, over 55.7% was born in the 1990s, and 84.4% is aged between 20 and 39. Modern, fast-paced lifestyles have become more reliant on internet services and we expect the trend to continue.

Since 2015, the on-demand food delivery market saw strong competition between Meituan, Ele.me and Baidu Waimai. In 2015, Ele.me had a 36.8% market share, while Meituan and Baidu Waimai had 31.7% and 16.6% respectively. At that time, Meituan had just established its own delivery system, while Ele.me had six years of operating history. However, by the end of 2016, Meituan has become the market leader, with a 46.7% market share. Thereafter, Meituan continued to gain share, capturing 63.4% in 1Q19. Given the goal set by the company is 70%, maintaining market share is still one of the main tasks in 2019.

Fig 2: Competitive landscape of China online on-demand delivery industry (based on gross transaction volume)



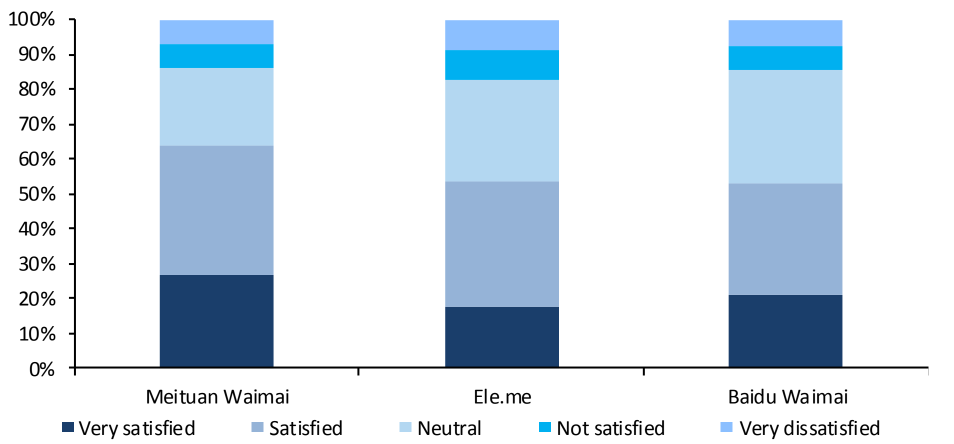
Source: iResearch, trustdata, SWS Research

Competition in the market is intense, with Ele.me acquiring Baidu Waimai in 2017. On October 15, 2018, Baidu Waimai officially changed its name to Ele.me Star. This new brand mainly targets the high-end market. The market is now essentially a duopoly, with the two major players accounting for a 97.2% market share in the first quarter of 2019. Internet giant Alibaba, which owns Ele.me, announced on August 23, 2018 that it will establish a new holding company for Ele.me and Koubei, an in-store dining services marketplace, so that it can combine online and offline benefits and create a better service ecosystem.

We believe Meituan can compete thanks to its broad line of services and increase customer acquisition by improving its cross-selling marketing capabilities. Also, the cost of acquisition can fall as brand name recognition improves and customers become stickier, with new customers joining by word of mouth. According to TrustData, Meituan has the highest level of user satisfaction versus its peers, with 64% being satisfied or very satisfied with the platform, versus Ele.me and Baidu Waimai, at 54% and 53% respectively. Users are also more likely to recommend Meituan to their family, friends and colleagues, boding well for enhanced retention rates and stickiness.

According to data from research firm DCCI in 2018, 45.7% (9-10 points out of a possible 0-10 score) were strongly willing to recommend Meituan, higher than the 43.7% and 40.7% that were strongly willing to recommend Ele.me and Baidu Waimai.

Fig 3: User satisfaction of each on-demand food delivery platform



Source: TrustData, SWS Research

Meituan has also focused on retaining and acquiring merchants by improving its comprehensive operating system so that it more efficiently responds to order taking, consumer location positioning, time measuring and rider allocating, as well as improving service to train merchants to better use its associated software and hardware. Improved levels of service and experience can be delivered to consumers by merchants in order to expand their business and build their own brand. In the first quarter of 2019, the average number of daily merchant start-ups on Meituan was 8.9 times higher than Ele.me, which was 6.6 times higher than Baidu Waimai.

However, the market is changing rapidly due to the aggressive strategy of Ele.me. At the beginning of this year, Ele.me and Koubei launched the "Warm Winter Program" to provide c.3% lower platform fees and deliver fees for more than 5,000 small and medium-sized merchants, accompanied by significant subsidies in many other cities. According to our channel check, the subsidies battle entered another round since June, 2019.

Though it is difficult to quantify the impact of the latest round of subsidies, Ele.me does face challenges. First, the number of orders on university campuses, where Ele.me started its business, is not expected to increase as a result of the upcoming summer vacation. Second, this subsidy round mainly targets third- and fourth-tier cities, where Meituan remains dominant (2,800 counties and cities are covered by Meituan, and only c.100 cities are covered by Ele.me). Third, even though the total amount of subsidies is considerable at roughly Rmb10bn, it is limited to per order subsidies, which may result in low price sensitivity per user. In addition, while subsidies may be effective in the short-term, operational capacity risks are likely to rise.

Meituan's subsidy, which is approximately one-third of Ele.me's, is down to c.2.5% of GTV per order from c.3.5% last year, especially on the user end. At the beginning of 2019, Meituan trimmed its labour force, increased the commission rate for merchants and reduced distribution costs. The commission rate for Meituan in some cities reached 26% after two price adjustments in the second half of 2018. As this action was protested by some merchants, we may not see a further increase of take-rate. Overall, we expect the take-rate to remain at c.13%.

Meituan has established the world's largest intra-city on-demand delivery network by using big data analysis and AI technologies, Meituan's system can perform 270,000 calculations a second, representing a two-year advantage versus Ele.me. The system not only increases the order amount per rider per day, which allows a maximum capacity of about eight orders per ride and about 40 orders per day, but also decreases the waiting time per consumer, which is about 27-28 minutes on average. As a result, the cost for every transaction on the food delivery service is reduced significantly. Currently, the delivery fee charged to consumers is about Rmb3 per order, very low compared to Rmb9 for KFC and Rmb13 for third-party city couriers. Meituan's advanced delivery system is very important for the company to survive in such a competitive food consumer service e-commerce industry, as customers will receive better quality of services, which should enhance retention rates and customer acquisition. In addition, it is more cost-effective and revenue will be driven per transaction while economies of scale improve. More importantly, it will build high entry barriers for competitors to replicate.

According to our channel check, the agent turnover of Meituan 3P riders is less frequent than Ele.me. This year, agents were cut by half to 400. The largest is in charge of tens of thousands of riders, and even in tier-four cities, one agent is in charge of 400-500 riders.

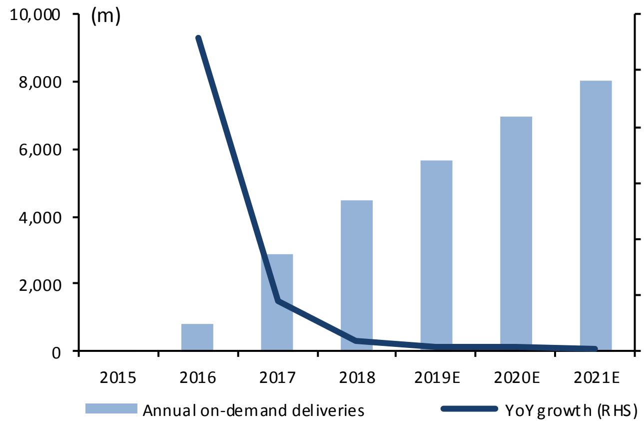
Active merchants in the food delivery segment grew from 0.5 million in 2015 to 2.8 million in 2017, and 3.6 million in 2018, with the monetisation rate increasing from 1.1% to 14.2% from 2015 to 1Q19.

