

Baidu (BIDU US)

Awaiting recovery of ads revenue growth

We expect Baidu Core business to deliver broadly inline-with-consensus revenue, and slightly better-than-consensus non-GAAP operating profit for 3Q24E. Although proactive business adjustments to embed more GenAI-related results in search results weigh on short-term monetization, we view the adjustments as vital for Baidu's long-term business development and monetization improvement, and expect better visibility on ads revenue growth to be one of the key catalysts for stock price. We see additional catalysts to come from: 1) more rapid-than-expected expansion of Robotaxi business; 2) more rapid-than-expected commercialization from GenAI-related initiatives; and 3) enhancement of shareholder return. We cut our SOTP-based target price to US\$164.8 (was US\$180.5) to reflect a higher holding discount assigned to net cash in hand, as well as potential slower cloud revenue growth than our previously expected due to business adjustments, translating into 15x 24E non-GAAP PE.

■ **Aggressive and proactive adjustments weigh on short-term ads revenue growth but vital for long term.** We estimate Baidu Core booked revenue of RMB26.4bn in 3Q24, down 0.5% YoY and 1% lower than Bloomberg consensus, due to both a slightly slower-than-expected ads revenue growth recovery dragged by macro headwinds, as well as slower-than-expected cloud revenue growth due to business adjustments. We forecast Baidu Core ads revenue to decline 4.2% YoY in 3Q24E (3Q23: +5.2% YoY; 2Q24: -2.2% YoY), and lower 2024E growth forecast to -2.1% YoY (previous: -0.9%), owing to: 1) proactive business adjustments to embed more GenAI-related search results in search business, which should improve user experience but currently has a relatively low monetization level; 2) macro headwinds impacting ads budgets; and 3) fierce industry competition.

■ **YoY growth of cloud revenue likely to slow down QoQ due to business adjustments.** We estimate Baidu Cloud revenue growth of 11% YoY in 3Q24, improved from -2% in 3Q23, driven by the ramp-up of AI-related cloud revenue, but deteriorated from 14% YoY in 2Q24, due to business adjustment on Baidu Netdisk. We lower full-year cloud revenue growth forecast to 12% (from 14%), but expect the growth in GPU cloud revenue to remain a solid driver for both revenue growth and margin expansion.

■ **Expecting margin impact to be controllable from AI-related investment.** Despite a YoY escalation in AI-related investment to support long-term business development, we still expect a relatively stable non-GAAP OPM for Baidu Core, aided by efficient cost control. We estimate Baidu Core to ink non-GAAP operating profit of RMB6.6bn in 3Q24E, 1% better than consensus, translating into 24.8% non-GAAP OPM (3Q23: 25.1%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	123,675	134,598	133,840	144,746	154,871
YoY growth (%)	(0.7)	8.8	(0.6)	8.1	7.0
Adjusted net profit (RMB mn)	20,680.0	28,747.0	26,903.7	27,587.7	30,552.6
YoY growth (%)	9.8	39.0	(6.4)	2.5	10.7
EPS (Adjusted) (RMB)	58.90	81.06	75.12	76.27	83.63
Consensus EPS (RMB)			78.57	79.19	86.96
P/E (x)	30.0	11.3	11.4	10.8	9.7
ROE (%)	3.4	8.4	7.6	7.3	7.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$164.80**
 (Previous TP US\$180.50)
Up/Downside **79.9%**
Current Price **US\$91.62**

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Stock Data

Mkt Cap (US\$ mn)	32,814.6
Avg 3 mths t/o (US\$ mn)	80.9
52w High/Low (US\$)	124.00/81.01
Total Issued Shares (mn)	358.2

Source: FactSet

Shareholding Structure

Robin Yanhong Li	16.5%
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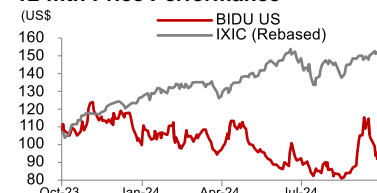
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.2%	2.8%
3-mth	-0.7%	-3.6%
6-mth	-5.8%	-21.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Quarterly results and estimates

