

# Baidu (BIDU US)

## Earnings beat on stringent cost control

Baidu reported (22 Nov) its 3Q22 results: revenue was up 1.9% YoY to RMB32.5bn, 2% higher than both our forecast and Bloomberg-consensus estimates; non-GAAP net income was RMB5.9bn, beating our/consensus estimates of RMB5.6/5.5bn, due to stringent cost control. Non-ad revenue grew 25% YoY in 3Q22 and accounted for 26% of Baidu Core revenue (3Q21: 21%), driven by Baidu Cloud and AI-powered businesses. The results demonstrated a continuously enhanced mobile ecosystem and solid progress on new AI and autonomous driving business, in our view. We remain upbeat on Baidu's long-term development. Future catalysts could come from: 1) recovery in macro which could propel a recovery in ads business; 2) sooner than expected commencement of large-scale revenue generation from (Apollo Self Driving) ASD business.

■ **Non-ads businesses saw solid development progress.** Baidu announced that rides provided by Apollo Go were more than 474,000 in 3Q22, up 311% YoY and 65% QoQ. Baidu Cloud revenue grew 24% YoY in 3Q22 (2Q22: 31%), and was 18% of Baidu Core revenue (3Q21: 15%). Baidu's ACE (Autonomous driving, connected road, efficient mobility) smart transportation has been adopted by 63 cities in 3Q22 (3Q21: 24 cities), based on contract amounts of over RMB10mn. Total projected accumulative sales of Baidu Apollo auto solutions reached RMB11.4bn in 3Q22, up 50% YoY. Management expected some of the major car models that equipped with Apollo Navigation Pilot and Apollo Valet Parking to be launched in 2H23, and meaningful revenue contribution to kick in in 2024.

■ **Ads business is recovering, although pandemic resurgence may dampen near-term recovery trajectory.** Baidu Core revenue rose by 2% YoY to RMB25.2bn in 3Q22 (78% of total revenue), 2% higher than our estimate, while iQIYI revenue declined by 2% YoY to RMB7.5bn. Although overall ads revenue in Baidu Core business declined 3.6% YoY to RMB18.7bn in 3Q22, management highlighted that feed ads revenue recorded positive YoY growth, and revenues from healthcare and retail verticals recorded positive YoY growth. In September 2022, MAUs of Baidu app were 634mn, up 5.0% YoY, while total mobile search queries increased by double digit YoY and feeds distributed through Baidu app increased by 23% YoY. Operation results have demonstrated a continuously enhancing mobile ecosystem for Baidu, which we believe could aid ads revenue recovery along with the recovery of macro in 2023, after pandemic resurgence impact in 4Q wanes.

■ **Stringent cost control leads to a beat on margin.** Baidu's GPM was 50% in 3Q22, up 0.5pp YoY and 0.1pp better than our forecast. Baidu's non-GAAP SG&A/R&D expense-to-revenue ratio was 14.5/14.5pp, 2.0/0.4pp better than our estimate, due to better-than-expected sales and marketing efficiency for Baidu Core. The overall non-GAAP OPM for Baidu Group was 22.1% (our estimate: 18.9%), and Baidu Core business non-GAAP OPM was 26.4% (our estimate: 22.6%). iQIYI's non-GAAP OPM was 7.0%, 0.8pp ahead of our estimate, driven by optimized content cost spending.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	107,074	124,493	124,309	137,657	149,812
YoY growth (%)	(0.3)	16.3	(0.1)	10.7	8.8
Net profit (RMB mn)	22,472.0	10,226.0	10,144.9	13,814.9	17,277.2
Adjusted net profit (RMB mn)	22,020.0	18,830.0	20,336.7	20,494.4	24,083.7
Adj. NP (Consensus; RMB mn)			18,822.8	22,001.3	26,486.0
EPS (Adjusted) (RMB)	63.93	53.53	57.24	57.12	66.45
P/E (x)	13.1	42.3	23.5	17.4	14.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **US\$192.80**  
 (Previous TP) US\$192.80  
**Up/Downside** **100.9%**  
**Current Price** **US\$95.97**