The daily average number of food delivery transactions increased from 1.7 million in 2015, to 17.5 million in 2018, and we estimate 32m in 21E, below consensus expectations of 35m. According to cgtz, daily average food delivery transactions stood at 10 million in February 2019, up from 8 million orders during the same period last year. Considering the seasonal effect, we estimate daily average food delivery transactions may reach 21 million in March, and 23-24 million in April-May. Average price per transaction in third- and fourth-tier cities seems to reach Rmb52 in 1H19E, up from Rmb38 in 2018, outpacing first- and second-tier cities (Rmb42) this year. We believe the reason behind this trend is due to increased family consumption in lower tier cities.

Another important element of food delivery revenue is rider cost. It will only be charged if on-demand delivery transactions are generated on the platform fulfilled by Meituan, rather than by the merchant itself. The company has established the world's largest on-demand delivery network, supported by its massive scale of daily active delivery riders, 0.6 million in 2018 for Meituan out of 2.7 million in total, over three times higher than that of last year. The company also has a real-time intelligent dispatch system to optimise order-rider matching, with the average delivery time reduced to 30 minutes. The cost was Rmb277m in 2015, Rmb5,135m in 2016, Rmb18,324m in 2017, and Rmb30,516m in 2018. On-demand delivery is a priority for the distribution network (delivered by Meituan), the number of 1P delivery transactions reached 4,092 million in 2018, accounting for 64% of the market, up from 2,045 million in 2017, while the number of 3P delivery transactions (delivered by the merchant) reached 2,302 million in 2018, accounting for 36% of the market, up from 2,045 million in 2017.

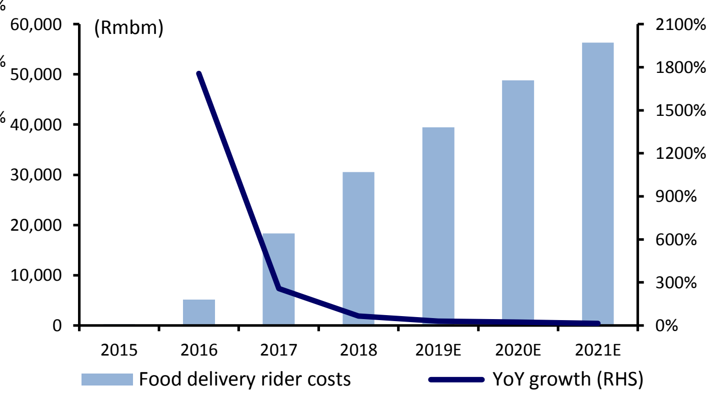
Although food delivery rider cost is expected to increase in the long run, the trend has little impact on the demand side, besides, we think the continuous improvement of operational efficiency and the increase of transaction volume can compensate for the increase in labour costs.

Fig 4: Annual on-demand deliveries of the food delivery segment



Source: Annual report, SWS Research

Fig 5: Food delivery rider costs



Source: Annual report, SWS Research

In-store dining, hotel and travel

The in-store dining industry has reached a relatively mature stage. According to the China Hospitality Association, under the category of food and dining consumption, restaurant consumption in 2017 was Rmb3,964.4bn, and Rmb4,271.6bn in 2018, and is estimated to be Rmb6,563bn in 2023E, indicating that the Cagr will decrease from 13% to 8.8% in the next six years.

In the in-store dining industry, the company has played the leading role since the acquisition of Meituan and Dianping in 2015. In addition, the market share of the in-store dinning business, which accounts for the majority of the industry, is also significantly occupied by Meituan Dianping, surpassing the second player in terms of GTV in the past three years. The company is confident that it can maintain its position. By leveraging technology, Meituan is able to provide unique solutions for merchants to contact a massive user base and sustainably expand their business. In addition, the user generated content (UGC) information accumulated on the platform including in-depth reviews, detailed ratings, photos and video enables consumers to make better decisions, bringing more new users to connect with merchants.

The scale of in-store dinning industry continues to grow rapidly, with nearly 500 million app users in 2018. According to Jiguang, the installation penetration rate reached 45.2% by August 2018. Meituan and Dianping rank in the first-tier with penetration rates of 33.98% and 10.87% separately.

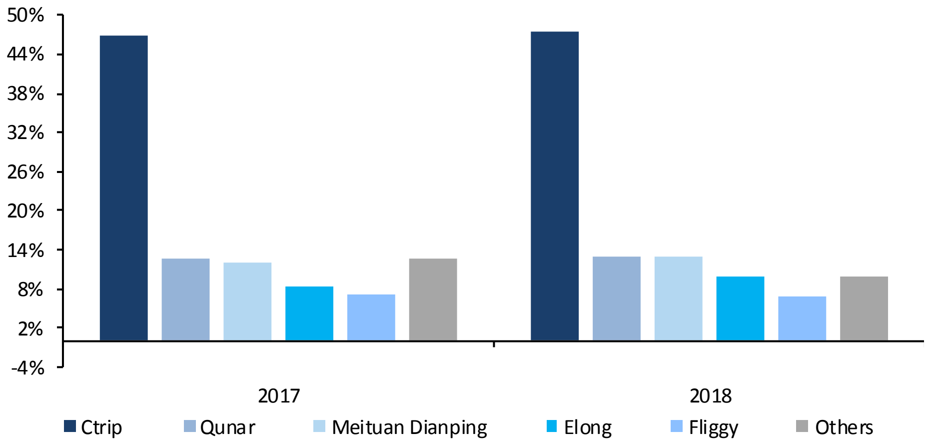
In the in-store dining industry, 97.2% of customers are aware of Meituan, 94.3% of customers have used Meituan, and 72.2% of customers consider Meituan as their first choice, which gives evidence of 240 million active users and 1.78 million daily new users in August 2018, both ranking first in the industry.

For in-store dining, GTV stood at Rmb135.6bn in 2016 and Rmb112.2bn in 2017, -17% YoY, as an increasing number of people directly pay through Alipay or Weixin rather than with vouchers or coupons provided by Meituan. It is more convenient to scan a barcode and these payment methods also have some promotion activities. However, the in-store dining segment is still the largest cash generating business that supports the whole development of other business lines.

Meituan also launched the Black Pearl Restaurant Guide in January 2018, to further enhance brand awareness, and help the company to become the preferred platform for consumers' high-quality food consumption, becoming an authoritative online marketing channel for high-end restaurants.

In the China online hotel industry, Ctrip remains the dominant player, while Meituan Dianping is the second largest hotel reservation platform in terms of number of domestic room nights. According to Analysus, Meituan captured a 12.1% market share in 2017 and 12.9% market share in 2018. While Ctrip has a relatively higher market share, which was 46.9% and 47.4% in 2017 and 2018 respectively. Combined with Qunar, it accounts for a 50%-plus market share.

Fig 6: Competitive landscape of China online hotel industry



Source: iResearch, SWS Research

The number of active merchants in the hotel booking segment was 0.2 million in 2015, and grew to 0.3 million in 2016 and has remained stable at this level until April 30, 2018. In addition, the monetisation rate grew from 5.7% in 2015 to 7.4% in 2017 and further slightly decrease to 7.2% during the four months ended April 30, 2018. According to Techsina, currently the commission rate of Ctrip is between 15% to 20%, which is corresponding to the average level in the online travel agency (OTA) market. Thus, the commission rate of Meituan is far below average in the hotel booking industry.

