

# Meituan Dianping (3690.HK)

Earnings Review: Top line above expectation: Leading market share with core EBIT beat, outlook in line; Buy

Buy

**3690.HK** 12m Price Target: **HK\$70.00** Price: **HK\$58.90** Upside: **18.8%**

We believe **Meituan Dianping's** revenue and adjusted EBIT beat for 4Q18 demonstrates management's ability to: **(1)** maintain the company's **Food delivery** market share leadership (60% in 2018 per management), with continued operating efficiency/scale advantage at 4Q EBIT per order of -c.Rmb0.4 (vs. GSe of -Rmb0.6, and peer of -c.Rmb2 per order) on lower-than-expected subsidies, **(2)** achieving higher-than-peer profitability at its **In-store, hotel & travel** segment, at c.30% EBIT margin for 4Q18 (broadly flat qoq) helped by its dominant market positioning and low customer acquisition costs through cross-sell, and **(3)** containing losses at its **New initiatives**, with narrower losses vs. 3Q, with management commentary on further cutting down losses from bike and taxi hailing in 2019.

**Food delivery:** With lower-than-expected 4Q food delivery daily order growth (at 19.9mn, +35% yoy vs. GSe 20.2mn), we trim our 2019/2020/2021 assumptions by -1% to 22.9mn/29.8mn/38.2mn. We continue to assume elevated user subsidies and ongoing support to restaurants until 4Q19E, with food delivery EBIT loss of Rmb0.5 per order over 2019E, with a profit turnaround in 2020E/2021E with adjusted EBIT of Rmb0.5/Rmb1.1 per order (unchanged).

Our group revenue and EPS remain broadly unchanged (Exhibit 1), as our slightly lowered food delivery orders are offset by lower drags from new initiatives. While we continue to expect near-term share price volatility on potential 2019 consensus revenue cuts (we are currently 5% below Bloomberg consensus) and lock-up expiry on March 21, we **maintain our Buy** with 12-m SOTP-based target price at **HK\$70** (unchanged) as we believe the company remains well positioned given significant market TAM, with its scale advantage in food/travel and execution track record. See within for the results, call takeaways and management's commentary on

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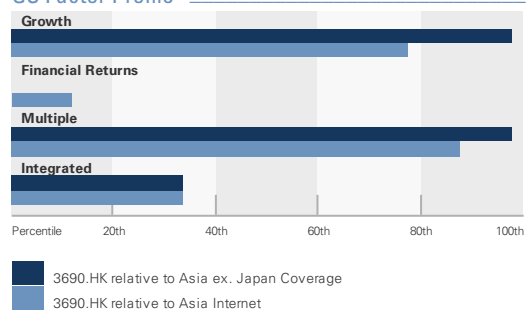
**Key Data**

Market cap: HK\$353.6bn / \$45.0bn  
Enterprise value: HK\$290.0bn / \$36.9bn  
3m ADTV: HK\$356.4mn / \$45.4mn  
China  
Asia Internet  
M&A Rank: 3

**GS Forecast**

	12/18	12/19E	12/20E	12/21E
<b>Revenue (Rmb mn) New</b>	<b>65,227.3</b>	<b>90,163.6</b>	<b>128,698.9</b>	<b>172,354.7</b>
Revenue (Rmb mn) Old	64,702.0	90,117.5	129,196.5	172,630.3
EBITDA (Rmb mn)	(4,733.8)	(995.7)	13,765.2	27,907.7
<b>EPS (Rmb) New</b>	<b>(3.13)</b>	<b>(0.97)</b>	<b>1.49</b>	<b>3.66</b>
EPS (Rmb) Old	(3.29)	(0.97)	1.49	3.68
P/E (X)	NM	NM	33.9	13.8
P/B (X)	3.5	3.9	3.7	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0
CROCI (%)	(6.2)	(4.3)	12.5	26.3
	<b>12/18</b>	<b>3/19E</b>	<b>6/19E</b>	<b>9/19E</b>
EPS (Rmb)	(0.31)	(0.34)	(0.30)	(0.24)

**GS Factor Profile**



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Buy

## Meituan Dianping (3690.HK)

Rating since Oct 24, 2018

## Ratios &amp; Valuation

	12/18	12/19E	12/20E	12/21E
P/E (X)	NM	NM	33.9	13.8
P/B (X)	3.5	3.9	3.7	3.0
FCF yield (%)	(7.8)	(2.1)	0.7	9.0
EV/EBITDA (X)	NM	NM	17.9	7.7
CROCI (%)	(6.2)	(4.3)	12.5	26.3
ROE (%)	(37.1)	(7.1)	11.2	24.2
Net debt/equity (%)	(70.4)	(69.7)	(67.9)	(84.5)
Interest cover (X)	(225.8)	(98.4)	144.7	377.7
Days inventory outst, sales	1.4	1.8	1.6	1.6
Receivable days	2.5	2.2	2.2	2.3
Days payable outstanding	29.2	30.6	26.4	26.9
DuPont ROE (%)	(9.8)	(7.5)	10.8	22.0
Turnover (X)	0.5	0.8	1.1	1.1
Leverage (X)	1.4	1.5	1.4	1.5

## Growth &amp; Margins (%)

	12/18	12/19E	12/20E	12/21E
Total revenue growth	92.3	38.2	42.7	33.9
EBITDA growth	(75.9)	79.0	NM	102.7
EPS growth	(67.6)	69.1	254.2	145.9
DPS growth	NM	NM	NM	NM
EBIT margin	(15.5)	(6.6)	6.8	13.3
EBITDA margin	(7.3)	(1.1)	10.7	16.2
Net income margin	(13.1)	(6.5)	7.1	13.1

## Price Performance



Source: FactSet. Price as of 11 Mar 2019 close.

