

Baidu (BIDU US)

The worst is behind; eyes on 2H22E recovery

2Q22 result was better-than-feared, with top line/bottom line -5% YoY/+3% YoY, 1%/61% above consensus. Total online marketing rev -12% YoY (vs. our estimate of -16%). We suggest to look beyond 2Q22 ads trough, and move into 2H22E recovery, with rising ecommerce, medical service, and travel ads after lockdowns relaxation. We expect 3Q22E Baidu core to achieve positive growth, in which ads -3% YoY (Jul & Aug ads slightly improved MoM). With less travel limits, we remain confident in AI cloud 2H22E acceleration (forecasting +33% YoY in 3Q22E) and above-industrial growth in the long term. We expect Baidu's core adj. OPM at 23% in 3Q22E. Auto progress tracked well on scaling operation, and would deliver more affordable parts ahead. We raised earnings by 19-28% in FY22-24E to reflect better margin outlook, with TP at US\$203.

■ **2Q22 beat on margin.** 2Q22 rev -5% YoY, 1%/2% above consensus/our estimate. Total online marketing rev -12% YoY (vs. our estimate of -16%), in which core ads -10% YoY (better-than-feared) and IQ's ad rev-35% (largely in line). Non-GAAP net profit achieved positive growth, +3% YoY (61% above consensus), with core adj. OPM at 22% (vs. our estimate of 16%).

■ **Eyes on 2H22E ads & cloud recovery, with auto on good track.** Apollo Go achieved solid progress on scaling operation. It reached 1mn accumulated rides in Jul, and started offering fully driverless ride-hailing services on open roads in Chongqing and Wuhan in August. Moreover, we expect auto biz to be more affordable than before. For instance, RT6 demonstrated diversified functions but with lower cost. For ads biz, we expect core ads -3% YoY in 3Q22E (vs. -10% in 2Q22), at a moderate recovery pace. Jul and Aug ads spending picked up, with solid rebound of ecommerce, medical service, and travel ads. AI cloud +31% YoY in 2Q22 (vs. our estimate of +28% YoY), and we expect it to accelerate in 2H22E with less travel limits. Enterprise cloud and ACE transportation has positive GPM, and ACE transportation would achieve breakeven earlier than other verticals (expecting in 4Q22E). Looking ahead, we expect mobile ecosystem to maintain healthy margin and then support new initiatives investment with sustainable growth.

■ **Maintain BUY.** We raised its earnings by 19-28% in FY22-24E, with SOTP-based TP at US\$203 (22x FY23E P/E). Multiple downside risk is limited, and we 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	126,739	142,944	159,984
YoY growth (%)	(0.8)	16.2	2.5	12.8	11.9
Adj. net income (RMB mn)	21,306	17,972	19,572	22,624	26,767
Adj. EPS (RMB)	61.6	51.7	56.4	64.5	75.6
YoY growth (%)	20.5	(16.1)	9.1	14.4	17.1
Consensus EPS (RMB)	NA	NA	43.6	56.4	65.9
P/E (x)	14.8	17.7	16.2	14.1	12.1
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

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Stock Data

Mkt Cap (US\$ mn)	51,041
Avg 3m t/o (US\$ mn)	385.71
52w High/Low (US\$)	182.60/101.62
Issued Shares (mn)	276
Source: Bloomberg	

Shareholding Structure

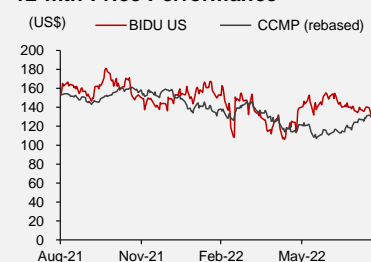
Primecap Management	3.5%
Doge & Cox BlackRock Inc	2.4%
BlackRock Inc	1.4%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	5.1%	5.2%
3-mth	6.2%	6.1%
6-mth	-3.1%	9.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. Auto on progress, despite slower ads recovery - 8 Aug 2022
2. 2Q22E epidemic headwinds well priced in - 27 May 2022
3. Soft ads to linger in 2Q22E for epidemic - 19 Apr 2022

