

# Meituan (3690 HK)

## Balancing growth and efficiency

Meituan delivered solid business recovery amid challenging environment over June to August, though pandemic resurgence brought disruption again since September. But lowered subsidy for food delivery business, as well as cost optimization for new initiatives should help on YoY improvement in profitability. Although strong margin expansion is unlikely to persist into 4Q due to seasonality and unforeseeable operating conditions, we are still positive on the long-term monetization potentials of Meituan as it continues to better facilitate consumption, leisure and lifestyle related needs, putting its large user base, high user stickiness and usage frequency to deepen monetization potential. Stock catalysts could come from: 1) core business performance recovers quicker than expected; 2) better than expected UE improvement; and 3) potential business model evolution of Meituan Select. Our DCF-based TP is HK\$220.0. Maintain BUY.

■ **Long-term UE expansion for FD business remains on track.** Per China State Information Centre, food delivery (FD) GMV accounted for 21.4% of total catering GMV in China in 2021 (2020: 16.9%), and Meituan took 70% of FD market share. We believe there is still room for further penetration for FD, given this could help improve operating efficiency of offline stores, and we believe Meituan could still maintain its market share in FD market considering its large merchant base and established network. An optimized user subsidy ratio and increase in revenue mix from advertising business could drive UE expansion of FD business in the long-term, in our view. We forecast 21-24E FD revenue/OP CAGR of 22.5/54.8%.

■ **ISHT: awaits operational recovery next year.** Although Meituan's in-store, hotel and travel (ISHT) business is facing short-term headwind from pandemic resurgence, long-term revenue growth remains intact, as we see support from further penetration into merchants in lower tier cities, and increase in penetration of cost per click (CPC) ads. Per iResearch, food services/leisure and entertainment (L&E) market GMV totalled RMB10.4/2.2tn in 2021 in China, and we estimate Meituan's in-store business to account for merely 9% of total L&E market. In addition, we forecast CPC ads penetration in merchant base to increase from ~30% in 2021 to ~40% in 2024E, which could drive ISHT business to achieve 21-24E revenue/OP CAGR of 26.6/28.8%. On combined basis, for Meituan's newly reclassified core local commerce business (mainly include FD, ISHT, and Instashopping), we estimate 21-24E rev/OP CAGR of 25.5/42.5%.

■ **New businesses: eyes on UE improvement for Meituan Select in the ST, and business model evolution over the long term.** Loss generated from new businesses segment narrowed both YoY and QoQ in 2Q22, driven by strategic move to optimize cost and improve efficiency. We forecast operating loss of RMB22.3/28.9bn for Meituan Select/new business (excluding Instashopping and alternative accommodation biz) in 2022E.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	114,795	179,128	220,818	285,213	362,527
YoY growth (%)	17.7	56.0	23.3	29.2	27.1
Net profit (RMB mn)	4,708.1	(23,538.2)	(9,425.3)	6,298.9	24,320.0
Adjusted net profit (RMB mn)	3,120.6	(15,571.5)	519.3	13,354.2	31,701.9
Adj. NP (consensus; RMB mn)			(1,326.0)	13,611.6	29,350.1
EPS (Adjusted) (RMB cents)	51.47	(253.73)	8.38	213.31	501.38
P/E (x)	209.3	na	na	115.3	30.2
P/B (x)	10.1	11.6	6.1	5.6	4.5
ROE (%)	5.0	(21.1)	(7.8)	5.1	16.7

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$220.00  
**Up/Downside** 76.3%  
**Current Price** HK\$124.80

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#### Stock Data

Mkt Cap (HK\$ mn)	773,556.6
Avg 3 mths t/o (HK\$ mn)	165.5
52w High/Low (HK\$)	297.40/106.00
Total Issued Shares (mn)	6198.4