## Income Statement (Rmb mn)

	12/18	12/19E	12/20E	12/21E
Total revenue	65,227.3	90,163.6	128,698.9	172,354.7
Cost of goods sold	(50,096.3)	(62,421.6)	(82,157.3)	(103,790.7)
SG&A	(18,800.1)	(25,999.2)	(27,853.8)	(33,279.7)
R&D	(6,431.5)	(7,733.0)	(9,882.1)	(12,301.8)
Other operating inc./exp.)	-	-	-	-
<b>EBITDA</b>	<b>(4,733.8)</b>	<b>(995.7)</b>	<b>13,765.2</b>	<b>27,907.7</b>
Depreciation & amortization	(5,366.8)	(4,994.4)	(4,959.6)	(4,925.2)
<b>EBIT</b>	<b>(10,100.6)</b>	<b>(5,990.2)</b>	<b>8,805.7</b>	<b>22,982.5</b>
Net interest inc./exp.)	249.3	164.6	258.2	444.4
Income/(loss) from associates	(48.3)	(48.3)	(48.3)	(48.3)
<b>Pre-tax profit</b>	<b>(8,515.3)</b>	<b>(5,853.8)</b>	<b>9,115.6</b>	<b>23,628.6</b>
Provision for taxes	(1.9)	0.0	0.0	(990.1)
Minority interest	-	-	-	-
Preferred dividends	-	-	-	-
<b>Net inc. (pre-exceptionals)</b>	<b>(8,517.2)</b>	<b>(5,853.8)</b>	<b>9,115.6</b>	<b>22,638.5</b>
Post-tax exceptionals	(106,975.5)	(2,424.6)	(3,079.3)	(3,827.6)
<b>Net inc. (post-exceptionals)</b>	<b>(115,492.7)</b>	<b>(8,278.5)</b>	<b>6,036.3</b>	<b>18,811.0</b>
<b>EPS (basic, pre-exception) (Rmb)</b>	<b>(3.13)</b>	<b>(0.97)</b>	<b>1.49</b>	<b>3.66</b>
<b>EPS (diluted, pre-exception) (Rmb)</b>	<b>(3.13)</b>	<b>(0.97)</b>	<b>1.49</b>	<b>3.66</b>
<b>EPS (basic, post-exception) (Rmb)</b>	<b>(42.40)</b>	<b>(1.37)</b>	<b>0.99</b>	<b>3.04</b>
<b>EPS (diluted, post-exception) (Rmb)</b>	<b>(42.40)</b>	<b>(1.37)</b>	<b>0.99</b>	<b>3.04</b>
DPS (Rmb)	-	-	-	-
Div. payout ratio (%)	0.0	0.0	0.0	0.0

## Balance Sheet (Rmb mn)

	12/18	12/19E	12/20E	12/21E
Cash & cash equivalents	17,043.7	10,476.1	12,481.5	40,194.5
Accounts receivable	466.3	644.6	920.1	1,232.2
Inventory	400.2	498.7	656.4	829.2
Other current assets	55,239.1	58,133.6	61,661.6	63,342.5
<b>Total current assets</b>	<b>73,149.4</b>	<b>69,753.0</b>	<b>75,719.5</b>	<b>105,598.4</b>
Net PP&E	3,978.8	3,646.3	3,076.7	3,227.5
Net intangibles	33,876.0	32,634.1	31,398.9	30,170.7
Total investments	8,345.4	8,555.7	8,787.1	9,041.6
Other long-term assets	1,311.9	1,564.6	2,902.5	1,974.5
<b>Total assets</b>	<b>120,661.5</b>	<b>116,153.8</b>	<b>121,884.7</b>	<b>150,012.8</b>
Accounts payable	5,341.0	5,133.3	6,756.2	8,535.1
Short-term debt	1,800.0	1,800.0	1,800.0	1,800.0
Other current liabilities	24,684.1	28,423.5	26,126.1	33,245.9
<b>Total current liabilities</b>	<b>31,825.1</b>	<b>35,356.9</b>	<b>34,682.3</b>	<b>43,581.0</b>
Long-term debt	-	-	-	-
Other long-term liabilities	2,326.7	2,565.6	2,934.9	3,353.2
<b>Total long-term liabilities</b>	<b>2,326.7</b>	<b>2,565.6</b>	<b>2,934.9</b>	<b>3,353.2</b>
<b>Total liabilities</b>	<b>34,151.7</b>	<b>37,922.5</b>	<b>37,617.1</b>	<b>46,934.2</b>
Preferred shares	-	-	-	-
Total common equity	86,504.3	78,225.9	84,262.2	103,073.1
<b>Minority interest</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>
<b>Total liabilities &amp; equity</b>	<b>120,661.5</b>	<b>116,153.8</b>	<b>121,884.7</b>	<b>150,012.8</b>
Gross cash invested (ex cash)	78,618.2	81,888.0	89,909.9	87,279.3
Net debt, adjusted	(61,329.8)	(55,014.2)	(57,659.4)	(87,118.6)
Average capital employed	5,758.9	70,410.7	71,570.7	69,135.1
BVPS (Rmb)	14.41	12.90	13.76	16.66