Figure 1: Baidu: quarterly results and estimates

(RMBbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E
Baidu Group											
Online marketing	16.9	18.3	19.9	19.6	18.0	21.1	21.3	20.8	18.5	20.6	20.2
YoY growth (%)	-6.4%	-12.3%	-5.3%	-5.6%	6.2%	15.4%	7.0%	6.3%	2.9%	-2.2%	-5.5%
Other services	11.5	11.4	12.6	13.5	13.2	13.0	13.1	14.1	13.0	13.3	13.3
YoY growth (%)	14.4%	8.1%	15.9%	9.2%	14.7%	14.0%	4.0%	4.7%	-1.1%	2.6%	1.6%
Total revenue	28.4	29.6	32.5	33.1	31.1	34.1	34.4	35.0	31.5	33.9	33.5
YoY growth (%)	1.0%	-5.4%	1.9%	0.0%	9.6%	14.9%	5.9%	5.7%	1.2%	-0.4%	-2.8%
Gross profit	12.9	14.5	16.3	16.1	16.0	17.9	18.2	17.5	16.2	17.5	17.0
Operating profit	2.6	3.4	5.3	4.6	5.0	5.2	6.3	5.4	5.5	5.9	5.4
Non-GAAP net profit	3.9	5.5	5.9	5.4	5.7	8.0	7.3	7.8	7.0	7.4	6.2
YoY growth (%)	-10%	3%	16%	32%	48%	44%	23%	44%	22%	-8%	-15%
GPM (%)	45.3%	48.8%	50.0%	48.8%	51.3%	52.5%	52.7%	50.2%	51.5%	51.7%	50.9%
OPM (%)	9.2%	11.5%	16.3%	13.9%	16.0%	15.3%	18.2%	15.4%	17.4%	17.5%	16.2%
Non-GAAP NPM (%)	13.7%	18.7%	18.1%	16.2%	18.4%	23.5%	21.1%	22.2%	22.2%	21.8%	18.5%
Baidu Core											
Revenue	21.4	23.2	25.2	25.7	23.0	26.4	26.6	27.5	23.8	26.7	26.4
YoY growth (%)	4.4%	-3.7%	2.3%	-1.2%	7.6%	14.0%	5.3%	7.2%	3.5%	1.1%	-0.5%
Baidu Core - online marketing	15.6	17.1	18.7	18.0	16.6	19.6	19.7	19.2	17.0	19.2	18.8
YoY growth (%)	-3.6%	-10.1%	-3.6%	-5.5%	6.3%	14.7%	5.2%	6.3%	2.7%	-2.2%	-4.2%
Baidu Core - Others	5.8	6.1	6.5	7.6	6.4	6.8	6.9	8.3	6.8	7.5	7.6
YoY growth (%)	34.4%	20.8%	24.1%	10.4%	11.1%	12.1%	5.5%	9.1%	5.7%	10.3%	10.0%
Non-GAAP OP	3.7	5.1	6.7	5.5	5.4	6.5	6.7	6.2	5.6	7.0	6.6
Non-GAAP NP	3.8	5.4	5.8	4.9	5.3	7.7	7.0	7.5	6.6	7.3	6.0
YoY growth (%)	-21.9%	-8.3%	-1.5%	6.3%	38.5%	41.2%	20.6%	52.6%	25.8%	-5.3%	-14.3%
Non-GAAP OPM (%)	17.2%	22.1%	26.4%	21.4%	23.3%	24.7%	25.1%	22.5%	23.5%	26.1%	24.8%
Non-GAAP NPM (%)	17.8%	23.5%	22.8%	19.2%	22.9%	29.1%	26.2%	27.3%	27.8%	27.3%	22.6%

Source: Company data, CMBIGM estimates

Changes in forecast and valuation

Figure 2: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	135.8	147.0	157.9	138.5	149.4	159.7	-1.9%	-1.6%	-1.1%
Gross profit	69.7	76.2	82.6	71.6	78.3	84.8	-2.7%	-2.7%	-2.6%
Non-GAAP net profit	28.0	28.7	31.9	27.7	29.6	33.0	1.1%	-3.0%	-3.3%
Gross margin	51.3%	51.8%	52.3%	51.7%	52.4%	53.1%	-0.4 ppt	-0.6 ppt	-0.8 ppt
Non-GAAP net margin	20.6%	19.5%	20.2%	20.0%	19.8%	20.7%	0.6 ppt	-0.3 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 3: Baidu Core business segment forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	104.4	113.1	121.5	105.6	114.7	123.4	-1.1%	-1.4%	-1.6%
Non-GAAP Operating Profit	25.3	27.7	30.5	25.5	28.2	31.0	-0.9%	-1.6%	-1.8%
Non-GAAP net profit	25.9	26.3	29.0	26.5	26.9	29.8	-2.3%	-2.4%	-2.6%
Non-GAAP OPM	24.2%	24.5%	25.1%	24.1%	24.5%	25.1%	0.1 ppt	0.0 ppt	0.0 ppt
Non-GAAP NPM	24.8%	23.2%	23.9%	25.1%	23.5%	24.1%	-0.3 ppt	-0.3 ppt	-0.2 ppt

