

Baidu (BIDU US)

Ramp-up of generative AI-related revenue on track

We expect Baidu to deliver inline 4Q23 revenue growth, with likely better-than-expected operating profit growth aided by more disciplined-than-expected operating cost spent. The ramp-up in revenue generation from generative AI-related advertising and AI cloud was on track in 4Q23, in our view, and could drive further revenue growth in 2024. We fine-tune our SOTP-based target price to USD195.7 (previous: USD195.6), which translates into 17.9x 2024E non-GAAP PE. Maintain BUY.

- Inline advertising revenue growth in 4Q23 with more to expect in 2024.** We forecast Baidu Core advertising revenue to grow 7% YoY in 4Q23, with generative AI-related ads revenue contributing c.1% of the revenue. By incorporating generative AI, Baidu can help advertisers achieve higher conversion and ROI, which in return propels an evolution of ads monetization formats from cost per mile (CPM) to cost per click (CPC) and cost per sale (CPS), therefore showing potential to revitalize ads revenue growth over the mid-to-long term, in our view. We forecast 2024E Baidu Core advertising revenue growth of 7.3% YoY in 2024E, with generative AI-related advertising revenue to contribute 2ppts of the growth.
- Baidu Cloud revenue growth likely to recover to double-digit growth from 4Q23.** With the wearing off of the high base effect for the smart transportation vertical, we forecast Baidu Cloud revenue growth to return to 10% YoY in 4Q23. We estimate AI cloud contributed a low-single-digit percentage of total cloud revenue in 4Q23, and the ramp-up of AI cloud business could help revive Baidu Cloud's revenue growth in 2024. We forecast Baidu Cloud revenue growth of 12% YoY in 2024E (2023E: 5%). Baidu Cloud has turned around from operating loss to operating profit since 1Q23. With an ongoing focus on quality growth, the operating margin of cloud business could continue to expand in 2024, in our view.
- More disciplined-than-expected cost spent likely to drive a beat on operating profit.** We estimate Baidu Core logged non-GAAP OP of RMB6.1bn in 4Q23, up 12% YoY, which translates into 22.3% non-GAAP OPM (4Q22: 21.4%), driven by more disciplined-than-expected cost spent. Looking ahead to 2024, we expect the increase in revenue contribution from the relatively high-margin AI cloud business, as well as ramp-up in revenue generation of generative AI-related advertising business to drive further margin expansion for Baidu Core business. We forecast Baidu Core non-GAAP OPM to expand to 24.1% in 2024 (2023E: 23.9%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	124,493	123,675	134,936	147,828	164,322
YoY growth (%)	16.3	(0.7)	9.1	9.6	11.2
Adjusted net profit (RMB mn)	18,830.0	20,680.0	27,375.7	28,234.6	32,950.4
EPS (Adjusted) (RMB)	53.53	58.90	77.19	78.83	91.08
Consensus EPS (RMB)	na	na	74.90	74.64	81.10
P/E (x)	42.3	40.1	11.9	12.2	10.3
ROE (%)	5.1	3.4	9.0	7.9	8.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$195.70**
 (Previous TP) US\$195.60
Up/Downside **87.3%**
Current Price **US\$104.50**

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Stock Data

Mkt Cap (US\$ mn) 37,059.5
 Avg 3 mths t/o (US\$ mn) 270.6
 52w High/Low (US\$) 160.22/104.50
 Total Issued Shares (mn) 354.6
 Source: FactSet

Shareholding Structure

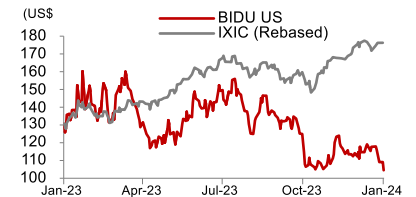
Robin Yanhong Li 16.5%
 Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.4%	-9.2%
3-mth	-12.7%	-21.0%
6-mth	-30.2%	-33.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Changes in forecast and valuation

Figure 1: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	134.9	147.8	164.3	135.0	147.9	164.4	-0.1%	-0.1%	-0.1%
Gross profit	69.6	77.2	87.7	69.7	77.0	87.5	-0.1%	0.2%	0.2%
Non-GAAP net profit	27.4	28.2	33.0	26.8	27.1	31.7	2.0%	4.1%	4.0%
Gross margin	51.6%	52.2%	53.4%	51.6%	52.0%	53.2%	0.0 ppt	0.2 ppt	0.2 ppt
Non-GAAP net margin	20.3%	19.1%	20.1%	19.9%	18.3%	19.3%	0.4 ppt	0.8 ppt	0.8 ppt