## Cash Flow (Rmb mn)

	12/18	12/19E	12/20E	12/21E
Net income	(8,517.2)	(5,853.8)	9,115.6	22,638.5
D&A add-back	5,366.8	4,994.4	4,959.6	4,925.2
Minority interest add-back	-	-	-	-
Net (inc)/dec working capital	(5,614.4)	346.8	(5,604.3)	8,079.2
Other operating cash flow	(415.0)	(2,424.6)	(3,079.3)	(3,827.6)
<b>Cash flow from operations</b>	<b>(9,179.8)</b>	<b>(2,937.2)</b>	<b>5,391.5</b>	<b>31,815.3</b>
Capital expenditures	(1,424.0)	(3,398.1)	(3,123.5)	(3,805.9)
Acquisitions	(130.8)	(210.3)	(231.4)	(254.5)
Divestitures	-	-	-	-
Others	(21,883.9)	(21.9)	(31.3)	(41.9)
<b>Cash flow from investing</b>	<b>(23,438.7)</b>	<b>(3,630.4)</b>	<b>(3,386.1)</b>	<b>(4,102.3)</b>
Dividends paid (common & pref)	-	-	-	-
Inc/(dec) in debt	1,968.1	-	-	-
Other financing cash flows	28,336.8	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>30,304.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total cash flow</b>	<b>(2,313.6)</b>	<b>(6,567.6)</b>	<b>2,005.4</b>	<b>27,713.0</b>
Free cash flow	(10,603.8)	(6,335.4)	2,268.1	28,009.4

Source: Company data, Goldman Sachs Research estimates.

outlook. **Key risks:** Increased competition, labor cost inflation, food safety concerns/regulations.

## Key highlights from 4Q results call and our estimate changes

### Food delivery

- **Key numbers:** 4Q GTV grew +41% yoy to Rmb80.2bn, as daily average food delivery transactions of 19.9mn was 1% below our estimate of 20.2mn. Revenue growth was +66% yoy, while monetization rate to 13.7% was in line vs. GSe, as ASP growth remained at +4% yoy to Rmb43.8, vs. +4%/+8% one/two quarters ago. Gross margin for the quarter was 13.4%, -3.2% qoq mainly on weather-related rider subsidy and targeted subsidy to users of higher lifetime value (LTV) and merchants of high ROI.
  - Looking back on 2018, management commented that the majority of the new food delivery annual transacting users (303mn by end 2018, +74mn/32% yoy) are from **third-tier cities and below**, suggesting success in geographic expansion of the business. As Meituan continued to increase the **efficiency** by 10% yoy of its intelligent dispatch system, it also increased the mix of delivery over 3km to 14% of total food delivery orders in 2018.
  - Management clarified that the company **did not increase overall merchant-side commission rate** (monetization rate -0.3ppt qoq), contrary to some press coverage previously.
  - We estimate 4Q18/FY2018 food delivery non-GAAP operating losses to be Rmb701mn/Rmb2.3bn, representing margins of -6.4%/-6.2%, as 1PL delivery operating losses more than offset the profit-making 3PL marketplace business (c.36% of total food delivery orders in 4Q18/2018 by GSe).
- **On competition with Ele.me**, management commented they were delighted to end 2018 with more than 60% of total market share by GTV, and saw **market share gains in recent months**. Management noted that **subsidy rate** (we estimate at 3.2% of GTV) in 4Q18 was less than half of competitor's, and they expect this level of competition intensity to carry forward into 2019, as the company keeps investing in high long-term value customers and high ROI merchants to achieve higher purchase frequency and better product mix. In **higher-tier cities** of great competition, Meituan looks to keep leveraging high-quality relationships with restaurants and better delivery quality to sustain its advantages, whereas it strives to solidify market leadership in **lower-tier cities** with its stronger brand recognition and first mover advantage over competition.
- **Outlook:** On the users' side, management plans to further expand food delivery service categories, consumption scenarios and focus on personification/targeted promotions to increase transaction frequency; on merchants' side, management will further enhance operational digitalization, fulfillment capabilities as well as invest in autonomous delivery technologies and explore new delivery models. Particularly, management noted that currently Meituan's food delivery has upside both in **the number of transacting users** (now still <50% of smartphone owners in China) and

**transacting frequency** (only 40% of the annual transacting users are active on a monthly basis; average purchase frequency is only 25% of top 10% users). Management reiterates **unchanged long-term profitability view** of the food delivery business (Rmb1.0 adjusted EBIT per order).