Source: CMBIGM estimates

SOTP valuation of US\$164.8 per ADS

Our SOTP-based new target price is US\$164.8 per ADS, which translates into 15x 2024E PE on a non-GAAP basis, or 9x if excluding net cash. Our SOTP-based target price comprises, per ADS:

- 1) US\$71.9 for Baidu Core (mainly including the core search and feed ads business, excluding Apollo and Baidu Cloud), based on an unchanged 7.0x 2024E non-GAAP PE;
- 2) US\$1.9 for Apollo ASD, based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$32.5 for Baidu Cloud, based on 3.9x 2024E PS;
- 4) US\$58.4 for net cash, iQIYI and other investments, with a 30% holding discount applied to the per share valuation of US\$83.5.

Figure 4: Baidu: SOTP valuation

Segment	NOPAT (USDmn)	Valuation method/multiple	Valuation (RMBmn)	Valuation (USDmn)	Baidu's stake	Valuation of Baidu's stake (USDmn)	USD/ADS	Valuation as % of total (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,681	7.0	180,993	25,764	100.0	25,764	71.9	43.7
2) Apollo ASD			4,740	675	100.0	675	1.9	1.1
3) Baidu Cloud (ex-ASD)		3.9	81,754	11,638	100.0	11,638	32.5	19.7
Valuation of core business						38,076	106.3	64.5
iQIYI, strategic investment, and net cash								
1) iQIYI		Market value	16,247	2,313	45.4	1,050	2.9	
2) Trip.com group		Market value	289,920	41,270	10.8	4,457	12.4	
3) Uxin		Market value	7,209	1,026	9.1	93	0.3	
4) HAND Enterprise Solutions		Market value	8,814	1,255	5.3	66	0.2	
5) Kuaishou		Market value	181,931	25,898	3.1	804	2.2	
6) Yusys Technologies		Market value	15,260	2,172	5.1	112	0.3	
4) Net cash		CMBI estimates	163,821	23,320	100.0	23,320	65.1	
Valuation of iQIYI, investments, and net cash						29,902	83.5	
Valuation of iQIYI, investment, and net cash (with 30% holding discount)						20,932	58.4	35.5
Total Baidu valuation (US\$mn)						59,008		

Number of ADS outstanding (mn)	358
Valuation per ADS (US\$)	164.8

Source: Company data, CMBIGM estimates

Note: American depositary 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)

Risks

- 1) Slower-than-expected ramp-up in revenue generation of GenAI-related business;
- 2) Slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	124,493	123,675	134,598	133,840	144,746	154,871
Cost of goods sold	(64,314)	(63,935)	(65,031)	(66,088)	(70,685)	(75,022)
Gross profit	60,179	59,740	69,567	67,752	74,061	79,850
Operating expenses	(49,661)	(43,829)	(47,711)	(45,806)	(49,025)	(51,688)
SG&A expense	(24,723)	(20,514)	(23,519)	(22,217)	(23,883)	(25,244)
R&D expense	(24,938)	(23,315)	(24,192)	(23,588)	(25,142)	(26,444)
Operating profit	10,518	15,911	21,856	21,947	25,036	28,162
Share of (losses)/profits of associates/JV	(932)	(1,910)	(3,799)	(844)	(879)	(879)
Adjusted EBITDA	24,914	29,663	35,824	34,632	38,401	42,081
Net Interest income/(expense)	2,130	3,332	4,761	5,123	5,351	6,401
Foreign exchange gain/loss	100	(1,484)	595	94	75	60
Other income/expense	(1,038)	(5,737)	1,785	(729)	(736)	(744)
Pre-tax profit	10,778	10,112	25,198	25,591	28,847	33,000
Income tax	(3,187)	(2,578)	(3,649)	(4,722)	(6,313)	(7,491)
After tax profit	7,591	7,534	21,549	20,870	22,533	25,510
Minority interest	(2,635)	(25)	1,234	620	960	1,162
Net profit	10,226	7,559	20,315	20,249	21,574	24,347
Adjusted net profit	18,830	20,680	28,747	26,904	27,588	30,553