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### Stock Data

Mkt Cap (US\$ mn)	34,095.0
Avg 3 mths t/o (US\$ mn)	112.1
52w High/Low (US\$)	167.35/76.57
Total Issued Shares (mn)	355.3

Source: FactSet

### Shareholding Structure

Robin Yanhong Li	16.5%
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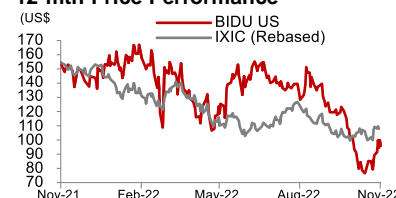
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.2%	-9.3%
3-mth	-25.2%	-13.0%
6-mth	-19.3%	-17.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Baidu: quarterly financial results

(RMBbn)	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
<b>Baidu Group</b>									
<b>Online marketing</b>	20.2	20.7	18.1	20.8	21.1	20.7	16.9	18.3	19.9
YoY growth (%)	-1.1%	-0.3%	27.0%	17.8%	4.2%	0.1%	-6.4%	-12.3%	-5.3%
<b>Other services</b>	8.0	9.6	10.0	10.5	10.9	12.4	11.5	11.4	12.6
YoY growth (%)	5.0%	17.7%	20.9%	26.1%	35.4%	29.4%	14.4%	8.1%	15.9%
<b>Total revenue</b>	<b>28.2</b>	<b>30.3</b>	<b>28.1</b>	<b>31.4</b>	<b>31.9</b>	<b>33.1</b>	<b>28.4</b>	<b>29.6</b>	<b>32.5</b>
YoY growth (%)	0.5%	4.8%	24.8%	20.4%	13.1%	9.3%	1.0%	-5.4%	1.9%
Gross profit	15.4	15.7	13.1	15.5	15.8	15.8	12.9	14.5	16.3
Operating profit	6.2	5.0	2.8	3.5	2.3	2.0	2.6	3.4	5.3
<b>Non-GAAP net profit</b>	<b>7.0</b>	<b>6.9</b>	<b>4.3</b>	<b>5.4</b>	<b>5.1</b>	<b>4.1</b>	<b>3.9</b>	<b>5.5</b>	<b>5.9</b>
YoY growth (%)	59%	-25%	39%	5%	-27%	-41%	-10%	3%	16%
GPM (%)	54.6%	52.0%	46.7%	49.3%	49.5%	47.7%	45.3%	48.8%	50.0%
OPM (%)	21.8%	16.4%	9.9%	11.0%	7.2%	5.9%	9.2%	11.5%	16.3%
Non-GAAP NPM (%)	24.8%	22.7%	15.3%	17.1%	15.9%	12.3%	13.7%	18.7%	18.1%
<b>Baidu Core</b>									
Revenue	21.4	23.1	20.5	24.0	24.7	26.0	21.4	23.2	25.2
YoY growth (%)	1.8%	6.4%	34.2%	27.0%	15.3%	12.4%	4.4%	-3.7%	2.3%
Non-GAAP OP	8.5	8.0	5.1	6.5	5.8	4.8	3.7	5.1	6.7
Non-GAAP NP	7.5	7.5	4.9	5.9	5.9	4.6	3.8	5.4	5.8
YoY growth (%)	18.6%	-24.3%	7.8%	5.1%	-21.8%	-38.6%	-21.9%	-8.3%	-1.5%
Non-GAAP OPM (%)	39.8%	34.8%	24.7%	26.9%	23.6%	18.7%	17.2%	22.1%	26.4%
Non-GAAP NPM (%)	35.0%	32.6%	23.8%	24.7%	23.7%	17.8%	17.8%	23.5%	22.8%

