

Baidu (BIDU US)

Auto on progress, despite slower ads recovery

We expect 2Q22E topline/bottom line -7% YoY/-38% YoY, 1%/3% below consensus. 2Q22E would be the trough of ads (forecasting core ads -14% YoY, vs. prior -12%). But it should take more time to see ads recovery given epidemic resurgence and macro challenges. Offline biz and SME ads budget still bear pressure, despite solid rebound of ecommerce, medical service, and travel ads. As such, we expect 3Q22E core ads -9% YoY, in which Jul ads slightly improved MoM. Travel limits might dampen cloud's short-term momentum (+28% YoY in 2Q22E), but we remain confident in its 2H22E rebound (+31% YoY in 3Q22E) and above-industrial growth in the long term. We expect Baidu's core adj. OPM at 16% in 2Q & 3Q22E. Auto progress tracked well, and achieved a milestone as Apollo Robotaxi received the approval for operation without human assistance in Chongqing Yongchuan district on 4 Aug 2022 (the first time). We trimmed earnings by 3-6% in FY22-24E to reflect slower ads recovery, with TP at US\$203.

- Factoring in 2Q22E ads headwinds.** We expect 2Q22 rev -7% YoY, 1% below consensus. Total online marketing rev was estimated at -16% YoY (vs. prior -14%), in which IQ's ad rev was guided down due to challenging macro and fewer variety shows under new strategy. We forecast non-GAAP net profit -38% YoY, with Baidu core OPM at 16%.
- Auto on good progress, while ads recovery needs more time.** We are impressed by Baidu's auto progress demonstrated in 2022 Baidu World, especially on Apollo Go rides scale and RT6 functionality. Baidu Apollo Robotaxi received the approval for operation without human assistance in Chongqing Yongchuan district on 4 Aug 2022 (the first time), suggesting a milestone. We expect auto to unlock Baidu's TAM and valuation in the long run. For ads biz, 2Q22E ads softness largely priced in, but recovery pace might be slower-than-expected (core ads -9% YoY in 3Q22E, vs. -14% in 2Q22E), as offline biz and SME ads budget still bear pressure. Jul ads achieved slight MoM improvement, with solid rebound of ecommerce, medical service, and travel ads, but eCPM has not yet rebounded. AI cloud growth might see volatility in 2Q22E (forecasting +28% YoY, still above industrial growth), but long-term potential remains intact.
- Maintain BUY.** We trimmed earnings by 3-6% in FY22-24E, with SOTP-based TP at US\$203 (24x FY23E P/E). Multiple downside risk is limited, and suggest to look into 2H22E ads recovery and LT AI cloud contribution.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	106,360	123,635	124,804	140,902	157,854
YoY growth (%)	-0.8	16.2	0.9	12.9	12.0
Adj. net income (RMB mn)	21,306	17,972	15,237	18,926	22,476
Adj. EPS (RMB)	61.6	51.7	44.0	54.1	63.6
YoY growth (%)	20.5	-16.1	-14.9	23.0	17.6
Consensus EPS (RMB)	NA	NA	44.8	58.1	65.4
P/E (x)	14.8	17.7	20.7	16.9	14.3
P/S (x)	3.0	2.6	2.5	2.2	2.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	42.3	36.4	35.9	35.0	34.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$203.0
(Previous TP)	US\$203.0)
Up/Downside	+47.3%
Current Price	US\$137.8

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Eason Xu
 (852) 3900 0849
 easonxu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	39,991
Avg 3m t/o (US\$ mn)	591.74
52w High/Low (US\$)	209.17/101.62
Issued Shares (mn)	276
Source: Bloomberg	

Shareholding Structure

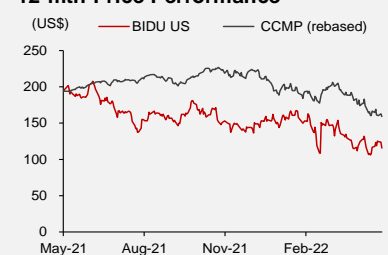
BlackRock Inc	4.4%
Primecap Management	3.5%
Doge & Cox	2.6%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	1.0%	15.1%
3-mth	-23.4%	-8.4%
6-mth	-23.6%	7.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- 2Q22E epidemic headwinds well priced in 27 May 2022
- Soft ads to linger in 2Q22E for epidemic – 19 Apr 2022
- Eye-catching AI cloud to offset soft ads – 2 Mar 2022