Source: FactSet

#### Shareholding Structure

Huai River Investment Limited	10.1%
Crown Holdings Asia Limited	7.9%

Source: HKEX

#### Share Performance

	Absolute	Relative
1-mth	-24.6%	-11.6%
3-mth	-29.2%	-2.8%
6-mth	-27.4%	4.2%

Source: FactSet

#### 12-mth Price Performance

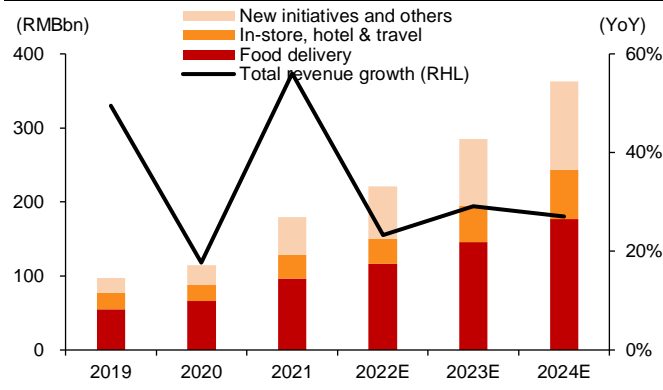


Source: FactSet

## Revenue and earnings forecast update

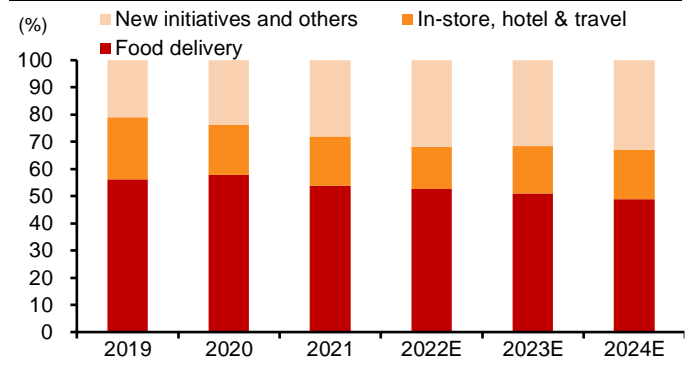
We forecast a 2021-2024E revenue CAGR of 26.5%, with FD/ISHT/new initiatives and other business achieving CAGRs of 22.5%/26.6%/33.4%. Based on Meituan's new segmentation, we forecast core local commerce and new initiatives segment to achieve 21-24E revenue CAGRs of 25.5% and 29.5%, respectively.

**Figure 1: Meituan: total revenue and growth**



Source: Company data, CMBIGM estimates

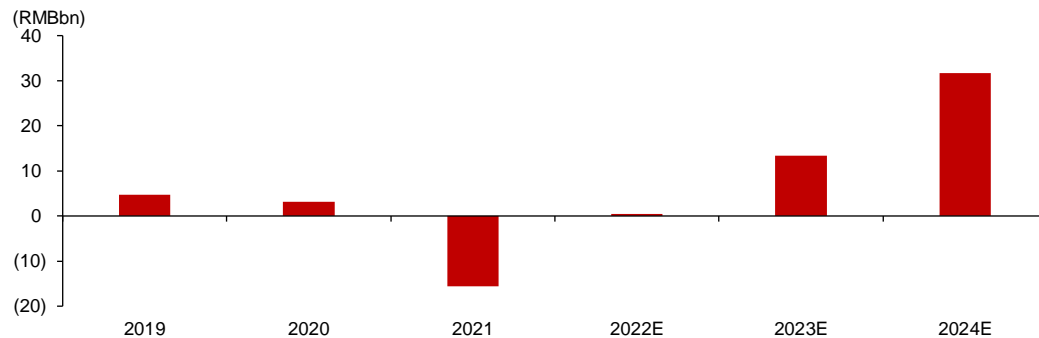
**Figure 2: Meituan: revenue breakdown**



Source: Company data, CMBIGM estimates

In addition, we forecast 2021-2024E operating profit CAGR of 42.5% for core local commerce business segment, driven by improving UE of food delivery business, and solid revenue growth of ISHT business. For new initiatives, we estimate operating loss to narrow to RMB20bn in 2024E from RMB29bn in 2022E, driven by cost optimization of new businesses. For non-GAAP net income, we estimate Meituan to reverse from a net loss of RMB15.6bn in 2021 to net income of RMB519mn in 2022, and increase further to RMB13.4 /31.7bn in 2023/2024E.

**Figure 3: Meituan: non-IFRS net profit**



Source: Company data, CMBIGM estimates

## DCF-based target price of HK\$220.0

Our DCF-based target price is HK\$220.0, assuming WACC of 11.0% and terminal growth of 2.5%, akin to 5.5x 2022E PS and 4.3x 2023E PS.

**Figure 4: Meituan: DCF valuation, WACC of 11.0%, terminal growth of 2.5%**

(RMBmn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
NPV of FCF	385,685	441,436	489,286	516,203	524,333	510,071	482,489	431,366	360,318
Discounted terminal value	622,994	691,477							
Total equity valuation	1,119,414	1,253,242							
Total equity valuation (HK\$mn)	1,260,856	1,411,594							
No. of shares (diluted, mn)	6,198	6,260							
Valuation per share (HK\$)	220.0								

Note: our target price is based on weighted average of three-month valuation in 2022 and nine-month valuation in 2023E  
 Source: Company data, CMBIGM estimates

#### ■ Valuation cross-check: reversed SOTP valuation

We build a reverse SOTP valuation to cross-check our valuation for Meituan. We assign 20x 2025E PE for Meituan's FD business, and discount back to 2023E. For ISHT business, we assign 28.8x 2023E PE, which we view 28.8% 2021-2024E operating profit CAGR as support. Our target price of HK\$220.0 per share implies a total valuation of HK\$1.4tn for Meituan, and after deducting valuation for FD, ISHT, and net cash, the valuation left for new initiatives and others was RMB71.3bn, which translates into 0.8x 2023E PS.

