

Baidu (BIDU US)

Improvement in fundamentals still takes time while new business on solid expansion track

For 2Q25E, we expect Baidu Core business revenue could reach RMB26.1bn, down 2% YoY, owing to determined business transformation to embed more Gen-AI related content in search results to improve user experience. However, such revenue may partly offset by solid cloud revenue growth, which we expect to grow by 26% YoY. We are looking for RMB4.0bn non-GAAP net profit for Baidu Core in 2Q25E. Although Baidu has started preliminary tests for monetization of Gen-AI related content in late June, we expect that it will still prioritize user experience improvement over monetization in the near term, and we are anticipating that the YoY decline in ads revenue growth will start to narrow in 4Q25E aided by ramp-up in monetization and easier comps in 4Q24. That said, Baidu's new businesses are on a robust development track. Baidu and Uber have joined forces to accelerate autonomous vehicle deployment worldwide outside the US and mainland China, which we view as a solid progress in exploring international expansion for Robotaxi business in an asset-light model. We fine-tune our SOTP-based target price to US\$130.3 (was US\$144.6) mainly to reflect short-term earnings pressure from business transformation, while we believe this is vital for long-term business development. Maintain BUY.

- **Cloud business to sustain solid revenue growth momentum.** We are anticipating Baidu Cloud revenue growth of 26% YoY in 2Q25E (2Q24: 14%), driven by the continuously increase in AI related cloud demand. Cloud business should sustain healthy profitability as Baidu has managed to deliver efficient business growth for cloud, in our view.
- **Recovery in revenue growth in core ads likely takes time.** Within Baidu Core business, we are looking for 16% YoY decline for ads business in 2Q25E, owing to the determined business transformation. Baidu is more proactively leveraging LLM to innovate its search business, in order to drive for better user experience, and we expect the contribution from Gen-AI generated results to reach >50% in 2Q25 (April 2025: c. 35%). We are currently expecting that the impact from business transformation will reach its peak in 3Q25, and should start improving in 4Q25, aided by the ramp-up in monetization of Gen-AI related search results, and an easier comps in 4Q24. Weighed by the business adjustment in the near term, we estimate Baidu Core has achieved non-GAAP net profit of RMB4.0bn in 2Q25E (2Q24: RMB7.3bn).
- **Cooperation with Uber to accelerate autonomous vehicle deployment globally.** Baidu and Uber announced (15 Jul) a multi-year strategic partnership to deploy thousands of Baidu's Apollo Go autonomous vehicles on the Uber platform across multiple global markets outside of the US and mainland China ([link](#)). The first deployment is expected in Asia and the Middle East later in 2025. The cooperation is in an asset-light business model for Baidu, which we expect to bring upside on both revenue and earnings for Baidu over the long term.
- **Change in forecasts and valuation.** For Baidu group, we cut total revenue forecast by 3-8% for 2025-2027E, and non-GAAP net profit forecast by 25-26%, mainly to reflect impact from business transformation. Our SOTP-based target price was lowered to US\$130.3 (was US\$144.6), translating into 14.9x 2026E non-GAAP PE (or 8.1x on ex-cash basis).

BUY (Maintain)

Target Price US\$130.30
 (Previous TP) US\$144.60
Up/Downside 51.0%
Current Price US\$86.32

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Stock Data

Mkt Cap (US\$ mn)	30,190.4
Avg 3 mths t/o (US\$ mn)	79.7
52w High/Low (US\$)	115.13/76.86
Total Issued Shares (mn)	349.8

Source: FactSet

Shareholding Structure

Handsome Reward Limited	16.1%
BlackRock, Inc.	4.6%

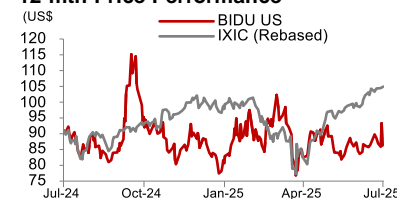
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.4%	-5.5%
3-mth	4.5%	-17.9%
6-mth	4.1%	-1.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	134,598	133,125	132,407	138,151	143,562
YoY growth (%)	8.8	(1.1)	(0.5)	4.3	3.9
Adjusted net profit (RMB mn)	28,747.0	27,002.0	18,870.0	22,342.8	24,192.0
YoY growth (%)	39.0	(6.1)	(30.1)	18.4	8.3
EPS (Adjusted) (RMB)	81.06	77.20	53.95	63.88	69.17
Consensus EPS (RMB)	na	76.85	66.38	73.54	84.47
P/E (x)	10.7	9.1	12.2	11.2	10.2
ROE (%)	8.4	9.0	6.2	6.2	6.3