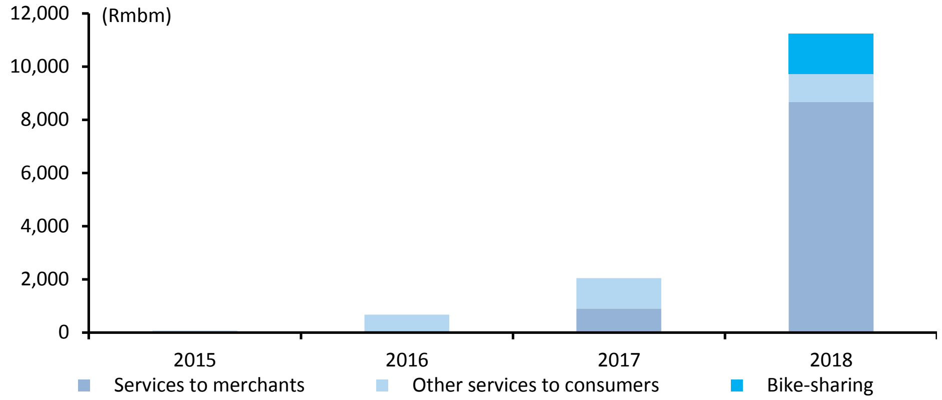
There exist differences between business focus for the two companies. Ctrip is experienced at serving as the platform for high-end hotels and high-frequency business travelers. Thus, newly emerging traveller demand for lower-end hotels is still not met, allowing Meituan Dianping to rapidly expand. Thanks to its low commission rate, the company has established cooperations with lower-end hotels, including many independent hotels, which enables it to cover lower-tier cities and meet the needs of young leisure travelers with lower budgets. Meituan enjoys lower customer acquisition costs as it can cross-sell and convert users from food delivery and in-store dinning into new hotel-booking transacting users.

Travel has same growth potential as hotel, although the market size is smaller. We quantify the market by number of domestic attraction tickets and average price per ticket.

New initiatives and others

Revenue derived from new initiatives and others is driven by three sub-segments: services to merchants; other services to consumers; and bicycle-sharing services, given the acquisition of Mobike on April 30, 2018. The number of active merchants was 0.1 million and 0.6 million in 2016 and 2017 respectively, while it was 0.8 million by April 30, 2018 compared to 0.2 million in the same period of 2017. The gross margin of this segment was -53%, 61.1% and 46% and -37.9% in 2015, 2016, 2017 and 2018 respectively.

Fig 7: Revenue breakdown of new initiatives and others



Source: Company prospectus, SWS Research

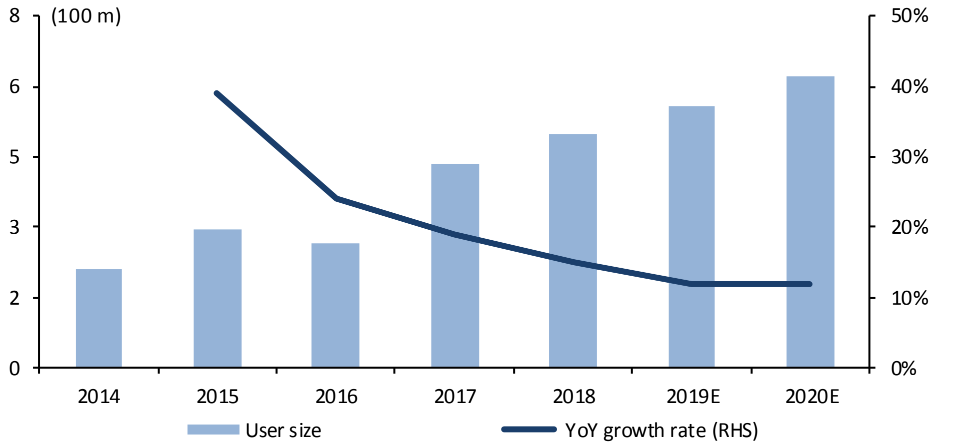
Meituan Dianping provides other services to consumers other than food delivery services, including grocery and other non-food delivery services, which allow consumers to order other merchandise at nearby stores through Meituan Shangou and receive the goods in less than one hour.

On July 2018, Meituan announced the launch of instant shopping, which shares the same delivery network, but is independent of food delivery. This business covers many kinds of goods such as supermarket convenience, fresh fruits, vegetables, flowers and green plants. And its slogan is door-to-door distribution for 30 minutes in 24 hours.

Leveraging the developed on-demand delivery network, the company also established its own offline grocery store called "Ella Supermarket" in Beijing in 2017, after evaluating the synergistic value and the current market dynamics, however, the company decided to shut down two stores in Wuxi and Changzhou. and made a second attempt at Meituan vegetables shopping in Shanghai. The company also offers transportation ticketing, including all categories of transportation means. Meituan intends to continue carry out this business line in 15 cities.

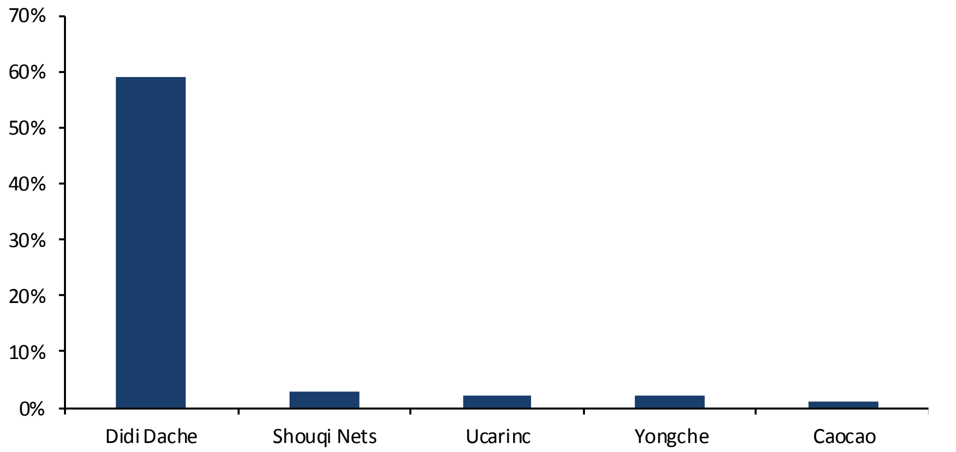
Didi Dache is a monopoly in the market, with its app penetration reaching c.60% by 2018, far exceeding other competitors. However, currently the products of pilot car-hailing in China are basically concentrated in first- and second-tier cities or economically developed regions, and there are a lot of opportunities to develop business in third- and fourth-tier cities.

Fig 8: The development of the pilot car-hailing market in China



Source: iimedia, SWS Research

Fig 9: The penetration rate of pilot car-hailing applications in China



Source: iimedia, SWS Research

According to Jiguang, the penetration rate of car-hailing applications in 2018 was 14.71%, 1.15%, 0.61%, 0.57% and 0.25% for Didi Dache, UCAR Inc, Caocao, Shouqi Nets and Yongche, respectively. Didi has the biggest monthly average DAU of 11.06 million, and Shouqi Nets has the biggest growth in penetration rate of 117.3% in 2H18.

On February 2017, Meituan launched a pilot project in Nanjing, with daily orders exceeding 100,000 after 10 months. On March 21, 2018, Meituan went online in Shanghai. According to Meituan's website, Meituan Dache had more than 150,000 orders on the first day launched in Shanghai, and occupied more than 30% of the pilot car-hailing market share only three days later. The results were driven by Meituan Dache's extremely low commission rate (8% versus approximately 20-30% at Didi). Drivers registered in Shanghai can enjoy a "zero commission" for the first three months of operation. Therefore, a large number of drivers are attracted to register on the platform to earn more subsidies. However, the model is unsustainable as it incurs significant losses when entering new cities. On April, 2019, the company changed the business model for Meituan Dache into a platform model with Taxi, Shouqi, Caocao, Ucar all connected. We believe this platform model will work well in cutting costs, while expanding to new cities.