**Figure 5: Valuation cross-check: reversed SOTP valuation**

(RMBmn)	21-24E revenue CAGR (%)	21-24E OP CAGR	Valuation method	2025/2023E NP	Target PE	Implied 2023E PS	2023E valuation	As % of total valuation
FD	22.5%	54.8%	2025E PE, discount back	27,814	20.0	3.1	451,556	37.3
ISHT	26.6%	28.8%	2023E PE	18,838	28.8	11.0	542,524	44.8
New initiatives	33.4%					0.8	71,323	5.9
Cash and short-term investment (2023E)							145,075	12.0
Total valuation (RMBmn)							1,210,479	
Total valuation (HK\$mn)							1,363,427	
Valuation per share (HK\$)							<b>220</b>	

Source: Company data, CMBIGM estimates

#### ■ Sensitivity analysis on earnings

We conduct sensitivity analysis to gauge Meituan's total revenue growth sensitivity to its FD/ISHT businesses, which are key drivers for revenue growth. Under our bull-case assumption, if FD/ISHT revenue growth forecast were raised by 1/3/5/8pp in 2023E driven by better-than-expected recovery of macro environment, Meituan's total revenue could have 0.5/1.6/2.6/4.2% upside in 2023E. Under our bear-case assumption, if online FD/ISHT revenue growth forecast were lowered by 1/3/5/8pp in 2023E due to slower-than-

expected recovery of macro environment, Meituan's total revenue could have 0.5/1.6/2.6/4.2% downside in 2023E.

**Figure 6: Meituan total revenue: sensitivity analysis**

2023E (RMBmn)	Change in FD revenue growth (2023E)	2023E FD revenue growth	Change in ISHT revenue growth (2023E)	2023E ISHT revenue growth	Other revenues	Total revenue	Comparison with base case
Case I	-8pp	16.9%	-8pp	37.7%	90,330	273,186	-4.2%
Case II	-5pp	19.9%	-5pp	40.7%	90,330	277,696	-2.6%
Case III	-3pp	21.9%	-3pp	42.7%	90,330	280,703	-1.6%
Case IV	-1pp	23.9%	-1pp	44.7%	90,330	283,709	-0.5%
Base case		24.9%		45.7%	90,330	285,213	0.0%
Case V	1pp	25.9%	1pp	46.7%	90,330	286,716	0.5%
Case VI	3pp	27.9%	3pp	48.7%	90,330	289,723	1.6%
Case VII	5pp	29.9%	5pp	50.7%	90,330	292,729	2.6%
Case VIII	8pp	32.9%	8pp	53.7%	90,330	297,239	4.2%

Source: Company data, CMBIGM estimates

We also conduct sensitivity analysis to analyze Meituan's non-IFRS net income sensitivity to its S&M expenses and G&A expenses. Under our bull-case assumption, if S&M expenses and G&A expenses growth forecast were both decreased by 1/3/5/8pp in 2023E thanks to more effective than expected cost control measures, Meituan's non-IFRS net income could increase by 2.9/8.8/14.7/23.6% in 2023E. Under our bear-case assumption, if S&M expenses and G&A expenses growth were raised by 1/3/5/8pp in 2023E as Meituan enhanced its investment in new businesses and increased its investment on ISHT business, Meituan's non-IFRS net income could decrease by 2.9/8.8/14.7/23.6% in 2023E.