- **Our estimates:** We trim our 2019E-2021E food delivery segment revenue by -1% on slightly softer food delivery order growth as the industry enters a new phase of more moderated and sustainable growth. Accordingly, we lower our adjusted EBIT by -3%/-1%/0%, mainly on continued investment in user/merchant/rider incentives (subsidy rate reaching 3.8% in 2019E). We maintain our view that the segment would see non-GAAP operating profits in 2020E.

### In-store, hotel & travel

- **Key numbers:** 4Q revenue was Rmb4.6bn, +48% yoy (10% higher than prior GSe). Gross margin of 86.8% came below prior GSe of 90.0%, which management attributed to unfavorable impact from macro headwinds on the hotel/travel segments.
- **On strategy/competition:** The key moats for the segment are largely unchanged with **low user acquisition costs** (>90% of hotel customers being existing food deliver/in-store users in 2018) and **first mover advantage/network effects** (c.6bn User Generated Content on >14mn points of interest as of end 2018) for the hotel/in-store business respectively.
- **Outlook:** Management plans to further increase monetization for the segment through the expansion of service categories, increasing merchant penetration and the adoption of their marketing solutions. Specifically, the company sees greater room for merchant ARPU, underpinned by growth in online marketing services (c.47% of revenues for the entire segment in 4Q18), given:
  - Relatively low penetration rate of their CPC/subscription based marketing solutions on active merchants (used by 20%/30% of active merchants);
  - SMEs under-served by traditional online advertising players (search-engine/social media);
  - Network effects from increasing merchants' recognition of their platform's value, driving a shift of offline marketing budget to online;
- **Our estimates:** We adjust 2019E-2021E In-store, hotel & travel revenue forecasts by 3%/1%/1%, factoring in quicker monetization of the segment in 2019 (underpinned by higher merchant online marketing revenues). Consequently, our adjusted EBIT for 2019 is raised by 3% on higher operating leverage and we keep our 2020E/2021E numbers largely unchanged.

### New initiatives

- **Key numbers:** 4Q revenue was Rm4.2bn, +462% yoy (7% higher than prior GSe), and gross margin of -23.3% was above prior GSe of -25.3%, vs. -37.4% in 3Q18, indicating a narrowing loss sequentially.

- **Outlook:** We have seen a sequential gross margin improvement from new initiatives business (-76.4%/-37.4%/-23.3% for 2Q/3Q/4Q in 2018). With a more disciplined investment strategy moving into 2019, management will keep focusing on **food-related** new businesses, i.e. **RMS** (restaurant management services) and **supply chain solutions (Kuailv), narrowing losses of bike sharing and car hailing businesses by half**, and **being more prudent on the new retail area** (e.g. non-food delivery). On **bike sharing** business, we expect a further loss control from the organizational realignment (fully integrated with Meituan app) and rational deployment (we keep our forecasts of maintaining 5mn bike fleets moving forward).
- **Developments update: (1)** In March 2019, Meituan announced its plan to pull out operations of bike sharing business in some Asian countries including Singapore, Malaysia, Thailand, India and Australia, showcasing further scale-back on the investments; **(2)** Meituan launched *RMS-beverage edition* in December 2018 that tapped to well-known beverage brands in this fast-growing vertical.
- **Our estimates:** We fine tune our 2019E-2021E segment revenue by -1%/0%/1%, and our adjusted operating profit in 2019E/2020E/2021E is now -Rmb8.1bn/-Rmb5.8bn/-Rmb3.7bn (vs. Rmb-8.1bn/-5.9bn/-3.8bn prior) mainly as a result of further narrowed losses in bike/taxi businesses.