Meituan Dianping also offers a wide range of B2B solutions for merchants to improve their operating efficiencies. First is marketing and sales, where the marketing needs of merchants can be met by choosing from various advertisement options provided by the platform in order to have access to a larger number of consumers. Moreover, through leveraging its advanced information technology, Meituan developed a cloud-based enterprise resource planning (ERP) system for merchants, which offers a combination of hardware and software solutions that enables merchants to accept payments, streamline operations and analyse business information.

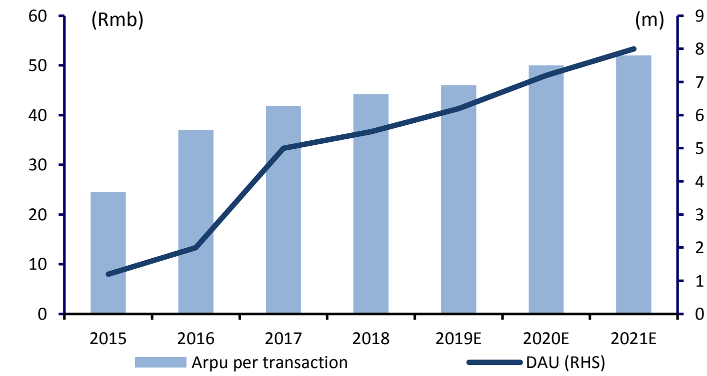
On April 30, 2018, Meituan Dianping completed its acquisition of Mobike. The company believes that cost-saving synergies will be generated for both sides. For Meituan, the huge user base of Mobike provides the opportunities of low-cost consumer acquisition based on the new-added function in Meituan app that allows users to access Mobike directly. With respect to Mobike, Meituan believes that it can enhance user stickiness and improve operating efficiencies based on its successful experience in marketing new service categories and strong offline operational capability.

Revenue generated from bicycle-sharing was Rmb1.5bn from April 4, 2018 to the end of 2018. During the same period, Mobike generated a loss of Rmb4.6bn. Mobike is considering a substantial adjustment in its strategy to withdraw from overseas markets and focus on the domestic market.

Earnings outlook

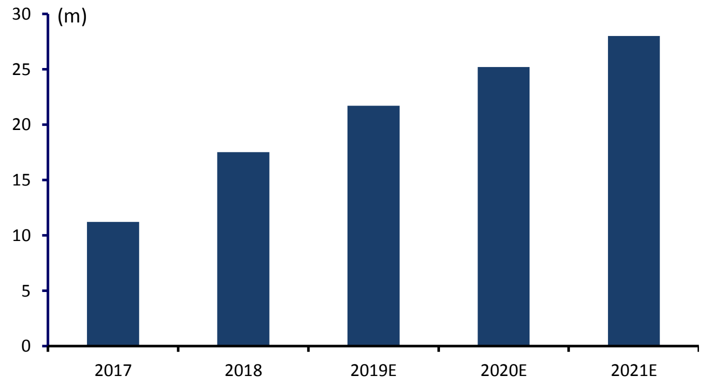
Meituan achieved 17.5m daily average food delivery transactions (+56% YoY) in 2018 driven by increased DAU and more transactions per customer, and average price per transaction of Rmb44 in 2018, vs Rmb42 in 2017. We conservatively forecast 22m daily average food delivery transactions (+24% YoY) in 19E with an average transaction price of Rmb46, resulting in Rmb364bn GTV (+29% YoY) for food delivery in 19E. For 21E, we believe the company may have near 8m DAU with average price per order of Rmb52 and 28m daily average food delivery transactions, leading to Rmb531bn GTV for the food delivery segment alone.

Fig 10: DAU and ARPU for food delivery



Source: Annual report, SWS Research

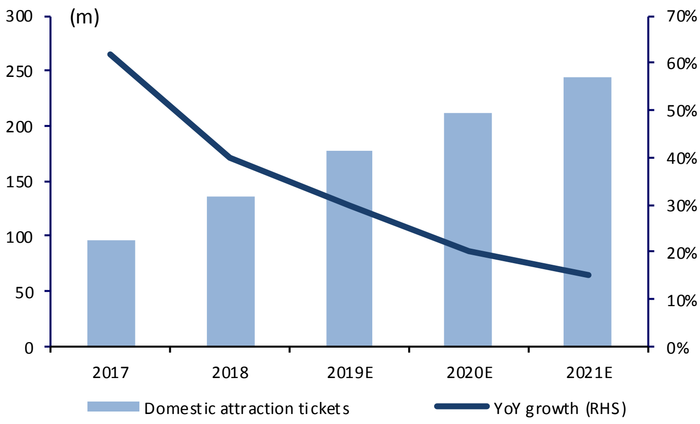
Fig 11: Daily Average Food Delivery Transactions (m)



Source: Annual report, SWS Research

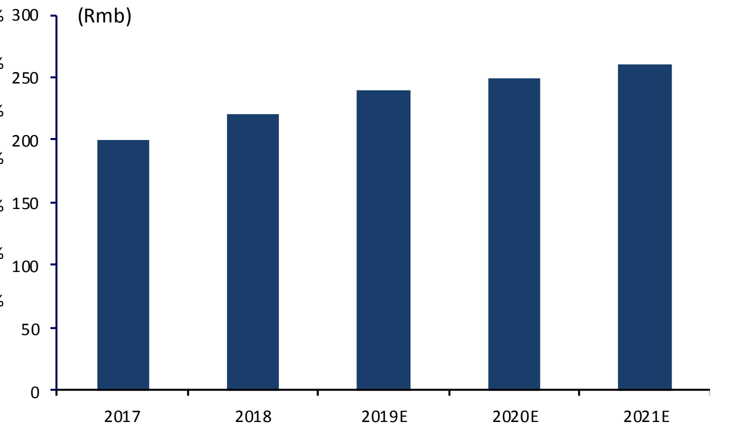
We estimate GTV for hotel and travel using the same method, through average price per transaction and number of transactions. For hotel, we see 25% growth to 355m nights in 19E with average price increase to c.Rmb240 per night, and GTV arriving at Rmb85bn.

Fig 12: Domestic hotel room nights



Source: Annual report, SWS Research

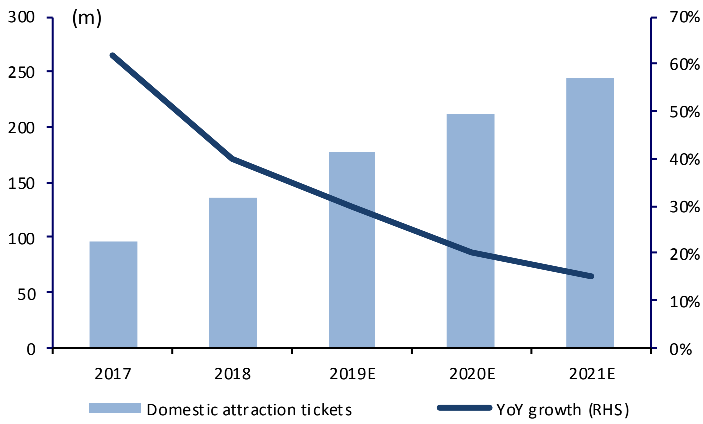
Fig 13: Average price per night (Rmb)



Source: Annual report, SWS Research

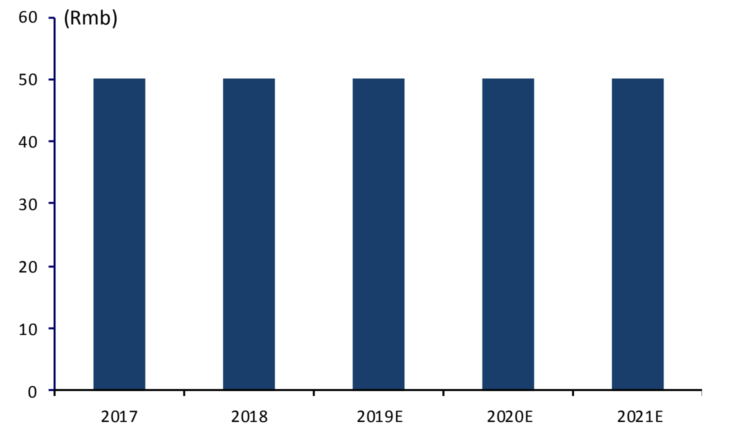
For travel, we see little change on average price per ticket and set it at Rmb50. With domestic attraction tickets expected to grow by 30% in 19E, we estimate GTV for travel to be Rmb8.8bn in 19E.