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	213,315	212,850	230,255	255,171	285,453	316,942
Cash & equivalents	36,850	53,156	25,231	51,926	80,156	109,676
Restricted cash	10,821	11,330	11,503	11,503	11,503	11,503
Account receivables	9,981	11,733	10,848	9,900	10,707	11,456
Other current assets	155,663	136,631	182,673	181,841	183,088	184,306
Non-current assets	166,719	178,123	176,504	174,153	176,869	179,788
PP&E	23,027	23,973	27,960	32,018	36,109	40,418
Intangibles	8,947	8,095	7,848	1,439	64	(1,326)
Goodwill	22,605	22,477	22,586	22,586	22,586	22,586
Other non-current assets	112,140	123,578	118,110	118,110	118,110	118,110
Total assets	380,034	390,973	406,759	429,324	462,323	496,729
Current liabilities	74,488	79,630	76,451	77,675	78,496	78,503
Short-term borrowings	4,168	5,343	10,257	10,257	10,257	10,257
Account payables	41,384	38,014	37,717	39,602	39,260	38,187
Other current liabilities	28,936	36,273	28,477	27,816	28,979	30,059
Non-current liabilities	81,594	73,538	67,700	62,333	61,579	59,822
Long-term borrowings	12,629	13,722	14,223	0	0	0
Bond payables	55,772	49,461	43,134	51,990	51,236	49,479
Obligations under finance leases	5,569	4,810	5,040	5,040	5,040	5,040
Deferred income	129	159	200	200	200	200
Other non-current liabilities	7,495	5,386	5,103	5,103	5,103	5,103
Total liabilities	156,082	153,168	144,151	140,008	140,075	138,325
Share capital	0	0	0	0	0	0
Capital surplus	73,888	79,855	87,099	87,202	87,305	87,408
Retained earnings	137,571	143,623	156,527	183,131	215,960	252,014
Other reserves	7,148	8,393	9,465	9,465	9,465	9,465
Total shareholders equity	218,607	231,871	253,091	279,798	312,730	348,887
Minority interest	5,345	5,934	9,517	9,517	9,517	9,517
Total equity and liabilities	380,034	390,973	406,759	429,324	462,323	496,729

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,778	10,112	25,198	25,591	28,847	33,000
Depreciation & amortization	16,438	14,725	14,908	5,742	5,654	5,435
Tax paid	(3,187)	(2,578)	(3,649)	(4,722)	(6,313)	(7,491)
Change in working capital	(18,691)	(16,758)	(13,067)	3,004	(1,233)	(1,960)
Others	14,784	20,669	13,225	6,433	6,834	7,083
Net cash from operations	20,122	26,170	36,615	36,048	33,789	36,067
Investing						
Capital expenditure	(10,896)	(8,286)	(11,190)	(8,286)	(8,286)	(8,286)
Acquisition of subsidiaries/ investments	(247)	(14)	(115)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(20,301)	4,356	(39,092)	(104)	(84)	(67)
Net cash from investing	(31,444)	(3,944)	(50,397)	(8,390)	(8,370)	(8,353)
Financing						
Net borrowings	8,840	(6,813)	(13,093)	(14,223)	0	0
Share repurchases	(7,581)	(1,925)	(4,764)	0	0	0
Others	22,137	2,348	3,695	12,420	2,810	1,807
Net cash from financing	23,396	(6,390)	(14,162)	(1,803)	2,810	1,807
Net change in cash						
Cash at the beginning of the year	36,540	47,671	65,236	37,574	63,429	91,659
Exchange difference	(943)	1,729	282	0	0	0
Cash at the end of the year	47,671	65,236	37,574	63,429	91,659	121,179
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	16.3%	(0.7%)	8.8%	(0.6%)	8.1%	7.0%
Gross profit	15.9%	(0.7%)	16.4%	(2.6%)	9.3%	7.8%
Operating profit	(26.7%)	51.3%	37.4%	0.4%	14.1%	12.5%
Net profit	(54.5%)	(26.1%)	168.8%	(0.3%)	6.5%	12.9%
Adj. net profit	(14.5%)	9.8%	39.0%	(6.4%)	2.5%	10.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	48.3%	48.3%	51.7%	50.6%	51.2%	51.6%
Operating margin	8.4%	12.9%	16.2%	16.4%	17.3%	18.2%
Adj. net profit margin	15.1%	16.7%	21.4%	20.1%	19.1%	19.7%
Return on equity (ROE)	5.1%	3.4%	8.4%	7.6%	7.3%	7.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Current ratio (x)	2.9	2.7	3.0	3.3	3.6	4.0
Receivable turnover days	27.0	31.6	29.0	26.7	25.6	25.8
Payable turnover days	218.6	223.5	220.6	221.4	200.8	185.8
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	22.0	30.0	11.3	11.4	10.8	9.7
P/E (diluted)	22.4	30.3	11.4	11.5	10.9	9.8
P/B	1.0	1.0	0.9	0.8	0.8	0.7
P/CFPS	24.8	12.8	9.1	8.4	9.2	8.6

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

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OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
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