Source: Company data, Bloomberg, CMBIGM estimates

Changes in forecast and valuation

Figure 1: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	132.4	138.2	143.6	136.4	147.0	156.9	-2.9%	-6.0%	-8.5%
Gross profit	60.1	64.7	67.6	64.6	74.0	80.1	-6.9%	-12.6%	-15.5%
Non-GAAP net profit	18.9	22.3	24.2	25.1	30.0	32.7	-24.8%	-25.4%	-26.0%
Gross margin	45.4%	46.8%	47.1%	47.4%	50.3%	51.0%	-1.9 ppt	-3.5 ppt	-3.9 ppt
Non-GAAP net margin	14.3%	16.2%	16.9%	18.4%	20.4%	20.8%	-4.2 ppt	-4.2 ppt	-4.0 ppt

Source: CMBIGM estimates

SOTP valuation of US\$130.3 per ADS

Our new SOTP-based target price comprises, per ADS:

- 1) US\$36.6 for Baidu Core (mainly including the core ads business, excluding Apollo and Baidu Cloud), based on 5.0x 2025E non-GAAP PE (was US\$48.2 based on 5.0x 2025E PE);
- 2) US\$0.3 for Apollo ASD (unchanged), based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$37.5 for Baidu Cloud (was US\$38.8), based on 3.4x 2025E PS;
- 4) US\$55.9 for net cash, iQIYI and other investments (was US\$57.3), with a 30% holding discount applied to the per share valuation of US\$79.8.

Figure 2: 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)	2,563	5.0	92,270	12,815	100.0	12,815	36.6	28.1
2) Apollo ASD			714	99	100.0	99	0.3	0.2
3) Baidu Cloud (ex-ASD)		3.4	94,516	13,127	100.0	13,127	37.5	28.8
Valuation of core business						26,042	74.5	57.1
iQIYI, strategic investment, and net cash								
1) iQIYI		Market value	12,896	1,791	45.4	813	2.3	
2) Trip.com group		Market value	326,070	45,288	10.8	4,891	14.0	
3) Uxin		Market value	7,006	973	9.1	89	0.3	
4) HAND Enterprise Solutions		Market value	12,271	2,531	5.3	133	0.4	
5) Kuaishou		Market value	274,959	38,189	3.1	1,186	3.4	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
4) Net cash		CMBI estimates	148,999	20,694	100.0	20,694	59.2	
Valuation of iQIYI, investments, and net cash						27,915	79.8	

Valuation of iQIYI, investment, and net cash (with 30% holding discount)	19,541	55.9	42.9
Total Baidu valuation (US\$mn)	45,582		
Number of ADS outstanding (mn)	350		
Valuation per ADS (US\$)	130.3		

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 from Gen-AI related business.
- 2) Slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	123,675	134,598	133,125	132,407	138,151	143,562
Cost of goods sold	(63,935)	(65,031)	(66,102)	(72,268)	(73,440)	(75,934)
Gross profit	59,740	69,567	67,023	60,139	64,711	67,629
Operating expenses	(43,829)	(47,711)	(45,753)	(46,640)	(47,852)	(48,297)
SG&A expense	(20,514)	(23,519)	(23,620)	(24,363)	(25,282)	(25,554)
R&D expense	(23,315)	(24,192)	(22,133)	(22,277)	(22,570)	(22,743)
Operating profit	15,911	21,856	21,270	13,499	16,859	19,332
Share of (losses)/profits of associates/JV	(1,910)	(3,799)	(691)	846	1,209	1,595
Adjusted EBITDA	29,663	35,824	33,077	24,096	27,752	30,496
Net Interest income/(expense)	3,332	4,761	5,138	5,030	4,938	4,984
Foreign exchange gain/loss	(1,484)	595	1,076	0	0	0
Other income/expense	(5,737)	1,785	1,829	2,260	2,283	2,305
Pre-tax profit	10,112	25,198	28,622	21,635	25,289	28,217
Income tax	(2,578)	(3,649)	(4,447)	(3,757)	(5,441)	(6,292)
After tax profit	7,534	21,549	24,175	17,878	19,848	21,925
Minority interest	(25)	1,234	415	190	557	678
Net profit	7,559	20,315	23,760	17,688	19,291	21,247
Adjusted net profit	20,680	28,747	27,002	18,870	22,343	24,192