Fig 14: Domestic hotel room nights



Source: Annual report, SWS Research

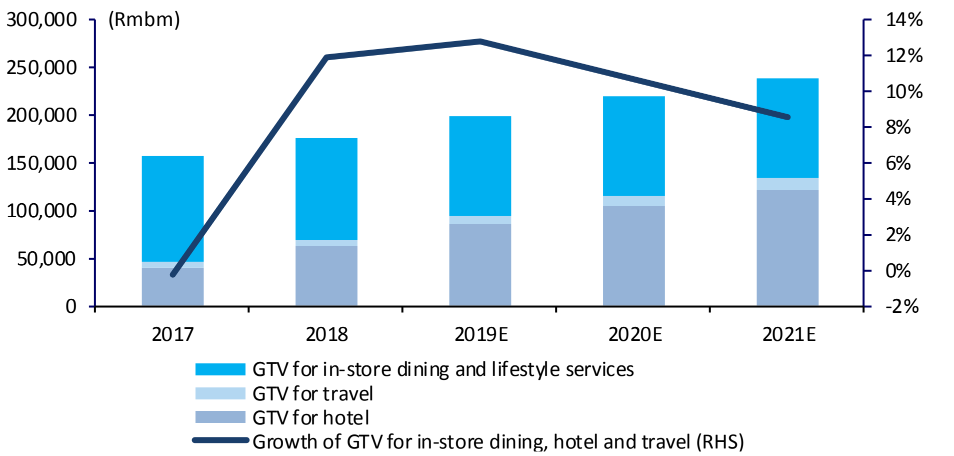
Fig 15: Average price per night (Rmb)



Source: Annual report, SWS Research

For in-store dining, we estimate -2% growth for 19E GTV. Total GTV for in-store dining, hotel and travel amounts to Rmb199bn (+13% YoY) in 19E.

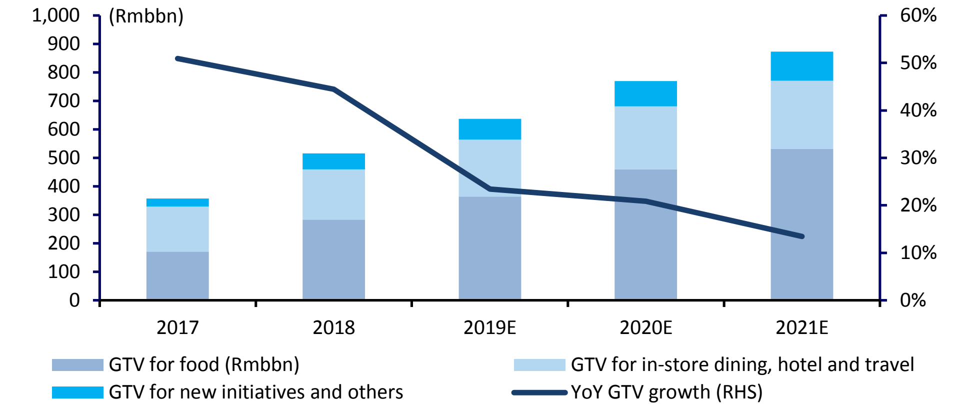
Fig 16: GTV for In-store, hotel & travel



Source: Annual report, SWS Research

Combining GTV for new initiatives and others, we project total GTV for Meituan at Rmb636bn in 19E (+23% YoY), Rmb769bn in 20E (+21% YoY), and Rmb873bn in 20E (+13% YoY).

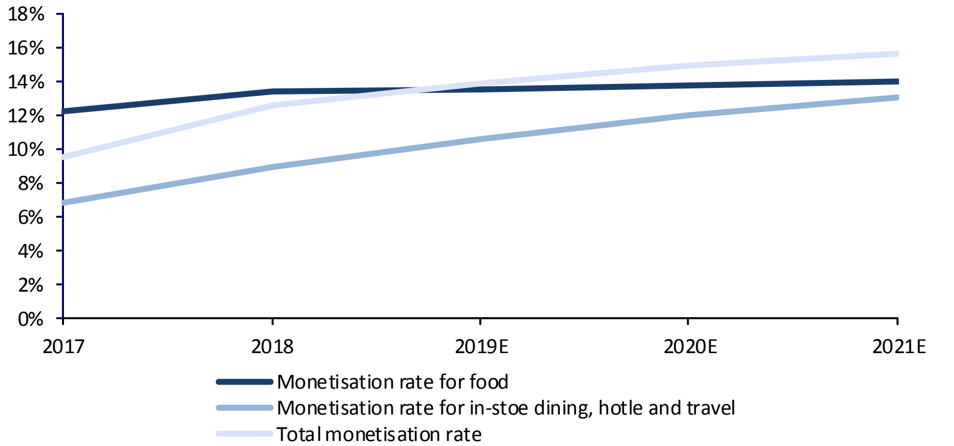
Fig 17: GTV for In-store, hotel and travel



Source: Annual report, SWS Research

Considering the competitive landscape for food delivery, we see little room for take rate upside this year for food delivery. We estimate it at 13.8% in 19E, up 0.3ppt YoY. We forecast increases in the monetisation rate for in-store dining and hotel and travel, rising from 9.0% in 2018 to 10.9% in 19E. Taking new initiatives and others into consideration, total take rate is projected to grow from 12.7% in 2018 to 14.2% in 19E 15.1% in 20E and 15.9% in 21E.

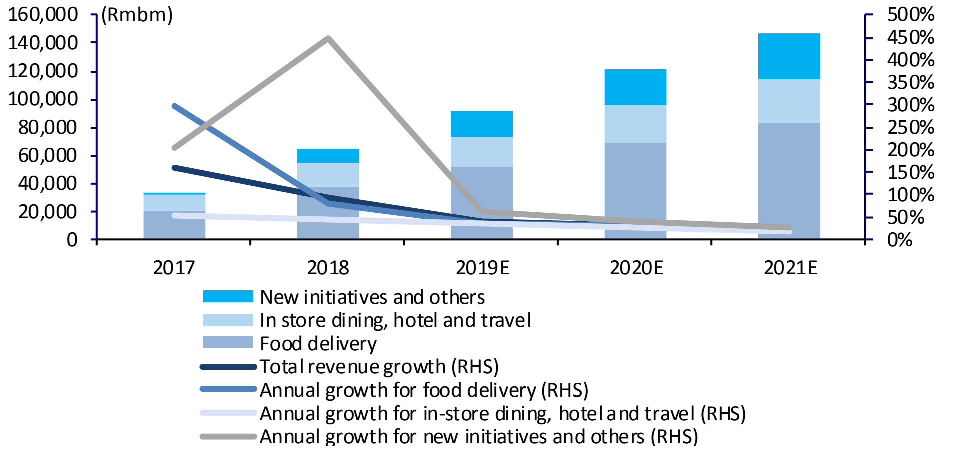
Fig 18: Monetisation rate



Source: Annual report, SWS Research

Food delivery has accounted for c.60% of revenue since 2017, and we expect this business segment to remain as a major driver throughout our forecast period, with a three-year Cagr of 24%. In-store dining, hotel and travel generates strong cash flows for Meituan with revenue posting a 25% Cagr from 19E to 21E, while accounting for a lower percentage of overall revenue. New initiatives and others are expected to grow more rapidly, and we forecast revenue from the segment to rise at a 43% Cagr over the next three years with revenue share climbing to 24%. Total revenue growth is estimated at 39% in 19E, 28% in 20E and 20% in 21E.