## Estimate changes and valuation

**Exhibit 1: Our estimate changes at a glance**

Income Statement (Yearly) (Rmb mn)	New 2019E	Old 2019E	Chg (%)	New 2020E	Old 2020E	Chg (%)	New 2021E	Old 2021E	Chg (%)
<b>Revenues:</b>									
Food delivery	51,680	52,078	-1%	75,261	75,861	-1%	104,036	104,837	-1%
In-store, hotel & travel	21,297	20,689	3%	27,617	27,438	1%	34,888	34,648	1%
New initiatives and others	17,186	17,351	-1%	25,821	25,898	0%	33,431	33,145	1%
<b>Total revenues</b>	<b>90,164</b>	<b>90,117</b>	<b>0%</b>	<b>128,699</b>	<b>129,197</b>	<b>0%</b>	<b>172,355</b>	<b>172,630</b>	<b>0%</b>
<b>Cost of revenues:</b>									
Food delivery	(44,310)	(43,568)	2%	(58,665)	(57,794)	2%	(76,245)	(75,243)	1%
In-store, hotel & travel	(2,304)	(2,045)	13%	(2,932)	(2,657)	10%	(3,669)	(3,320)	10%
New initiatives and others	(15,842)	(15,920)	0%	(20,604)	(20,574)	0%	(23,931)	(23,795)	1%
<b>Total cost of revenues</b>	<b>(62,455)</b>	<b>(61,533)</b>	<b>1%</b>	<b>(82,200)</b>	<b>(81,025)</b>	<b>1%</b>	<b>(103,844)</b>	<b>(102,358)</b>	<b>1%</b>
<b>Gross profit:</b>									
Food delivery	7,370	8,509	-13%	16,596	18,067	-8%	27,792	29,594	-6%
In-store, hotel & travel	18,993	18,644	2%	24,685	24,781	0%	31,219	31,328	0%
New initiatives and others	1,344	1,431	-6%	5,217	5,323	-2%	9,500	9,350	2%
<b>Total gross profit</b>	<b>27,708</b>	<b>28,584</b>	<b>-3%</b>	<b>46,499</b>	<b>48,171</b>	<b>-3%</b>	<b>68,511</b>	<b>70,272</b>	<b>-3%</b>
Selling and marketing expenses	(22,689)	(23,879)	-5%	(23,913)	(25,878)	-8%	(28,759)	(30,808)	-7%
Research and development expenses	(8,566)	(8,561)	0%	(10,939)	(10,982)	0%	(13,616)	(13,638)	0%
General and administrative expenses	(4,869)	(4,866)	0%	(5,920)	(5,943)	0%	(6,980)	(6,992)	0%
<b>Total operating expenses</b>	<b>(36,123)</b>	<b>(37,307)</b>	<b>-3%</b>	<b>(40,772)</b>	<b>(42,802)</b>	<b>-5%</b>	<b>(49,356)</b>	<b>(51,437)</b>	<b>-4%</b>
<b>Total operating profit</b>	<b>(8,395)</b>	<b>(8,702)</b>	<b>4%</b>	<b>5,826</b>	<b>5,469</b>	<b>7%</b>	<b>19,405</b>	<b>19,085</b>	<b>2%</b>
<b>Total operating profit, adjusted</b>	<b>(5,990)</b>	<b>(6,071)</b>	<b>1%</b>	<b>8,806</b>	<b>8,736</b>	<b>1%</b>	<b>22,982</b>	<b>23,020</b>	<b>0%</b>
Profit / (loss) before income tax	(8,278)	(8,529)	3%	6,036	5,736	5%	19,801	19,538	1%
<b>Net profit / (loss) from continuing operations</b>	<b>(8,278)</b>	<b>(8,529)</b>	<b>3%</b>	<b>6,036</b>	<b>5,736</b>	<b>5%</b>	<b>18,811</b>	<b>18,561</b>	<b>1%</b>
<b>Net profit / (loss)</b>	<b>(8,278)</b>	<b>(8,529)</b>	<b>3%</b>	<b>6,036</b>	<b>5,736</b>	<b>5%</b>	<b>18,811</b>	<b>18,561</b>	<b>1%</b>
<b>Net profit, adjusted</b>	<b>(5,854)</b>	<b>(5,878)</b>	<b>0%</b>	<b>9,116</b>	<b>9,103</b>	<b>0%</b>	<b>22,639</b>	<b>22,746</b>	<b>0%</b>
<b>Margins%</b>	<b>New 2019E</b>	<b>Old 2019E</b>	<b>Chg (pp)</b>	<b>New 2020E</b>	<b>Old 2020E</b>	<b>Chg (pp)</b>	<b>New 2021E</b>	<b>Old 2021E</b>	<b>Chg (pp)</b>
Group gross margin	30.7%	31.7%	-1.0pp	36.1%	37.3%	-1.2pp	39.7%	40.7%	-1.0pp
Food delivery	14.3%	16.3%	-2.1pp	22.1%	23.8%	-1.8pp	26.7%	28.2%	-1.5pp
In-store, hotel & travel	89.2%	90.1%	-0.9pp	89.4%	90.3%	-0.9pp	89.5%	90.4%	-0.9pp
New initiatives and others	7.8%	8.2%	-0.4pp	20.2%	20.6%	-0.3pp	28.4%	28.2%	0.2pp
Operating margin, adjusted	-6.6%	-6.7%	0.1pp	6.8%	6.8%	0.1pp	13.3%	13.3%	0.0pp
EBITDA margin, adjusted	-1.1%	-1.0%	-0.1pp	10.7%	10.7%	0.0pp	16.2%	16.2%	0.0pp
Net margin, adjusted	-6.5%	-6.5%	0.0pp	7.1%	7.0%	0.0pp	13.1%	13.2%	0.0pp

Source: Goldman Sachs Global Investment Research

## Exhibit 2: Our SOTP-based valuation for Meituan Dianping: 12-m target price is still HK\$70

2020E SOTP Valuation	2020E Rev. (US\$m)	2020E NOPAT (US\$m)	Implied EV / Rev.	P/E	Valuation to Meituan 2020E (US\$m)	2020E Val. (HK\$m)	2020E Val. Per share (HK\$)	Value split	Comment
Food Delivery	11,068	1,089	2.2x	22x	23,954	186,837	30.5	39%	Assuming 29.8mn (from 30.3mn) daily orders in 2020E and normalized Rmb0.8 per order non-GAAP EBIT (average 2020-21E), 15% tax rate, and 22x P/E, referencing 2020E average target P/E of large cap (BAT) China internet names under our coverage
In-store, hotel & travel	4,061	1,108	5.2x	19x	21,044	164,142	26.8	34%	At 32% OP margin, 15% tax rate, and 19x P/E, referencing 2020E average target P/E of global travel large cap (US\$10bn+) OTAs within GS coverage
New initiatives	3,797	(849)	2.0x	N/A	7,585	59,164	9.7	12%	2020E DCF, 15% WACC, 3% terminal growth rate
Meituan Bike	377	(168)	4.5x	N/A	1,678	13,087		3%	2020E DCF, 15% WACC, 3% terminal growth rate, includes non-restaurant on-time delivery, grocery, taxi
Other 2C businesses	1,718	(430)	1.5x	N/A	2,599	20,273		4%	3.5x EV/Rev. for ERP; other 2B using 2020E DCF, 15% WACC, 3% terminal growth rate
ERP & other 2B	1,703	(251)	1.9x	N/A	3,308	25,804		5%	
Associates/investments affiliates					306	2,389	0.4	0%	Company disclosed Investments accounted for using the equity method
Net cash					8,410	65,600	10.7	14%	2020E net cash
NAV					61,299	478,132	78.1	100%	
Less: holdco discount			10%			6,130	47,813	7.8	In-line with our assumptions for BAT. Synergies of platform reflected through margins
Fully diluted shares outstanding (mn)			6,124						
Implied multiples			2.9X	41X	55,169	430,319	70		