**Figure 7: Meituan non-IFRS net income: sensitivity analysis**

2023E (RMBmn)	Change in S&M/G&A expenses YoY growth	S&M expense YoY growth	G&A expense YoY growth	Implied S&M expense ratio	Implied G&A expense ratio	2023E Non-GAAP NPM	2023E Net profit	Comparison with base case
Case I	-8pp	7.5%	10.7%	14.3%	3.9%	5.8%	16,504	23.6%
Case II	-5pp	10.5%	13.7%	14.7%	4.0%	5.4%	15,323	14.7%
Case III	-3pp	12.5%	15.7%	15.0%	4.1%	5.1%	14,535	8.8%
Case IV	-1pp	14.5%	17.7%	15.2%	4.1%	4.8%	13,748	2.9%
Base case		15.5%	18.7%	15.4%	4.2%	4.7%	13,354	0.0%
Case V	1pp	16.5%	19.7%	15.5%	4.2%	4.5%	12,960	-2.9%
Case VI	3pp	18.5%	21.7%	15.8%	4.3%	4.3%	12,173	-8.8%
Case VII	5pp	20.5%	23.7%	16.0%	4.4%	4.0%	11,386	-14.7%
Case VIII	8pp	23.5%	26.7%	16.4%	4.5%	3.6%	10,204	-23.6%

Source: Company data, CMBIGM estimates

## Core local commerce: solid business recovery; still ample room for further business expansion

### ■ Food delivery: long-term UE expansion on track

Per China State Information Centre, FD GMV accounted for 21% of total catering services GMV in 2021 in China, improved from 17% in 2020, and Meituan accounted for 70% of the FD market. As FD could help offline stores improve operating efficiency, there is still room for FD to increase its penetration in overall catering market. We forecast FD market GMV CAGR of 19.5% over 2021-2024E, with total market size to increase to RMB1.7tn, and its penetration in overall catering services market to increase to 31.8% in 2024E.

**Figure 8: FD market GMV forecast and Meituan market share**

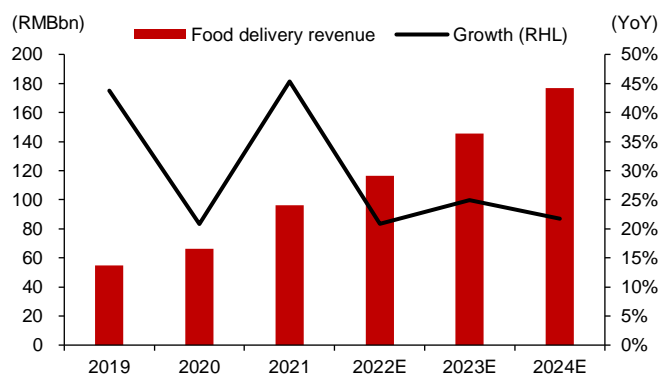
(RMBbn)	2018	2019	2020	2021	2022E	2023E	2024E
China catering market	4,271.6	4,672.1	3,952.7	4,689.5	4,764.5	5,188.6	5,380.6
Growth (YoY%)	7.7	9.4	(15.4)	18.6	1.6	8.9	3.7
<b>China food delivery market GMV</b>	<b>465.6</b>	<b>598.0</b>	<b>668.0</b>	<b>1,003.6</b>	<b>1,162.1</b>	<b>1,420.1</b>	<b>1,712.6</b>
Growth (YoY%)	52.7	28.4	11.7	50.2	15.8	22.2	20.6
<b>Food delivery penetration rate (%)</b>	<b>10.9</b>	<b>12.8</b>	<b>16.9</b>	<b>21.4</b>	<b>24.4</b>	<b>27.4</b>	<b>31.8</b>
GTV - Meituan FD	282.8	392.7	488.8	702.1	812.6	994.7	1,197.2
Growth (%)	65.3	38.9	24.5	43.6	15.7	22.4	20.4
<b>Market share - Meituan FD (%)</b>	<b>60.7</b>	<b>65.7</b>	<b>73.2</b>	<b>70.0</b>	<b>69.9</b>	<b>70.0</b>	<b>69.9</b>

Source: State Information Centre, iiMedia, CMBIGM estimates

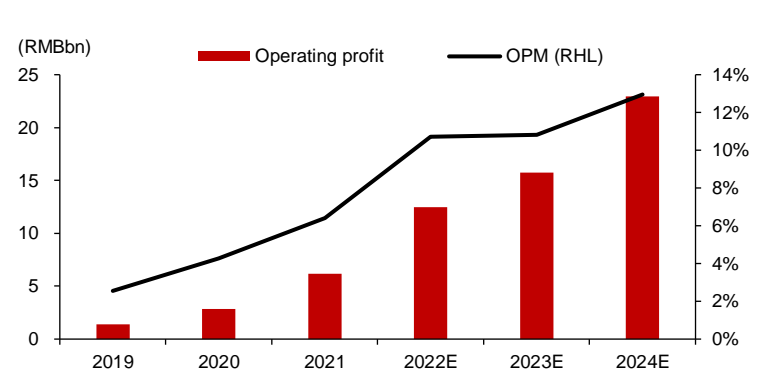
For Meituan, it could maintain ~70% of market share in food delivery market, in our view, backed by its established powerful fulfilment network, and large and diversified merchant base, which could fulfil diversified user needs. As a result, we are forecasting 2021-2024E GTV CAGR of 19.5% for Meituan's food delivery business, driven by enhanced product supply from quality brands.