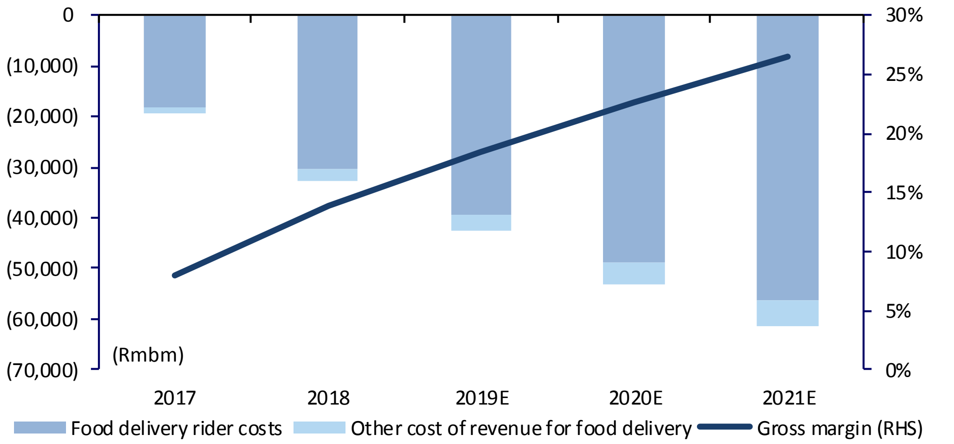
Fig 19: Revenue growth



Source: Annual report, SWS Research

Riders account for over 90% of the cost of revenue for food delivery. Currently, we estimate daily transaction per rider at Rmb28 in 19E, with costs of Rmb7 per delivery and Rmb3 for customer per delivery. We assume on-demand delivery accounts for c.70% in 19-21E, while 1P delivery accounts for c.64% of the total. We expect gross margin to increase from 14% in 2018 to 17% in 19E.

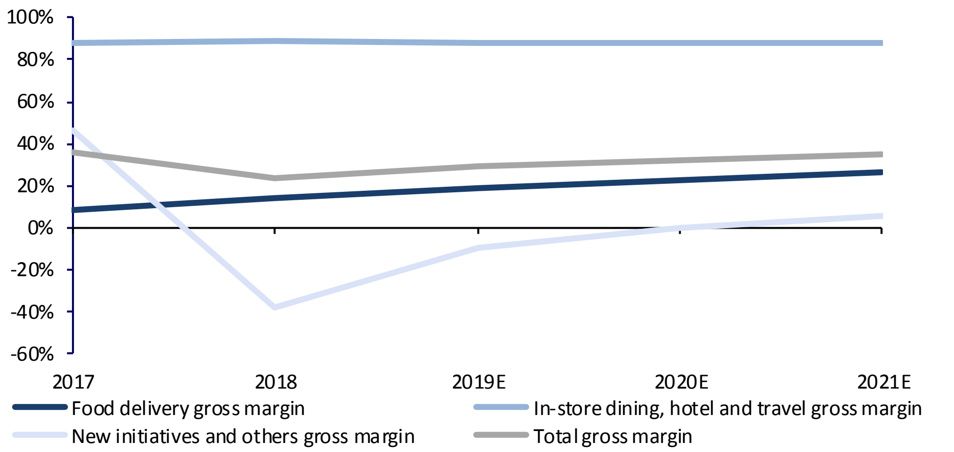
Fig 20: Cost of revenue for food delivery



Source: Annual report, SWS Research

Total gross margin is projected to be 29% in 19E, 34% in 20E and 37% in 21E.

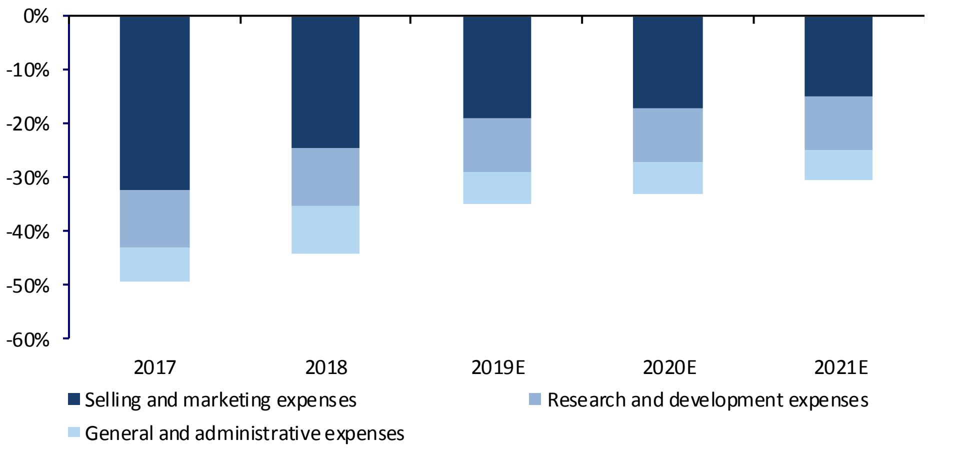
Fig 21: Cost of revenue for food delivery



Source: Annual report, SWS Research

Selling and marketing expenses represent the largest expense, following cost of revenue. Transacting user incentives and promotion and advertising are the two main costs within selling and marketing expense. User transaction incentives declined from over 55% of selling and marketing expenses in 2015 to 34% in 2018 (Rmb5.4bn). Promotion and advertising fees increased from 15% of selling and marketing in 2015 to 21% in 2018. Total advertising and user incentive fees have accounted for over 50% of selling and marketing in the past three years. We expect to see economies of scale from selling and marketing and administrative expenses, while R&D remains stable at 10% of revenue. Operating margin for food delivery increase a bit to -6% in 19E, 30% for in-store hotel& travel. Operating loss for new initiative and others is expected to narrow by 20% in 2019E.

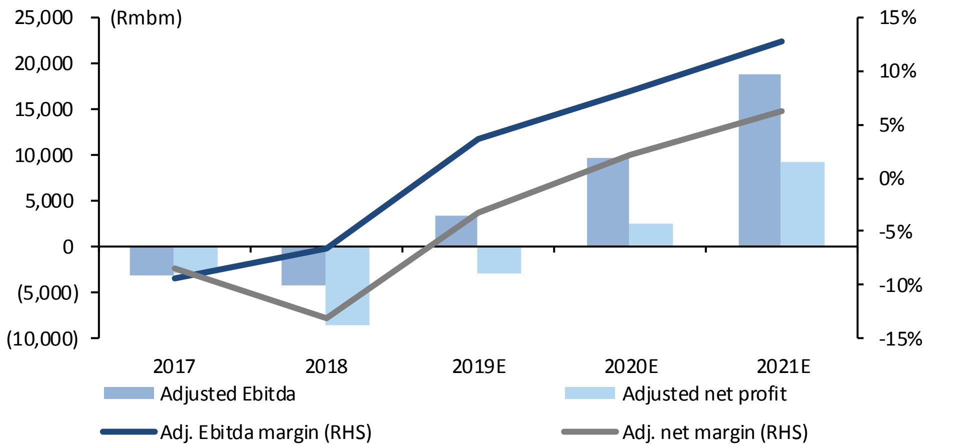
Fig 22: Major operating expenses



Source: Company prospectus, SWS Research

We forecast adjusted profit of –Rmb3.0bn in 19E, Rmb4.1bn in 20E, and Rmb10.9bn in 21E (+168% YoY).