Source: Goldman Sachs Global Investment Research

## Exhibit 3: Meituan Dianping income statement

Income statement (Rmb mn)	2016	2017	2018E	2019E	2020E	2021E	1Q18	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E
<b>By business segment</b>														
Food delivery	5,301	21,032	38,143	51,680	75,261	104,036	7,056	8,908	11,172	11,006	10,224	12,488	14,383	14,585
In-store, hotel & travel	7,020	10,853	15,840	21,297	27,617	34,888	3,138	3,673	4,436	4,594	4,370	5,070	5,854	6,003
New initiatives and others	667	2,043	11,244	17,186	25,821	33,431	1,081	2,492	3,468	4,203	3,047	3,519	4,920	5,700
<b>Total revenues</b>	<b>12,988</b>	<b>33,928</b>	<b>65,227</b>	<b>90,164</b>	<b>128,699</b>	<b>172,355</b>	<b>11,275</b>	<b>15,073</b>	<b>19,076</b>	<b>19,803</b>	<b>17,641</b>	<b>21,077</b>	<b>25,157</b>	<b>26,289</b>
% yoy	223%	161%	92%	38%	43%	34%					56%	40%	32%	33%
<b>Cost of revenues</b>	<b>(7,047)</b>	<b>(21,708)</b>	<b>(50,122)</b>	<b>(62,455)</b>	<b>(82,200)</b>	<b>(103,844)</b>	<b>(8,063)</b>	<b>(12,232)</b>	<b>(14,505)</b>	<b>(15,322)</b>	<b>(12,854)</b>	<b>(14,426)</b>	<b>(16,573)</b>	<b>(18,603)</b>
% yoy	469%	208%	131%	25%	32%	26%					59%	18%	14%	21%
<b>Gross Profit</b>	<b>5,941</b>	<b>12,220</b>	<b>15,105</b>	<b>27,708</b>	<b>46,499</b>	<b>68,511</b>	<b>3,212</b>	<b>2,841</b>	<b>4,571</b>	<b>4,481</b>	<b>4,787</b>	<b>6,651</b>	<b>8,584</b>	<b>7,686</b>
<b>By business segment</b>														
Food delivery	(406)	1,699	5,268	7,370	16,596	27,792	535	1,410	1,851	1,472	1,219	2,104	2,430	1,616
In-store, hotel & travel	5,939	9,579	14,095	18,993	24,685	31,219	2,756	3,334	4,017	3,988	3,889	4,613	5,313	5,179
New initiatives and others	408	941	(4,259)	1,344	5,217	9,500	(79)	(1,904)	(1,297)	(979)	(321)	(66)	840	891
<b>Operating expenses</b>														
Selling and marketing expenses	(8,337)	(10,909)	(15,872)	(22,889)	(23,913)	(28,759)	(2,846)	(3,868)	(4,622)	(4,535)	(4,805)	(5,853)	(6,952)	(5,078)
Research and development expenses	(2,367)	(3,647)	(7,072)	(8,566)	(10,939)	(13,616)	(1,383)	(1,704)	(2,003)	(1,982)	(1,574)	(2,037)	(2,438)	(2,516)
General and administrative	(1,723)	(2,171)	(5,832)	(4,869)	(5,920)	(6,980)	(667)	(996)	(1,322)	(2,846)	(988)	(1,201)	(1,358)	(1,321)
<b>Total Operating expenses</b>	<b>(12,426)</b>	<b>(16,727)</b>	<b>(28,775)</b>	<b>(36,123)</b>	<b>(40,772)</b>	<b>(49,356)</b>	<b>(4,896)</b>	<b>(6,566)</b>	<b>(7,948)</b>	<b>(9,363)</b>	<b>(7,367)</b>	<b>(9,092)</b>	<b>(10,748)</b>	<b>(8,916)</b>
Fair value changes on investments	24	473	1,836	-	-	-	471	715	(341)	991	-	-	-	-
Other (losses)/gains, net	206	208	748	20	100	250	165	161	266	157	5	5	5	5
<b>Operating profit</b>	<b>(6,255)</b>	<b>(3,826)</b>	<b>(11,086)</b>	<b>(8,395)</b>	<b>5,826</b>	<b>19,405</b>	<b>(1,048)</b>	<b>(2,851)</b>	<b>(3,451)</b>	<b>(3,735)</b>	<b>(2,575)</b>	<b>(2,436)</b>	<b>(2,159)</b>	<b>(1,225)</b>
<b>Adjusted operating profit</b>	<b>(5,572)</b>	<b>(3,536)</b>	<b>(10,101)</b>	<b>(5,990)</b>	<b>8,806</b>	<b>22,982</b>	<b>(1,390)</b>	<b>(3,340)</b>	<b>(2,837)</b>	<b>(2,534)</b>	<b>(2,106)</b>	<b>(1,874)</b>	<b>(1,488)</b>	<b>(523)</b>
Depreciation of PP&E	(266)	(328)	(4,252)	(3,731)	(3,693)	(3,655)	(121)	(1,426)	(1,343)	(1,362)	(730)	(872)	(1,041)	(1,088)
Amortization of intangible assets	(307)	(517)	(1,115)	(1,264)	(1,270)	(1,270)	(152)	(323)	(322)	(318)	(247)	(295)	(353)	(368)
<b>EBITDA</b>	<b>(5,682)</b>	<b>(2,982)</b>	<b>(5,719)</b>	<b>(3,400)</b>	<b>10,786</b>	<b>24,330</b>	<b>(775)</b>	<b>(1,102)</b>	<b>(1,786)</b>	<b>(2,055)</b>	<b>(1,598)</b>	<b>(1,268)</b>	<b>(766)</b>	<b>232</b>