Source: CMBIGM estimates

Figure 2: Baidu Core business segment forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	103.5	113.9	129.0	104.4	113.6	128.2	-0.9%	0.2%	0.7%
Non-GAAP operating profit	24.7	27.5	32.5	23.7	24.8	28.9	4.2%	10.6%	12.6%
Non-GAAP net profit	25.8	26.2	30.6	24.0	23.7	27.2	7.2%	10.6%	12.3%
Non-GAAP OPM	18.3%	18.6%	19.8%	17.4%	16.8%	17.6%	0.9 ppt	1.8 ppt	2.2 ppt
Non-GAAP NPM	19.1%	17.7%	18.6%	17.6%	16.0%	16.6%	1.5 ppt	1.7 ppt	2.0 ppt

Source: CMBIGM estimates

SOTP valuation of US\$195.7 per ADS

Our SOTP-based target price is US\$195.7, which comprises, per ADS:

- 1) US\$70.7 (prior US\$69.2) for Baidu Core (main business, excluding Apollo and Baidu Cloud, mainly including the core search and feed ads business), based on unchanged 7.0x 2023E non-GAAP PE. The lift in valuation is mainly due to a lift in non-GAAP net income forecast.
- 2) US\$21.9 (unchanged) for Apollo ASD, based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$35.3 (unchanged) for Baidu Cloud, based on unchanged 4.8x 2023E PS.
- 4) US\$56.8 net cash (prior US\$56.6).
- 5) US\$11.0 (prior US\$12.6) for iQIYI and other investments, with a 30% holding discount applied to the share price of US\$15.8 as of market close on 17 Jan 2024.

Figure 3: Baidu: SOTP valuation

Segment	NOPAT (US\$mn)	Valuation method/multiple	Valuation (RMBmn)	Valuation (US\$mn)	Baidu's stake	Valuation of Baidu's stake (US\$mn)	USD/ADS	Valuation as % of total (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,581	7.0x 2023E PE	180,464	25,065	100.0	25,065	70.7	36.1
2) Apollo ASD			55,926	7,767	100.0	7,767	21.9	11.2
3) Baidu Cloud (ex-ASD)		4.8x 2023E PS	90,046	12,506	100.0	12,506	35.3	18.0
4) Net cash			145,119	20,155	100.0	20,155	56.8	29.0
Valuation of core business and cash						65,494	184.7	94.4
iQIYI and strategic investments								
1) iQIYI		Market value	28,724	3,989	51.5	2,055	5.8	
2) Trip.com group		Market value	175,229	24,337	10.8	2,628	7.4	
3) Uxin		Market value	131	18	9.1	2	0.0	
4) HAND Enterprise Solutions		Market value	7,233	1,005	5.3	53	0.1	
5) Kuaishou		Market value	173,229	24,060	3.1	747	2.1	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
Valuation of iQIYI and investments						5,594	15.8	
Valuation of iQIYI and investment (with 30% holding discount)						3,916	11.0	5.6
Total Baidu valuation (US\$mn)						69,409		
Number of ADS outstanding (mn)						355		
Valuation per ADS (US\$)						195.7		

Source: Company data, CMBIGM estimates

Note: 1) American depository share (ADS); iQIYI (IQ US); Trip.com Group (TCOM US); Uxin (UXIN US); HAND Enterprise solution (300170 SH); Kuaishou (1024 HK); Yusys Technologies (300674 SH); 2) data as of 17 Jan 2024 market close.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	107,074	124,493	123,675	134,936	147,828	164,322
Cost of goods sold	(55,158)	(64,314)	(63,935)	(65,295)	(70,669)	(76,620)
Gross profit	51,916	60,179	59,740	69,640	77,159	87,702
Operating expenses	(37,576)	(49,661)	(43,829)	(47,758)	(51,489)	(56,617)
SG&A expense	(18,063)	(24,723)	(20,514)	(23,614)	(25,574)	(28,428)
R&D expense	(19,513)	(24,938)	(23,315)	(24,144)	(25,914)	(28,189)
Operating profit	14,340	10,518	15,911	21,883	25,670	31,085
Share of (losses)/profits of associates/JV	(2,248)	(932)	(1,910)	(1,221)	(1,084)	(965)
Adjusted EBITDA	27,504	24,914	29,663	35,247	39,410	45,710
Net Interest income/(expense)	2,255	2,130	3,332	4,540	3,166	3,477
Foreign exchange gain/loss	(660)	100	(1,484)	1,044	835	668
Other income/expense	9,403	(1,038)	(5,737)	2,183	2,205	2,227
Pre-tax profit	23,090	10,778	10,112	28,429	30,792	36,492
Income tax	(4,064)	(3,187)	(2,578)	(5,249)	(7,478)	(8,724)
After tax profit	19,026	7,591	7,534	23,180	23,314	27,768
Minority interest	(3,446)	(2,635)	(25)	958	1,431	1,697
Net profit	22,472	10,226	7,559	22,222	21,883	26,072
Adjusted net profit	22,020	18,830	20,680	27,376	28,235	32,950
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	183,342	213,315	212,850	239,591	271,283	307,800
Cash & equivalents	35,782	36,850	53,156	80,435	109,772	143,293
Restricted cash	758	10,821	11,330	11,330	11,330	11,330
Account receivables	8,668	9,981	11,733	9,982	10,935	12,155
Other current assets	138,134	155,663	136,631	137,844	139,246	141,022
Non-current assets	149,366	166,719	178,123	176,864	179,512	182,228
PP&E	17,508	23,027	23,973	28,017	32,018	36,109
Intangibles	8,457	8,947	8,095	2,792	1,439	64
Goodwill	22,248	22,605	22,477	22,477	22,477	22,477
Other non-current assets	101,153	112,140	123,578	123,578	123,578	123,578
Total assets	332,708	380,034	390,973	416,454	450,795	490,028
Current liabilities	68,385	74,488	79,630	84,591	87,932	90,520
Short-term borrowings	3,016	4,168	5,343	5,343	5,343	5,343
Account payables	36,716	41,384	38,014	41,775	43,741	44,570
Other current liabilities	28,653	28,936	36,273	37,474	38,848	40,607
Non-current liabilities	72,480	81,594	73,538	65,592	64,662	64,302
Long-term borrowings	0	12,629	13,722	0	0	0
Bond payables	60,335	55,772	49,461	55,237	54,307	53,947
Obligations under finance leases	4,693	5,569	4,810	4,810	4,810	4,810
Deferred income	97	129	159	159	159	159
Other non-current liabilities	7,355	7,495	5,386	5,386	5,386	5,386
Total liabilities	140,865	156,082	153,168	150,184	152,594	154,822
Share capital	0	0	0	0	0	0
Capital surplus	47,213	47,548	47,748	47,948	48,148	48,348
Retained earnings	135,483	163,911	175,730	203,996	235,726	272,532
Other reserves	3,102	7,148	8,393	8,393	8,393	8,393
Total shareholders equity	185,798	218,607	231,871	260,337	292,267	329,273
Minority interest	6,045	5,345	5,934	5,934	5,934	5,934
Total equity and liabilities	332,708	380,034	390,973	416,454	450,795	490,028