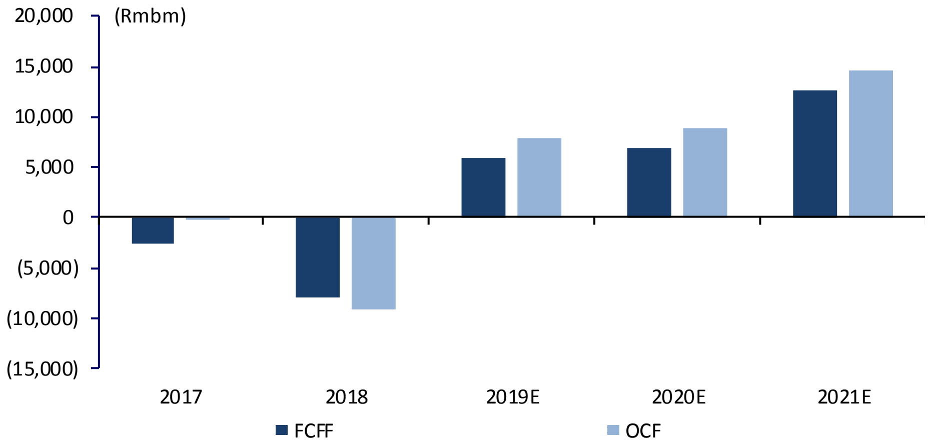
Fig 23: Net profit forecast



Source: Company prospectus, SWS Research

In-store dining, hotel & travel serves as major cash flow for Meituan. Cash outflows expanded in 2018 due to acquisition of Mobike. With the trimming of this business and stricter cost controls since 19E, we expect cash flow to turn positive this year.

Fig 24: Company cash flows



Source: Company prospectus, SWS Research

Fig 25: Debt ratios and Dupont analysis

	2017	2018	2019E	2020E	2021E
Debt ratio					
Net debt/Equity	47.50%	-17.60%	-25.00%	-34.70%	-50.50%
Dupont analysis					
ROE			-4%	5%	13%
Net profit margin	-8%	-13%	-3%	4%	8%
Turnover rate of total assets	0.41	0.54	0.75	0.89	0.96
Assets/Equity	-2.06	1.39	1.50	1.60	1.64

Source: SWS Research

Valuation

We employ a sum of the parts valuation for the company. We expect net margin for food delivery to achieve at c.8% over the next three years, and in-store dining to be 25%. As we forecast new initiatives and others will still contribute losses in 21E, we use a PS multiple for this business segment and PE multiples for profitable lines. We discount our three-year valuation to 19E, deriving WACC from using 2.5% as the risk-free rate, and a 10% market risk premium based on the Bloomberg Hong Kong market risk premium as well as a 4.0% cost of debt. Under these assumptions, we arrive at our target price of HK$79, representing 0.5x 19E P/GTV, 3.7x 19E PS or 50x 21E PE. With 14% upside to our target price, we initiate coverage of Meituan Dianping with an Outperform rating.

Fig 26: SOTP valuation

	Base	Base	Ratio	Multiple	Value (Rmbm)	Discounted	Per share (HK$)
Food delivery	Profit	5996	PE	40	239840	193512	45
In-store dining, hotel and travel	Profit	7511	PE	15	112660	90898	21
New initiatives and others	Revenue	32684	PS	2	65369	52742	12
Total					417869	337153	79

Source: SWS Research

Fig 27: Peer table

	Trading CCY	Reporting CCY	Mkt Cap (US$m)	19E PE	20E PE	19E P/S	20E P/S
Alibaba Group	USD	CNY	437,660	25.8	17.9	6.0	4.7
JD.com	USD	CNY	42,034	44.9	24.2	0.4	0.4
Pinduoduo Inc.	USD	CNY	24,119	477.3	14.5	3.2	1.8
NetEase Inc.	USD	CNY	33,517	25.8	25.1	2.8	2.4
Meituan-Dianping	HKD	CNY	46,977	n.m.	90.2	3.9	3.0
58.com	USD	CNY	9,428	21.9	18.3	3.5	3.0
Vipshop Holdings	USD	CNY	5,271	12.8	12.0	0.4	0.4
Baozun Inc.	USD	CNY	2,814	34.2	20.0	2.5	2.0

Source: Bloomberg, SWS Research

Appendix 1: Ownership structure

Fig 28: Shareholding structure

Shareholders	Number of Shares	%
Class A Shares-Wang Xing	573,188,783	11.43%
Crown Holdings Asia Limited	489,600,000	9.76%
Shared Patience Inc.	83,588,783	1.67%
Class A Shares-Mu Rongjun	125,980,000	2.51%
Charmway Enterprises Company Limited	118,650,000	2.37%
Shared Vision Investment Limited	7,330,000	0.15%
Class B Shares-Tencent	1,056,598,660	21.06%
Huai River Investment Limited	623,420,905	12.43%
Tencent Mobility Limited	391,703,555	7.81%
Morespark Limited	8,850,245	0.18%
Great Summer Limited	25,000,000	0.50%
TPP Follow-on I Holding B Limited	3,150,931	0.06%
TPP Follow-on I Holding C Limited	4,473,024	0.09%
Class B Shares-Sequoia	573,097,093	11.42%
Total Class B shares	4,281,079,743	85.34%
Total Shares	5,016,648,526	100.00%

Source: SWS Research

Executive directors & senior management

Wang Xing, aged 39, is a Co-founder, an executive Director, the Chief Executive Officer and Chairman of the Board. Wang Xing is responsible for the overall strategic planning, business direction and management of our Company. He oversees the senior management team. Wang Xing founded meituan.com in 2010 and currently holds directorship in various subsidiaries, Consolidated Affiliated Entities and operating entities of our Company.

Wang Xing has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our Company, he co-founded xiaonei.com, China's first college social network website in December 2005 and worked there as chief executive officer from December 2005 to April 2007. xiaonei.com was sold to China Inter Active Corp in October 2006 which was later renamed as Renren Inc. Wang Xing also co-founded fanfou.com, a social media company specializing in microblogging, in May 2007 and was responsible for the management and operation of this company from May 2007 to July 2009.

Wang Xing received his bachelor's degree in electronic engineering from Tsinghua University in July 2001 and his master's degree in computer engineering from University of Delaware in January 2005.

Mu Rongjun, aged 38, is a Co-founder, an executive Director and a Senior Vice President of our Company. He is responsible for the financial services and corporate affairs of our Company.

Mu Rongjun has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our Company, he worked as senior software engineer and project manager in Baidu, Inc., the leading Chinese language internet search provider, from July 2005 to May 2007. Mu Rongjun was also a co-founder and the engineering director of fanfou.com, a social media company specializing in microblogging, from May 2007 to July 2009.

Mu Rongjun received his bachelor's degree in automation engineering from Tsinghua University in July 2002 and his master's degree in computer science and technology from Tsinghua University in July 2005.

Wang Huiwen, aged 39, is a Co-founder, an executive Director and a Senior Vice President of our Company. He is responsible for the on-demand delivery and certain new initiatives of our Company.

Wang Huiwen has over 10 years of managerial and operational experience in the internet industry. Prior to co-founding our Company, he co-founded xiaonei.com (校內網), China’s first college social network website, in December 2005 and worked there as co-founder from December 2005 to October 2006. xiaonei.com (校內網) was sold to China InterActive Corp in October 2006 which was later renamed as Renren Inc. (NYSE Ticker: RENN). In January 2009, Wang Huiwen co-founded taofang.com and worked there from June 2008 to October 2010.