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	212,850	230,255	168,849	171,752	181,270	191,384
Cash & equivalents	53,156	25,231	24,832	34,976	43,277	52,208
Restricted cash	11,330	11,503	11,697	11,697	11,697	11,697
Account receivables	11,733	10,848	10,104	9,795	10,219	10,620
Other current assets	136,631	182,673	122,216	115,284	116,076	116,860
Non-current assets	178,123	176,504	258,931	272,326	282,124	292,112
PP&E	23,973	27,960	30,102	51,135	62,323	73,715
Intangibles	8,095	7,848	7,702	64	(1,326)	(2,730)
Goodwill	22,477	22,586	22,586	22,586	22,586	22,586
Other non-current assets	123,578	118,110	198,541	198,541	198,541	198,541
Total assets	390,973	406,759	427,780	444,078	463,393	483,495
Current liabilities	79,630	76,451	80,953	74,234	72,998	71,370
Short-term borrowings	5,343	10,257	10,669	10,669	10,669	10,669
Account payables	38,014	37,717	41,443	35,913	34,065	31,859
Other current liabilities	36,273	28,477	28,841	27,652	28,265	28,842
Non-current liabilities	73,538	67,700	63,215	60,324	57,104	53,063
Long-term borrowings	13,722	14,223	15,596	0	0	0
Bond payables	49,461	43,134	36,347	49,052	45,832	41,791
Obligations under finance leases	4,810	5,040	4,973	4,973	4,973	4,973
Deferred income	159	200	231	231	231	231
Other non-current liabilities	5,386	5,103	6,068	6,068	6,068	6,068
Total liabilities	153,168	144,151	144,168	134,558	130,102	124,433
Share capital	0	0	0	0	0	0
Capital surplus	79,855	87,099	87,146	87,193	87,240	87,287
Retained earnings	143,623	156,527	176,474	202,335	226,059	251,784
Other reserves	8,393	9,465	9,870	9,870	9,870	9,870
Total shareholders equity	231,871	253,091	273,490	299,398	323,169	348,941
Minority interest	5,934	9,517	10,122	10,122	10,122	10,122
Total equity and liabilities	390,973	406,759	427,780	444,078	463,393	483,495

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,112	25,198	28,622	21,635	25,289	28,217
Depreciation & amortization	14,725	14,908	14,628	6,335	6,372	6,167
Tax paid	(2,578)	(3,649)	(4,447)	(3,757)	(5,441)	(6,292)
Change in working capital	(16,758)	(13,067)	(27,512)	523	(2,453)	(2,813)
Others	20,669	13,225	9,943	3,867	3,835	3,759
Net cash from operations	26,170	36,615	21,234	28,604	27,602	29,039
Investing						
Capital expenditure	(8,286)	(11,190)	(8,134)	(15,632)	(16,101)	(16,101)
Acquisition of subsidiaries/ investments	(14)	(115)	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	4,356	(39,092)	(421)	(84)	(67)	(54)
Net cash from investing	(3,944)	(50,397)	(8,555)	(15,716)	(16,169)	(16,155)
Financing						
Net borrowings	(6,813)	(13,093)	(2,914)	(15,596)	0	0
Share repurchases	(1,925)	(4,764)	(6,324)	0	0	0
Others	2,348	3,695	(4,521)	12,793	(3,132)	(3,953)
Net cash from financing	(6,390)	(14,162)	(13,759)	(2,803)	(3,132)	(3,953)
Net change in cash						
Cash at the beginning of the year	47,671	65,236	37,574	36,589	46,673	54,974
Exchange difference	1,729	282	95	0	0	0
Cash at the end of the year	65,236	37,574	36,589	46,673	54,974	63,905
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(0.7%)	8.8%	(1.1%)	(0.5%)	4.3%	3.9%
Gross profit	(0.7%)	16.4%	(3.7%)	(10.3%)	7.6%	4.5%
Operating profit	51.3%	37.4%	(2.7%)	(36.5%)	24.9%	14.7%
Net profit	(26.1%)	168.8%	17.0%	(25.6%)	9.1%	10.1%
Adj. net profit	9.8%	39.0%	(6.1%)	(30.1%)	18.4%	8.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	48.3%	51.7%	50.3%	45.4%	46.8%	47.1%
Operating margin	12.9%	16.2%	16.0%	10.2%	12.2%	13.5%
Adj. net profit margin	16.7%	21.4%	20.3%	14.3%	16.2%	16.9%
Return on equity (ROE)	3.4%	8.4%	9.0%	6.2%	6.2%	6.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.2)	(0.5)	(0.5)	(0.5)
Current ratio (x)	2.7	3.0	2.1	2.3	2.5	2.7
Receivable turnover days	31.6	29.0	26.8	26.7	26.1	26.1
Payable turnover days	223.5	220.6	220.7	187.6	171.5	156.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	28.5	10.7	9.1	12.2	11.2	10.2
P/E (diluted)	28.8	10.8	9.1	12.3	11.2	10.2
P/B	0.9	0.9	0.8	0.7	0.7	0.6
P/CFPS	12.2	8.6	16.5	16.7	18.8	16.7

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

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