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	23,090	10,778	10,112	28,429	30,792	36,492
Depreciation & amortization	18,180	16,438	14,725	5,700	5,742	5,654
Tax paid	(4,064)	(3,187)	(2,578)	(5,249)	(7,478)	(8,724)
Change in working capital	(18,207)	(18,691)	(16,758)	5,500	986	(409)
Others	5,201	14,784	20,669	7,083	7,190	7,810
Net cash from operations	24,200	20,122	26,170	41,463	37,231	40,823
Investing						
Capital expenditure	(5,084)	(10,896)	(8,286)	(8,286)	(8,286)	(8,286)
Acquisition of subsidiaries/ investments	(2,396)	(247)	(14)	0	0	0
Net proceeds from disposal of short-term investments	(486)	0	0	0	0	0
Others	(19,586)	(20,301)	4,356	(130)	(104)	(84)
Net cash from investing	(27,552)	(31,444)	(3,944)	(8,416)	(8,390)	(8,370)
Financing						
Net borrowings	12,390	8,840	(6,813)	(13,722)	0	0
Share repurchases	(13,054)	(7,581)	(1,925)	0	0	0
Others	6,329	22,137	2,348	7,203	496	1,067
Net cash from financing	5,665	23,396	(6,390)	(6,519)	496	1,067
Net change in cash						
Cash at the beginning of the year	34,439	36,540	47,671	65,236	91,765	121,102
Exchange difference	(212)	(943)	1,729	0	0	0
Cash at the end of the year	36,540	47,671	65,236	91,765	121,102	154,623
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.3%)	16.3%	(0.7%)	9.1%	9.6%	11.2%
Gross profit	16.5%	15.9%	(0.7%)	16.6%	10.8%	13.7%
Operating profit	127.4%	(26.7%)	51.3%	37.5%	17.3%	21.1%
Net profit	992.5%	(54.5%)	(26.1%)	194.0%	(1.5%)	19.1%
Adj. net profit	21.1%	(14.5%)	9.8%	32.4%	3.1%	16.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	48.5%	48.3%	48.3%	51.6%	52.2%	53.4%
Operating margin	13.4%	8.4%	12.9%	16.2%	17.4%	18.9%
Adj. net profit margin	20.6%	15.1%	16.7%	20.3%	19.1%	20.1%
Return on equity (ROE)	12.8%	5.1%	3.4%	9.0%	7.9%	8.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Current ratio (x)	2.7	2.9	2.7	2.8	3.1	3.4
Receivable turnover days	27.0	27.0	31.6	29.0	25.5	25.3
Payable turnover days	226.5	218.6	223.5	220.0	217.8	207.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	13.1	42.3	40.1	11.9	12.2	10.3
P/E (diluted)	13.2	43.2	40.5	12.0	12.3	10.4
P/B	1.6	2.0	1.3	1.0	0.9	0.8
P/CFPS	15.5	47.9	17.1	8.0	9.3	8.3

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

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