<b>Adjusted EBITDA</b>	<b>(4,998)</b>	<b>(2,692)</b>	<b>(4,734)</b>	<b>(996)</b>	<b>13,765</b>	<b>27,908</b>	<b>(1,116)</b>	<b>(1,591)</b>	<b>(1,172)</b>	<b>(855)</b>	<b>(1,129)</b>	<b>(706)</b>	<b>(94)</b>	<b>933</b>
Interest income	22	61	294	225	319	505	47	62	68	116	44	53	63	66
Interest expense	(56)	(19)	(45)	(61)	(61)	(61)	(8)	(5)	(15)	(15)	(12)	(14)	(17)	(18)
Fair value changes of convertible redeemable preferred shares	(4,313)	(15,139)	(104,806)	-	-	-	(20,213)	(4,637)	(79,756)	-	-	-	-	-
Share of losses of investments accounted for using the equity method	(28)	(10)	(48)	(48)	(48)	(48)	(1)	7	2	(57)	(9)	(11)	(13)	(14)
<b>Profit / (loss) before income tax</b>	<b>(10,631)</b>	<b>(18,934)</b>	<b>(115,491)</b>	<b>(8,278)</b>	<b>6,036</b>	<b>19,801</b>	<b>(21,223)</b>	<b>(7,424)</b>	<b>(83,153)</b>	<b>(3,690)</b>	<b>(2,552)</b>	<b>(2,409)</b>	<b>(2,127)</b>	<b>(1,191)</b>
Income tax credits / (expenses)	(268)	(54)	(2)	-	-	(990)	159	(292)	(144)	276	-	-	-	-
<b>Net profit / (loss) from continuing operations</b>	<b>(10,899)</b>	<b>(18,988)</b>	<b>(115,493)</b>	<b>(8,278)</b>	<b>6,036</b>	<b>18,811</b>	<b>(21,065)</b>	<b>(7,716)</b>	<b>(83,297)</b>	<b>(3,414)</b>	<b>(2,552)</b>	<b>(2,409)</b>	<b>(2,127)</b>	<b>(1,191)</b>
<b>Net profit / (loss) from discontinued operations</b>	<b>5,104</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit / (loss)</b>	<b>(5,795)</b>	<b>(18,988)</b>	<b>(115,493)</b>	<b>(8,278)</b>	<b>6,036</b>	<b>18,811</b>	<b>(21,065)</b>	<b>(7,716)</b>	<b>(83,297)</b>	<b>(3,414)</b>	<b>(2,552)</b>	<b>(2,409)</b>	<b>(2,127)</b>	<b>(1,191)</b>
Share-based compensation	(913)	(971)	(1,865)	(2,425)	(3,079)	(3,828)	(295)	(388)	(540)	(643)	(474)	(567)	(677)	(707)
<b>Other non-IFRS adjustments</b>	<b>471</b>	<b>(15,164)</b>	<b>(101,701)</b>	-	-	-	<b>(19,789)</b>	<b>(4,118)</b>	<b>(80,294)</b>	<b>2,500</b>	-	-	-	-
<b>Net profit, non-IFRS</b>	<b>(5,324)</b>	<b>(2,853)</b>	<b>(8,517)</b>	<b>(5,854)</b>	<b>9,116</b>	<b>22,639</b>	<b>(981)</b>	<b>(3,211)</b>	<b>(2,464)</b>	<b>(1,862)</b>	<b>(2,078)</b>	<b>(1,842)</b>	<b>(1,450)</b>	<b>(484)</b>
<b>Margins</b>														
Gross Margin	45.7%	36.0%	23.2%	30.7%	36.1%	39.7%	28.5%	18.8%	24.0%	22.6%	27.1%	31.6%	34.1%	29.2%
Food delivery	-7.7%	8.1%	13.8%	14.3%	22.1%	26.7%	7.6%	15.8%	16.6%	13.4%	11.9%	16.9%	16.9%	11.1%
In-store, hotel & travel	84.6%	88.3%	89.0%	89.2%	89.4%	89.5%	87.8%	90.8%	90.6%	86.8%	89.0%	91.0%	90.8%	86.3%
New initiatives and others	61.1%	46.0%	-37.9%	7.8%	20.2%	28.4%	-7.3%	-76.4%	-37.4%	-23.3%	-10.5%	-1.9%	17.1%	15.6%
Sales and marketing	64.2%	32.2%	24.3%	25.2%	18.6%	16.7%	25.2%	25.7%	24.2%	22.9%	27.2%	27.8%	27.6%	19.3%
Research and development	18.2%	10.7%	10.8%	9.5%	8.5%	7.9%	12.3%	11.3%	10.5%	10.0%	8.9%	9.7%	9.7%	9.6%
General and administrative	13.3%	6.4%	8.9%	5.4%	4.6%	4.1%	5.9%	6.6%	6.9%	14.4%	5.6%	5.7%	5.4%	5.0%
Total operating expenses	95.7%	49.3%	44.1%	40.1%	31.7%	28.6%	43.4%	43.6%	41.7%	47.3%	41.8%	43.1%	42.7%	33.9%
Operating profit	-48.2%	-11.3%	-17.0%	-9.3%	4.5%	11.3%	-9.3%	-18.9%	-18.1%	-18.9%	-14.6%	-11.6%	-8.6%	-4.7%
Operating margin, adjusted	-42.9%	-10.4%	-15.5%	-6.6%	6.8%	13.3%	-12.3%	-22.2%	-14.9%	-12.8%	-11.9%	-8.9%	-5.9%	-2.0%
EBITDA margin, adjusted	-38.5%	-7.9%	-7.3%	-1.1%	10.7%	16.2%	-9.9%	-10.6%	-6.1%	-4.3%	-6.4%	-3.4%	-0.4%	3.6%
Net margin, non-IFRS	-41.2%	-8.4%	-13.1%	-6.5%	7.1%	13.1%	-8.7%	-21.3%	-12.9%	-9.4%	-11.8%	-8.7%	-5.8%	-1.8%