Wang Huiwen received his bachelor’s degree in electronic engineering from Tsinghua University in July 2001.

Chen Shaohui, aged 37, is the Chief Financial Officer and a Senior Vice President of the Company. He is responsible for overseeing the Company’s finance, strategic planning, investments and capital market activities.

Before joining the Company in November 2014, Chen Shaohui worked as an analyst in A.T. Kearney from June 2004 to October 2005, an investment manager in WI Harper from October 2005 to August 2008 and an investment director in Tencent from January 2011 to October 2014.

In July 2018, Chen Shaohui was appointed as a director of Beijing Enlight Media Co., Ltd. Chen Shaohui received his bachelor’s degree in economics from Peking University in June 2004 and his master’s degree in business administration from Harvard University in May 2010.

Chen Liang, aged 38, is a Senior Vice President and is responsible for overseeing the Company’s hotel and travel businesses.

Prior to joining the Company in January 2011, Chen Liang worked as a software engineer in Guangzhou Institute of Communications from August 2002 to November 2004 and the chief technology officer in Shenzhen Tianshitong Technology Co., Ltd. from November 2004 to December 2005. He co-founded xiaonei.com in December 2005 and worked there from January 2006 to October 2006. xiaonei.com was subsequently sold to China Inter Active Corp which was later renamed as Renren Inc. (NYSE Ticker: RENN). Chen Liang worked as the research and development manager of the communication division in Beijing Yahoo Network Information Technology Co., Ltd. from May 2007 to June 2008. After that, he co-founded taofang.comin June 2008 and worked there from 2008 to 2010.

Chen Liang received his bachelor’s degree in mechatronic engineering from South China University of Technology in July 2002.

Zhang Chuan, aged 42, is a Senior Vice President and is responsible for overseeing the Company’s in-store services business.

Before joining the Company in January 2017, Zhang Chuan worked as development manager in the Information Centre of Ministry of Education from September 1997 to 2005, senior product manager at Yonyou Software Co., Ltd. from May 2005 to August 2006, product director at Baidu, Inc. from August 2006 to October 2011, and executive vice president at 58.com Inc. from October 2011 to December 2016.

Zhang Chuan received his bachelor’s degree in computer science from Beijing Normal University in July 1997 and his master’s degree in business administration from Tsinghua University in June 2003.

Appendix 2:

Consolidated Income Statement

Rmbm	2017	2018	2019E	2020E	2021E
Revenue	33,928	65,227	90,487	116,105	138,929
Cost of Sales	-21,708	-50,122	-64,505	-76,915	-87,912
Gross Profit	12,220	15,105	25,983	39,190	51,017
Other Income	208	748	50	50	50
Selling and marketing expenses	-10,909	-15,872	-17,193	-19,738	-20,839
Research and development expenses	-3,647	-7,072	-9,049	-11,610	-13,893
General and administrative expenses	-2,171	-5,832	-5,429	-6,966	-7,641
Adj. EBITDA	-3,211	-4,315	3,250	11,546	20,966
Finance Costs	-19	-45	-20	-20	-20
Profit before tax	-18,934	-115,491	-5,608	956	8,724
Income tax expense	-54	-2	0	-191	-1,745
Minority interests	-71	-16	-56	8	70
Adj.Profit attributable	-2,853	-8,517	-3,020	4,085	10,951

Source: SWS Research

Consolidated Cash Flow Statement

Rmbm	2017	2018	2019E	2020E	2021E
Profit before taxation	-18,934	-115,491	-5,608	765	6,979
Plus：Depr. and amortisation	844	5,367	9,413	1,559	2,336
Finance cost	19	45	20	20	20
Losses from investments	14,555	-1,836	0	0	0
Change in working capital	2,512	-238	3,654	6,393	5,675
Others	693	102,974	-20	-20	-20
CF from operating activities	-310	-9,180	7,459	8,716	14,990
CAPEX	-746	-2,280	-2,000	-2,000	-2,000
Other CF from investing activities	-14,411	-21,159	0	0	0
CF from investing activities	-15,157	-23,439	-2,000	-2,000	-2,000
Equity financing	0	28,516	0	0	0
Net change in liabilities	161	1,248	2,000	2,000	2,000
Dividend and interest paid	0	-4	0	0	0
Other CF from financing activities	25,347	-465	0	0	0
CF from financing activities	25,508	29,295	2,000	2,000	2,000
Net cash flow	10,040	-3,323	7,459	8,716	14,990

Source：SWS Research

Consolidated Balance Sheet

Rmbm	2017	2018	2019E	2020E	2021E
Current Assets	54,438	73,149	81,047	90,019	105,237
Bank balances and cash	19,409	17,044	24,503	33,219	48,208
Trade and other receivables	432	466	905	1,161	1,389
Inventories	88	400	400	400	400
Other current assets	34,508	55,239	55,239	55,239	55,239
Long-term investment	1,952	2,103	2,103	2,103	2,103
PP&E	916	3,979	3,411	3,042	2,802
Intangible and other assets	26,328	41,430	34,584	35,395	35,299
Total Assets	83,634	120,662	121,146	130,560	145,442
Current Liabilities	20,517	31,825	37,917	46,566	54,470
Borrowings	162	1,800	3,800	5,800	7,800
Trade and other payables	12,031	12,937	16,126	19,229	21,978
Other current liabilities	8,325	17,088	17,991	21,538	24,692
Long-term liabilities	103,618	2,327	2,327	2,327	2,327
Total Liabilities	124,136	34,152	40,244	48,893	56,796
Minority Interests	58	5	-51	-43	27
Shareholder Equity	-40,559	86,504	80,953	81,710	88,619
Share Capital	0	0	0	0	0
Reserves	9,805	252,543	252,543	252,543	252,543
Equity attributable	-50,364	-166,039	-171,591	-170,834	-163,925
Total Liabilities and equity	83,634	120,662	121,146	130,560	145,442

Source: SWS Research

Key Financial Ratios

	2017	2018	2019E	2020E	2021E
Ratios per share (Rmb)					
Earnings per share	(1.87)	(3.13)	(0.60)	0.81	2.18
Diluted earnings per share	(1.87)	(3.13)	(0.60)	0.81	2.18
Operating CF per share	(0.20)	(3.37)	1.49	1.74	2.99
Dividend per share	0.00	0.00	0.00	0.00	0.00
Net assets per share	(26.53)	31.76	16.14	16.28	17.65
Key Operating Ratios (%)					
ROIC	12.14	(40.36)	(7.12)	11.82	22.16
ROE	8.62	(37.08)	(3.61)	5.02	12.86
Gross profit margin	36.02	23.16	28.71	33.75	36.72
Ebitda margin	(9.46)	(6.62)	3.59	9.94	15.09
Ebit margin	(11.95)	(14.84)	(6.81)	8.60	13.41
Growth rate of Revenue(YoY)	161.22	92.25	38.73	28.31	19.66
Growth rate of Profit(YoY)	n.a.	n.a.	n.a.	n.a.	168
Debt-to-asset ratio	32.21	(21.39)	(34.39)	(50.54)	(83.77)
Turnover rate of net assets	(0.84)	0.75	1.12	1.42	1.57
Turnover rate of total assets	0.41	0.54	0.75	0.89	0.96
Effective tax rate (%)	(0.29)	(0.00)	0.00	20.00	20.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Valuation Ratios (x)					
P/E	(31.65)	(18.89)	(98.06)	72.59	27.07
P/B	(2.23)	1.86	3.66	3.63	3.35
EV/Sale	2.09	2.23	3.04	2.32	1.84
EV/Ebitda	(22.13)	(33.75)	84.78	23.30	12.21

Source: SWS Research

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