In addition, we estimate Meituan's FD revenue to achieve 2021-2024E CAGR of 22.5%, which implies that overall monetization rate will increase from 13.7% in 2021 to 14.8% in 2024E, which in our view could be supported by: 1) an optimization in user subsidy provided; 2) increase in revenue mix from advertising business.

Although we expect an increasing trend for per order food delivery rider cost, owing to potential incremental cost rising from the proactive move to provide full social security benefit for FD riders, we think the overall improvement in UE for FD remains intact, driven by the increase in monetization rate.

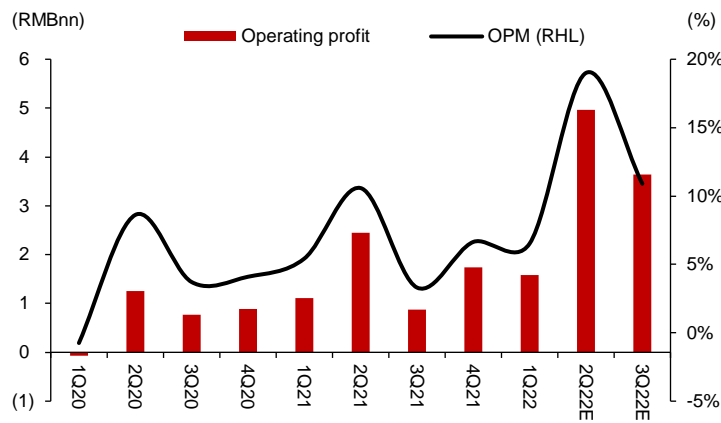
**Figure 9: Meituan: FD revenue forecast**

Source: Company data, CMBIGM estimates

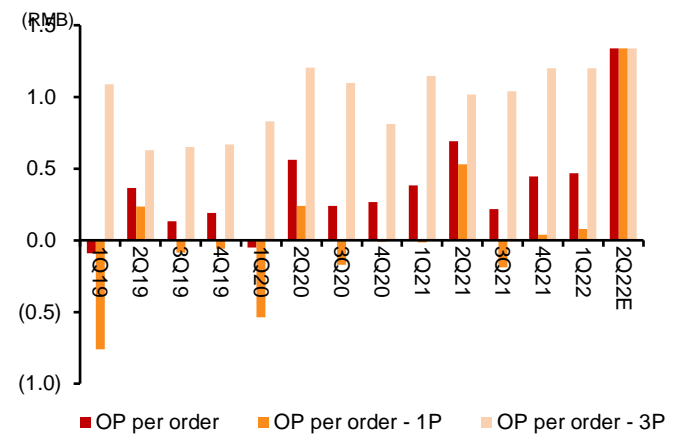
**Figure 10: Meituan: FD operating profit forecast**

Source: Company data, CMBIGM estimates

We estimate operating profit for food delivery business to achieve 2021-2024E CAGR of 54.8%, and segment operating margin to increase from 6.4% in 2021 to 12.9% in 2024E. On per order basis, we forecast operating profit to rise from RMB0.43 in 2021 to RMB0.99 in 2024E.