Figure 1: 2Q22E financial preview

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY	Consensus	Diff %
Net revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,411	29,180	2.7%	-6.9%	29,435	-1%
Gross profit	7,858	12,900	15,417	15,741	13,132	15,453	15,795	15,799	12,865	13,567	5.5%	-12.2%	13,228	3%
Operating profit	(437)	3,644	6,156	4,977	2,789	3,463	2,308	1,958	2,601	1,754	-32.5%	-49.3%	3,372	-48%
Adj. net profit	3,082	5,082	6,988	6,868	4,297	5,359	5,090	4,084	3,879	3,345	-13.8%	-37.6%	3,442	-3%
Adj. EPS (Rmb)	8.84	14.73	20.35	20.08	12.38	15.41	14.66	11.60	11.22	9.65	-13.9%	-37.4%	9.77	-1%
Margin (%)														
Gross margin	34.9%	49.6%	54.6%	52.0%	46.7%	49.3%	49.5%	47.7%	45.3%	46.5%			45.0%	
Operating margin	-1.9%	14.0%	21.8%	16.4%	9.9%	11.0%	7.2%	5.9%	9.2%	6.0%			25.5%	
Adj. net margin	13.7%	19.5%	24.8%	22.7%	15.3%	17.1%	15.9%	12.3%	13.7%	11.5%			26.0%	
Growth (%)														
Revenue (YoY)	-6.5%	-1.1%	0.5%	4.8%	24.8%	20.4%	13.1%	9.3%	1.0%	-6.9%			-6.1%	
Revenue (QoQ)	-21.9%	15.5%	8.4%	7.2%	-7.0%	11.4%	1.8%	3.7%	-14.1%	2.7%			3.6%	
Operating profit	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%	-62.5%	-60.7%	-6.7%	-49.3%			-2.6%	
Adj. net profit	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%	-27.2%	-40.5%	-9.7%	-37.6%			55.7%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: 2Q22E revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	QoQ	YoY
Total revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,411	29,180	3%	-7%
Online marketing ε	14,243	17,688	20,201	20,708	18,094	20,828	21,050	20,723	16,929	17,588	4%	-16%
Other services	8,302	8,346	8,031	9,555	10,040	10,522	10,871	12,365	11,482	11,593	1%	10%

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	124,804	140,902	157,854	126,813	144,577	163,645	-1.6%	-2.5%	-3.5%
Gross profit	59,828	69,072	78,976	58,596	69,076	80,740	2.1%	0.0%	-2.2%
Operating profit	16,006	20,656	24,960	14,182	20,743	26,507	12.9%	-0.4%	-5.8%
Adj. net profit	15,237	18,926	22,476	17,049	20,898	26,493	-10.6%	-9.4%	-15.2%
EPS (RMB)	43.98	54.09	63.60	44.79	58.07	65.43	-2%	-7%	-3%
Gross margin	47.9%	49.0%	50.0%	46.2%	47.8%	49.3%	+1.73ppts	+1.24ppts	+0.69ppts
Operating margin	12.8%	14.7%	15.8%	11.2%	14.3%	16.2%	+1.64ppts	+0.31ppts	-0.39ppts
Net margin	12.2%	13.4%	14.2%	13.4%	14.5%	16.2%	-1.24ppts	-1.02ppts	-1.95ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	124,804	140,902	157,854	128,119	144,052	161,211	-2.6%	-2.2%	-2.1%
Gross profit	59,828	69,072	78,976	62,147	71,120	81,136	-3.7%	-2.9%	-2.7%
Operating profit	16,006	20,656	24,960	17,290	21,500	25,850	-7.4%	-3.9%	-3.4%
Adj. net profit	15,237	18,926	22,476	16,264	19,590	23,172	-6.3%	-3.4%	-3.0%
EPS (RMB)	43.98	54.09	63.60	46.95	55.99	66	-6.3%	-3.4%	-3.0%
Gross margin	47.9%	49.0%	50.0%	48.5%	49.4%	50.3%	-0.57ppts	-0.35ppts	-0.30ppts
Operating margin	12.8%	14.7%	15.8%	13.5%	14.9%	16.0%	-0.67ppts	-0.27ppts	-0.22ppts
Net margin	12.2%	13.4%	14.2%	12.7%	13.6%	14.4%	-0.49ppts	-0.17ppts	-0.14ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Revenue	106,360	123,635	124,804	140,902	157,854
Online marketing	74,288	80,450	74,876	78,869	80,734
Other services	32,072	43,185	49,928	62,034	77,120
COSG	(55,158)	(64,314)	(64,976)	(71,831)	(78,878)
Gross profit	51,202	59,321	59,828	69,072	78,976
R&D	(19,513)	(24,938)	(27,150)	(30,702)	(34,498)
S&GA	(18,063)	(23,747)	(24,211)	(25,907)	(28,601)
Operating profit	13,626	9,660	7,987	11,935	15,290
Interest income	5,358	5,551	5,821	6,205	6,880
Interest exp.	(3,103)	(3,421)	(3,002)	(3,002)	(3,002)
Exchange loss	(660)	100	(11)	0	0
Loss from E.M.I	(2,248)	(932)	(1,170)	(968)	(943)
Other income	9,403	(1,038)	(3,286)	0	0
Pre-tax profit	22,376	9,920	6,339	14,169	18,225
Tax	(4,064)	(3,187)	(3,390)	(4,220)	(5,142)
MI	3,446	2,635	1,020	501	(31)
Net profit	18,312	6,733	2,949	9,950	13,083
Adjustment	2,994	11,239	12,289	8,976	9,393
Non GAAP Net profit	21,306	17,972	15,237	18,926	22,476