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	107,413	107,074	124,493	124,309	137,657	149,812
Cost of goods sold	(62,850)	(55,158)	(64,314)	(64,717)	(71,483)	(76,517)
<b>Gross profit</b>	<b>44,563</b>	<b>51,916</b>	<b>60,179</b>	<b>59,592</b>	<b>66,174</b>	<b>73,296</b>
Operating expenses	(38,256)	(37,576)	(49,661)	(44,940)	(50,262)	(53,635)
SG&A expense	(19,910)	(18,063)	(24,723)	(20,262)	(23,677)	(25,318)
R&D expense	(18,346)	(19,513)	(24,938)	(24,678)	(26,585)	(28,317)
<b>Operating profit</b>	<b>6,307</b>	<b>14,340</b>	<b>10,518</b>	<b>14,652</b>	<b>15,912</b>	<b>19,660</b>
Share of (losses)/profits of associates/JV	(1,254)	(2,248)	(932)	(1,211)	66	360
<b>Adjusted EBITDA</b>	<b>18,416</b>	<b>27,504</b>	<b>24,914</b>	<b>27,790</b>	<b>29,392</b>	<b>33,595</b>
Net Interest income/(expense)	3,100	2,255	2,130	3,087	2,908	3,386
Foreign exchange gain/loss	(33)	(660)	100	(340)	(272)	(218)
Other income/expense	(8,460)	9,403	(1,038)	(2,987)	0	0
<b>Pre-tax profit</b>	<b>(340)</b>	<b>23,090</b>	<b>10,778</b>	<b>13,201</b>	<b>18,614</b>	<b>23,189</b>
Income tax	(1,948)	(4,064)	(3,187)	(3,024)	(4,609)	(5,456)
<b>After tax profit</b>	<b>(2,288)</b>	<b>19,026</b>	<b>7,591</b>	<b>10,177</b>	<b>14,005</b>	<b>17,733</b>
Minority interest	(4,345)	(3,446)	(2,635)	32	190	456
<b>Net profit</b>	<b>2,057</b>	<b>22,472</b>	<b>10,226</b>	<b>10,145</b>	<b>13,815</b>	<b>17,277</b>
<b>Adjusted net profit</b>	<b>18,182</b>	<b>22,020</b>	<b>18,830</b>	<b>20,337</b>	<b>20,494</b>	<b>24,084</b>
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>165,562</b>	<b>183,342</b>	<b>213,315</b>	<b>219,188</b>	<b>245,973</b>	<b>276,346</b>
Cash & equivalents	33,443	35,782	36,850	43,276	67,586	95,634
Restricted cash	996	758	10,821	10,821	10,821	10,821
Account receivables	7,416	8,668	9,981	9,195	10,183	11,082
Other current assets	123,707	138,134	155,663	155,895	157,382	158,810
<b>Non-current assets</b>	<b>135,754</b>	<b>149,366</b>	<b>166,719</b>	<b>156,168</b>	<b>153,867</b>	<b>151,276</b>
PP&E	18,311	17,508	23,027	17,302	16,330	15,092
Intangibles	7,887	8,457	8,947	4,121	2,792	1,439
Goodwill	18,250	22,248	22,605	22,605	22,605	22,605
Other non-current assets	91,306	101,153	112,140	112,140	112,140	112,140
<b>Total assets</b>	<b>301,316</b>	<b>332,708</b>	<b>380,034</b>	<b>375,356</b>	<b>399,840</b>	<b>427,622</b>
<b>Current liabilities</b>	<b>57,380</b>	<b>68,385</b>	<b>74,488</b>	<b>73,952</b>	<b>77,181</b>	<b>80,239</b>
Short-term borrowings	2,618	3,016	4,168	4,168	4,168	4,168
Account payables	32,701	36,716	41,384	40,869	42,617	44,328
Other current liabilities	22,061	28,653	28,936	28,916	30,396	31,743
<b>Non-current liabilities</b>	<b>71,121</b>	<b>72,480</b>	<b>81,594</b>	<b>67,665</b>	<b>66,426</b>	<b>64,722</b>
Long-term borrowings	7,804	0	12,629	0	0	0
Bond payables	50,387	60,335	55,772	54,472	53,233	51,529
Obligations under finance leases	4,486	4,693	5,569	5,569	5,569	5,569
Deferred income	17	97	129	129	129	129
Other non-current liabilities	8,427	7,355	7,495	7,495	7,495	7,495
<b>Total liabilities</b>	<b>128,501</b>	<b>140,865</b>	<b>156,082</b>	<b>141,618</b>	<b>143,606</b>	<b>144,961</b>
Share capital	0	0	0	0	0	0
Capital surplus	38,714	47,213	47,548	47,883	48,218	48,553