**Figure 11: Meituan: FD operating profit and OPM (Qtr)**

Source: Company data, CMBIGM estimates

**Figure 12: Meituan: OP per order for FD business**

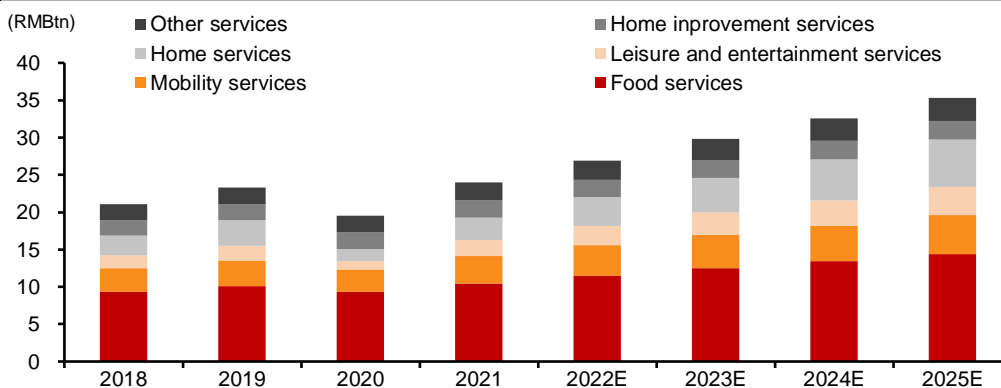
Source: Company data, CMBIGM estimates

In 2Q22, we estimate that Meituan's FD business's operating margin has improved to 19.0%, compared to 6.5% in 1Q22 and 10.6% in 2Q21, which we attribute to higher average order value and lower incentives during lockdowns. Although we do not expect the high margin trend to last into 3-4Q given that COVID-driven economics have faded following reopening and rider cost could increase seasonally in 3Q, we think 2Q results to some extent demonstrated that food delivery business could achieve decent operating margin over the long-run, with the optimization of user subsidy.

For 3Q22, we forecast Meituan's FD business has recorded revenue of RMB33.3bn, up 25.9% YoY, and operating profit of RMB3.6bn, translating into per order operating profit of RMB0.77 (3Q21: RMB0.22), and operating profit margin of 10.9% (3Q21: 3.3%).

### ■ ISHT: still ample room for further business penetration

Although Meituan's in-store, hotel and travel (ISHT) business is facing short-term headwind from pandemic resurgence, long-term revenue growth remains intact, as we see support from further penetration into merchants in lower tier cities, and increase in penetration of cost per click (CPC) ads. Per iResearch, food services/leisure and entertainment (L&E) market GMV totalled RMB10.4/2.2tn in 2021 in China, and we estimate Meituan's in-store business to account for merely 9% of total L&E market. In addition, we forecast CPC ads penetration in merchant base to increase from ~30% in 2021 to ~40% in 2024E, which could drive ISHT business to achieve 21-24E revenue/OP CAGR of 26.6/28.8%.

**Figure 13: China: local services market size in terms of GMV**

Source: Company data, CMBIGM estimates

For 3Q22, we forecast ISHT revenue has grown 12.2%YoY to RMB9.7bn, and operating profit of RMB4.4bn, translating into operating profit margin of 45.5% (3Q21: 43.9%).

## ■ Core local commerce: expecting solid revenue and operating profit growth

Starting from 2Q22, Meituan reclassified its business segment reporting, and updated reportable segments comprises: 1) core local commerce, which mainly includes the former FD and ISHT, as well as Meituan Instashopping, alternative accommodations, and transportation ticketing; 2) new initiatives, which mainly includes Meituan Select, Meituan Grocery, B2B food distribution business Kuailv, ride sharing, bike sharing, e-moped sharing, power banks, RMS and other new initiatives.

Based on the new business segmentation, for core local commerce business, we forecast 21-24E rev/OP CAGR of 25.5/42.5%.

## New businesses: balancing growth and efficiency

Within new businesses, Meituan Select is the key to watch in the near term, in our view. For the near term, faster than expected improvement in UE could be a catalyst to help drive up new business valuation, in our view, while business model evolution to platform business model could propel a valuation rerating. However, as platform business model needs to be built on a large and sticky user base, business model evolution may take some time.

Loss generated from new businesses segment narrowed both YoY and QoQ in 2Q22, driven by strategic move to optimize cost and improve efficiency. Looking ahead, we expect Meituan will continue to balance growth and efficiency in 2H22.

For the key Meituan Select business, we calculate total addressable market for overall community group buy industry could reach as large as RMB8.6tn based on 2020 market size data, equivalent to around 22.0% of total retail sales. The potential addressable retail sales market that could be reached by community e-commerce business could reach RMB11.7tn in 2025E. If we assume Meituan Select could take 2.2% of the market in 2025E, its GTV could reach RMB255.6bn.

**Figure 14: Addressable market calculation for community e-commerce business**

(RMBbn)	Retail sales (2020)
Fresh Food	3,905.1
Home and Garden	1,313.2
Home Care	118.0
Packaged Food	1,964.4
Packaged Food Rolling Update - Snacks	445.0
Soft Drinks	482.4
Tissue and Hygiene	317.0
Traditional toys	78.6
<b>Total</b>	<b>8,623.8</b>
<b>Total retail sales</b>	<b>39,198.1</b>
<b>Total addressable market as % of total retail sales</b>	<b>22.0%</b>

Source: National Bureau of Statistics, Analysys, Euromonitor, Qianzhan, iiMedia, Frost & Sullivan, CMBIGM estimates