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	18,312	6,733	2,949	9,950	13,083
D&A	22,714	23,317	30,415	30,415	32,323
Change in WC	(18,207)	(15,712)	(26,923)	(19,741)	(22,253)
Others	667	5,784	8,213	9,038	10,054
Operating CF	23,486	20,122	14,653	29,662	33,207
Capex	(5,084)	(12,202)	(11,103)	(12,769)	(14,684)
Associates	0	0	0	0	0
Others	(22,468)	(19,242)	(6,280)	(4,525)	(3,588)
Investing CF	(27,552)	(31,444)	(17,383)	(17,294)	(18,272)
Chg in capital	(3,013)	228	228	228	228
Change of debts	9,602	0	0	0	0
Others	(924)	23,168	(1,152)	0	0
Financing CF	5,665	23,396	(924)	228	228
Change in cash	1,599	12,074	(3,654)	12,596	15,162
Cash (beg of yr)	34,439	35,826	46,957	43,303	55,899
FX	(212)	(943)	0	0	0
Cash (end of yr)	35,826	46,957	43,303	55,899	71,062
Pledge cash	758	0	0	0	0

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	149,366	166,719	163,944	170,871	176,868
Fixed asset	17,508	23,027	23,320	24,929	26,460
Long term investment	76,233	67,332	72,332	76,332	79,332
Intangible assets	30,705	31,552	30,547	30,896	31,260
Others	15,116	32,743	25,681	26,648	27,751
Current assets	183,342	213,315	215,004	231,988	251,563
Cash	36,540	47,671	45,358	58,508	74,322
Account receivable	8,668	9,981	10,881	12,235	13,692
Associates	726	1,368	1,368	1,368	1,368
Others	138,134	155,663	158,765	161,246	163,550
Current liabilities	68,385	74,488	59,593	63,738	65,264
Borrowings	3,016	4,168	3,016	3,016	3,016
Payables	41,468	41,384	38,689	41,566	42,147
Associates	1,324	1,764	1,764	1,764	1,764
Others	22,577	27,172	16,124	17,391	18,337
Non-current liabilities	72,480	81,594	81,594	81,594	81,594
Long term liabilities	48,408	43,120	43,120	43,120	43,120
Deferred taxation	3,067	3,286	3,286	3,286	3,286
Others	21,005	35,188	35,188	35,188	35,188
MI	6,045	5,345	5,345	5,345	5,345
S/H equity	185,798	218,607	229,997	249,212	272,577
Total Equity	191,843	223,952	235,342	254,557	277,922

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	69.8	65.1	60.0	56.0	51.1
Other services	30.2	34.9	40.0	44.0	48.9
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.1	48.0	47.9	49.0	50.0
Pre-tax margin	21.0	8.0	5.1	10.1	11.5
Net margin	18.2	32.1	53.5	29.8	28.2
Tax rate	17.2	5.4	2.4	7.1	8.3
Balance sheet ratios					
Current ratio (x)	2.7	2.9	3.6	3.6	3.9
Debtors turnover	29.7	30.0	31.0	31.0	31.0
Creditors turnover	189.9	189.9	189.9	189.9	189.9
Inventory turnover	0.0	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	11.5	8.2	6.6	7.6	8.2
ROA	6.4	4.7	4.0	4.7	5.3
Per share					
EPADS (RMB)	62	52	44	54	64
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	6,942	8,048	8,492	9,094	9,831

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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