Retained earnings	124,885	135,483	163,911	173,362	195,522	221,614
Other reserves	1,109	3,102	7,148	7,148	7,148	7,148
<b>Total shareholders equity</b>	<b>164,708</b>	<b>185,798</b>	<b>218,607</b>	<b>228,393</b>	<b>250,888</b>	<b>277,315</b>
Minority interest	8,107	6,045	5,345	5,345	5,345	5,345
<b>Total equity and liabilities</b>	<b>301,316</b>	<b>332,708</b>	<b>380,034</b>	<b>375,356</b>	<b>399,839</b>	<b>427,622</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>						
<b>Profit before taxation</b>	<b>(340)</b>	<b>23,090</b>	<b>10,778</b>	<b>13,201</b>	<b>18,614</b>	<b>23,189</b>
Depreciation & amortization	19,161	18,180	16,438	5,126	4,946	4,685
Tax paid	(1,948)	(4,064)	(3,187)	(3,024)	(4,609)	(5,456)
Change in working capital	(6,687)	(18,207)	(18,691)	18	754	732
Others	18,272	5,201	14,784	7,357	7,471	7,676
<b>Net cash from operations</b>	<b>28,458</b>	<b>24,200</b>	<b>20,122</b>	<b>22,677</b>	<b>27,176</b>	<b>30,826</b>
<b>Investing</b>						
Capital expenditure	(6,428)	(5,084)	(10,896)	(3,180)	(2,515)	(1,989)
Acquisition of subsidiaries/ investments	(969)	(2,396)	(247)	0	0	0
Net proceeds from disposal of short-term investments	(476)	(486)	0	0	0	0
Others	(12,101)	(19,586)	(20,301)	(161)	(130)	(104)
<b>Net cash from investing</b>	<b>(19,974)</b>	<b>(27,552)</b>	<b>(31,444)</b>	<b>(3,341)</b>	<b>(2,645)</b>	<b>(2,094)</b>
<b>Financing</b>						
Net borrowings	771	12,390	8,840	(12,629)	0	0
Share repurchases	(4,958)	(13,054)	(7,581)	0	0	0
Others	314	6,329	22,137	(281)	(221)	(685)
<b>Net cash from financing</b>	<b>(3,873)</b>	<b>5,665</b>	<b>23,396</b>	<b>(12,910)</b>	<b>(221)</b>	<b>(685)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	29,827	34,439	36,540	47,671	54,097	78,407
Exchange difference	1	(212)	(943)	0	0	0
<b>Cash at the end of the year</b>	<b>34,439</b>	<b>36,540</b>	<b>47,671</b>	<b>54,097</b>	<b>78,407</b>	<b>106,455</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	5.0%	(0.3%)	16.3%	(0.1%)	10.7%	8.8%
Gross profit	(11.8%)	16.5%	15.9%	(1.0%)	11.0%	10.8%
Operating profit	(59.4%)	127.4%	(26.7%)	39.3%	8.6%	23.6%
Net profit	(92.5%)	992.5%	(54.5%)	(0.8%)	36.2%	25.1%
Adj. net profit	(24.2%)	21.1%	(14.5%)	8.0%	0.8%	17.5%
<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	41.5%	48.5%	48.3%	47.9%	48.1%	48.9%
Operating margin	5.9%	13.4%	8.4%	11.8%	11.6%	13.1%
Adj. net profit margin	16.9%	20.6%	15.1%	16.4%	14.9%	16.1%
Return on equity (ROE)	1.3%	12.8%	5.1%	4.5%	5.8%	6.5%
<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)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	2.9	2.7	2.9	3.0	3.2	3.4
Receivable turnover days	22.5	27.0	27.0	27.8	25.3	25.5
Payable turnover days	195.0	226.5	218.6	228.8	210.2	204.5
<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	154.5	13.1	42.3	23.5	17.4	14.1
P/E (diluted)	154.8	13.2	43.2	24.0	17.8	14.4
P/B	1.9	1.6	2.0	1.1	1.0	0.9
P/CFPS	14.5	15.5	47.9	12.5	10.0	8.6

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

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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
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<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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