Source: Company data, Goldman Sachs Global Investment Research



## Appendix

**Meituan Dianping's lock-up expiry** will be on March 21, for which we calculate the free-float share available then would be c.60%, excluding management's/Tencent's stakes (currently 13.8%/19.2%, respectively).

**Exhibit 4: Snapshot of Meituan Dianping's pre-IPO and IPO raising consideration and recent market value (March 11, 2019)**

	Round	Closing date	Amount of consideration	Latest market value (US\$bn)	Implied cost per share (HK\$)
<b>Meituan:</b> Pre Meituan Dianping merger	<b>Series A</b> , then became post-merger Series A-4	June 2011	US\$12mn	2.1	<b>0.3</b>
	<b>Series B</b> , then became post-merger Series A-5	June 2011	US\$50mn	3.2	<b>0.9</b>
	<b>Series C</b> , then became post-merger Series A-6	April 2014	US\$250mn	1.9	<b>7.8</b>
	<b>Series D</b> , then became post-merger Series A-11	February 2015	US\$700mn	1.7	<b>24.5</b>
<b>Dianping:</b> Pre Meituan Dianping merger	<i>Various series that later became Series A-1, A-2, A-3, A-7, A-8, A-9, A-10.</i>				
<b>Post- Dianping merger</b>	Series A	October 2015	<i>*In connection with the merger previously issued preferred shares of Meituan and Dianping were converted into Series A-1 through A-11 Preferred Shares</i>		
	Series B	February 2016	US\$3.1bn	6.1	<b>29.9</b>
	Series C	October 2017	US\$4.1bn	5.6	<b>43.3</b>
	Series A-12	April 2018	<i>In connection with the acquisition of Mobike</i>		
<b>IPO</b>		September 2018	HK\$32.6bn	3.6	<b>69.0</b>

Source: Company data, Goldman Sachs Global Investment Research



# Disclosure Appendix

## Reg AC

I, Ronald Keung, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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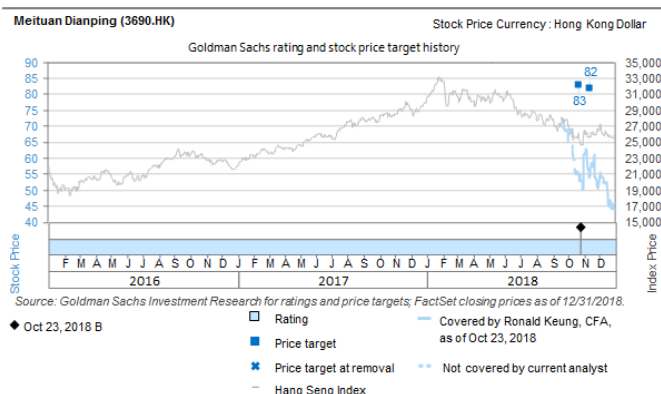
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