**Figure 15: Meituan Select GTV forecast**

(RMBbn)	2022E	2023E	2024E	2025E
Total retail sales	44,699	47,828	50,459	52,982
Growth (YoY%)	1.4%	7.0%	5.5%	5.0%
Community group buy (CGB) TAM as % of total retail sales	22.0%	22.0%	22.0%	22.0%
TAM for CGB	9,834.17	10,522.57	11,101.31	11,656.37
GTV of Meituan Select	132.8	174.7	214.3	255.6
Meituan Select's market share in CGB TAM (%)	1.4%	1.7%	1.9%	2.2%

Source: National Bureau of Statistics, CMBIGM estimates

**Figure 16: Breakdown and cross-check on Meituan Select GTV forecast**

	2022E	2023E	2024E	2025E
Total pieces (mn), daily average	38.0	43.7	48.2	51.9
Total pieces (mn)	13,887	15,955	17,638	18,957
Average value per piece (RMB)	9.6	10.9	12.2	13.5
GTV of Meituan Select (RMBbn)	132.8	174.7	214.3	255.6

Source: National Bureau of Statistics, CMBIGM estimates

We forecast Meituan Select to generate RMB132.8bn GTV and RMB22.3bn operating loss in 2022, respectively, and this implies RMB1.6 loss per piece. For overall new businesses based on new segmentation method (excluding Meituan Instashopping and alternative accommodation under new business segmentation), we forecast 2022E revenue to reach RMB58.4bn, and operating loss of RMB28.9bn, translating into operating loss margin of 49%.



## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	97,529	114,795	179,128	220,818	285,213	362,527
Cost of goods sold	(65,208)	(80,744)	(136,654)	(161,974)	(198,432)	(240,968)
<b>Gross profit</b>	<b>32,320</b>	<b>34,050</b>	<b>42,474</b>	<b>58,844</b>	<b>86,781</b>	<b>121,558</b>
Operating expenses	(29,641)	(29,720)	(65,601)	(67,012)	(77,996)	(92,568)
SG&A expense	(23,158)	(26,477)	(49,296)	(48,018)	(55,776)	(66,415)
R&D expense	(8,446)	(10,893)	(16,676)	(20,897)	(25,043)	(29,101)
Others	1,963	7,649	370	1,903	2,823	2,949
<b>Operating profit</b>	<b>2,680</b>	<b>4,330</b>	<b>(23,127)</b>	<b>(8,168)</b>	<b>8,785</b>	<b>28,990</b>
Share of (losses)/profits of associates/JV	107	264	146	(354)	(354)	(354)
Interest income	166	214	546	595	655	720
Interest expense	(191)	(370)	(1,131)	(1,405)	(1,405)	(1,405)
Others	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>2,762</b>	<b>4,438</b>	<b>(23,566)</b>	<b>(9,331)</b>	<b>7,681</b>	<b>27,952</b>
Income tax	(526)	270	30	(93)	(1,383)	(3,634)
<b>After tax profit</b>	<b>2,236</b>	<b>4,708</b>	<b>(23,536)</b>	<b>(9,425)</b>	<b>6,298</b>	<b>24,318</b>
Minority interest	(2)	(1)	2	1	(1)	(2)
<b>Net profit</b>	<b>2,238</b>	<b>4,708</b>	<b>(23,538)</b>	<b>(9,425)</b>	<b>6,299</b>	<b>24,320</b>
<b>Adjusted net profit</b>	<b>4,657</b>	<b>3,121</b>	<b>(15,572)</b>	<b>519</b>	<b>13,354</b>	<b>31,702</b>
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>82,135</b>	<b>88,306</b>	<b>147,829</b>	<b>156,207</b>	<b>174,543</b>	<b>214,465</b>
Cash & equivalents	13,396	17,094	32,513	35,326	44,728	76,394
Restricted cash	8,760	12,776	13,277	14,605	16,065	17,672
Inventories	275	466	682	677	1,008	1,048
Other current assets	59,704	57,970	101,357	105,600	112,742	119,351
<b>Non-current assets</b>	<b>49,878</b>	<b>78,269</b>	<b>92,825</b>	<b>84,705</b>	<b>92,983</b>	<b>94,007</b>
PP&E	5,376	13,917	22,814	29,351	33,151	34,407
Intangibles	32,700	31,676	31,049	30,955	30,926	30,975
Other non-current assets	11,802	32,675	38,962	24,400	28,906	28,625
<b>Total assets</b>	<b>132,013</b>	<b>166,575</b>	<b>240,653</b>	<b>240,913</b>	<b>267,526</b>	<b>308,472</b>
<b>Current liabilities</b>	<b>36,593</b>	<b>51,148</b>	<b>68,593</b>	<b>76,886</b>	<b>89,979</b>	<b>99,626</b>
Short-term borrowings	3,553	6,395	11,565	11,416	12,033	11,775
Account payables	14,262	21,382	26,117	27,049	36,742	39,173
Tax payable	18,778	23,371	30,911	38,421	41,204	48,677
<b>Non-current liabilities</b>	<b>3,366</b>	<b>17,793</b>	<b>46,504</b>	<b>46,640</b>	<b>47,303</b>	<b>47,399</b>
Long-term borrowings	467	1,957	12,220	12,062	12,714	12,442
Other non-current liabilities	2,899	15,835	34,284	34,578	34,589	34,957
<b>Total liabilities</b>	<b>39,959</b>	<b>68,941</b>	<b>115,097</b>	<b>123,526</b>	<b>137,282</b>	<b>147,025</b>
Share capital	0	0	0	0	0	0
Capital surplus	260,360	263,155	311,221	318,508	325,067	331,955
Retained earnings	(163,801)	(159,201)	(182,742)	(198,199)	(191,901)	(167,583)
Other reserves	(4,447)	(6,262)	(2,867)	(2,867)	(2,867)	(2,867)
<b>Total shareholders equity</b>	<b>92,112</b>	<b>97,693</b>	<b>125,613</b>	<b>117,442</b>	<b>130,300</b>	<b>161,506</b>
Minority interest	(58)	(59)	(57)	(56)	(56)	(58)
<b>Total equity and liabilities</b>	<b>132,013</b>	<b>166,575</b>	<b>240,653</b>	<b>240,913</b>	<b>267,526</b>	<b>308,472</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	2,762	4,438	(23,566)	(9,425)	6,298	24,318
Depreciation & amortization	4,846	5,194	8,928	11,600	14,929	17,783
Change in working capital	(2,645)	1,896	7,209	4,888	115	3,418
Others	612	(3,053)	3,418	7,287	6,560	6,888
<b>Net cash from operations</b>	<b>5,574</b>	<b>8,475</b>	<b>(4,011)</b>	<b>14,350</b>	<b>27,902</b>	<b>52,407</b>
<b>Investing</b>						
Capital expenditure	(2,985)	(11,223)	(9,010)	(17,822)	(18,415)	(18,725)
Net proceeds from disposal of short-term investments	(6,906)	2,679	(44,744)	6,811	(1,068)	(1,121)
Others	(283)	(12,688)	(4,737)	(221)	(285)	(363)
<b>Net cash from investing</b>	<b>(10,174)</b>	<b>(21,232)</b>	<b>(58,492)</b>	<b>(11,231)</b>	<b>(19,768)</b>	<b>(20,209)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	1,390	5,452	15,768	(308)	1,269	(529)
Proceeds from share issues	0	0	45,286	0	0	0
Others	(276)	11,966	17,544	1	(1)	(2)
<b>Net cash from financing</b>	<b>1,114</b>	<b>17,418</b>	<b>78,598</b>	<b>(307)</b>	<b>1,269</b>	<b>(531)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	17,044	13,396	17,094	32,513	35,326	44,728
Exchange difference	(173)	(964)	(675)	0	0	0
Others	11	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>13,396</b>	<b>17,094</b>	<b>32,513</b>	<b>35,326</b>	<b>44,728</b>	<b>76,394</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	49.5%	17.7%	56.0%	23.3%	29.2%	27.1%
Gross profit	114.0%	5.4%	24.7%	38.5%	47.5%	40.1%
Operating profit	na	61.6%	na	na	na	230.0%
Net profit	na	110.4%	na	na	na	286.1%
Adj. net profit	na	(33.0%)	na	na	2,471.4%	137.4%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	33.1%	29.7%	23.7%	26.6%	30.4%	33.5%
Operating margin	2.7%	3.8%	(12.9%)	(3.7%)	3.1%	8.0%
Adj. net profit margin	4.8%	2.7%	(8.7%)	0.2%	4.7%	8.7%
Return on equity (ROE)	2.5%	5.0%	(21.1%)	(7.8%)	5.1%	16.7%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.7)	(0.7)	(0.8)	(0.9)	(0.9)	(1.0)
Current ratio (x)	2.2	1.7	2.2	2.0	1.9	2.2
Receivable turnover days	2.1	2.7	2.8	2.7	2.6	2.5
Inventory turnover days	1.9	1.7	1.5	1.5	1.5	1.5
Payable turnover days	33.4	41.8	35.7	33.5	33.5	33.5
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	165.4	209.3	na	na	115.3	30.2
P/E (diluted)	165.4	209.3	na	na	115.3	30.2
P/B	4.0	10.1	11.6	6.1	5.6	4.5
P/CFPS	147.6	na	na	na	75.8	21.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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