Figure 1: 2Q22 financial review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Net revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,411	29,647	4.4%	-5.4%	29,411	1%	29,180	2%
Gross profit	7,858	12,900	15,417	15,741	13,132	15,453	15,795	15,799	12,865	14,476	12.5%	-6.3%	13,209	10%	13,567	7%
Operating profit	(437)	3,644	6,156	4,977	2,789	3,463	2,308	1,958	2,601	3,400	30.7%	-1.8%	3,301	3%	1,754	94%
Adj. net profit	3,082	5,082	6,988	6,868	4,297	5,359	5,090	4,084	3,879	5,541	42.8%	3.4%	3,451	61%	3,345	66%
Adj. EPS (Rmb)	8.84	14.73	20.35	20.08	12.38	15.41	14.66	11.60	11.22	15.93	42.1%	3.4%	9.81	62%	9.65	65%
Margin (%)																
Gross margin	34.9%	49.6%	54.6%	52.0%	46.7%	49.3%	49.5%	47.7%	45.3%	48.8%			44.9%		46.5%	
Operating margin	-1.9%	14.0%	21.8%	16.4%	9.9%	11.0%	7.2%	5.9%	9.2%	11.5%			25.0%		6.0%	
Adj. net margin	13.7%	19.5%	24.8%	22.7%	15.3%	17.1%	15.9%	12.3%	13.7%	18.7%			26.1%		11.5%	
Growth (%)																
Revenue (YoY)	-6.5%	-1.1%	0.5%	4.8%	24.8%	20.4%	13.1%	9.3%	1.0%	-5.4%			-6.2%		-6.9%	
Revenue (QoQ)	-21.9%	15.5%	8.4%	7.2%	-7.0%	11.4%	1.8%	3.7%	-14.1%	4.4%			3.5%		2.7%	
Operating profit	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%	-62.5%	-60.7%	-6.7%	-1.8%			-4.7%		-49.3%	
Adj. net profit	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%	-27.2%	-40.5%	-9.7%	3.4%			55.3%		-37.6%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: 2Q22 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY
Total revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,411	29,647	4%	-5%
Online marketing services	14,243	17,688	20,201	20,708	18,094	20,828	21,050	20,723	16,929	18,268	8%	-12%
Other services	8,302	8,346	8,031	9,555	10,040	10,522	10,871	12,365	11,482	11,379	-1%	8%

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	127,328	143,562	160,614	126,530	144,202	162,387	0.6%	-0.4%	-1.1%
Gross profit	63,182	72,586	82,768	59,378	68,662	79,783	6.4%	5.7%	3.7%
Operating profit	19,776	23,115	27,666	13,997	20,490	26,049	41.3%	12.8%	6.2%
Adj. net profit	19,572	22,624	26,767	17,002	20,893	26,271	15.1%	8.3%	1.9%
EPS (RMB)	56.38	64.53	75.59	43.56	56.43	66	29%	14%	15%
Gross margin	49.6%	50.6%	51.5%	46.9%	47.6%	49.1%	+2.69ppts	+2.95ppts	+2.40ppts
Operating margin	15.5%	16.1%	17.2%	11.1%	14.2%	16.0%	+4.47ppts	+1.89ppts	+1.18ppts
Net margin	15.4%	15.8%	16.7%	13.4%	14.5%	16.2%	+1.93ppts	+1.27ppts	+0.49ppts

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	127,328	143,562	160,614	124,804	140,902	157,854	2.0%	1.9%	1.7%
Gross profit	63,182	72,586	82,768	59,828	69,072	78,976	5.6%	5.1%	4.8%
Operating profit	19,776	23,115	27,666	16,006	20,656	24,960	23.6%	11.9%	10.8%
Adj. net profit	19,572	22,624	26,767	15,237	18,926	22,476	28.4%	19.5%	19.1%
EPS (RMB)	56.38	64.53	75.59	43.98	54.09	64	28.2%	19.3%	18.8%
Gross margin	49.6%	50.6%	51.5%	47.9%	49.0%	50.0%	+1.68ppts	+1.54ppts	+1.50ppts
Operating margin	15.5%	16.1%	17.2%	12.8%	14.7%	15.8%	+2.71ppts	+1.44ppts	+1.41ppts
Net margin	15.4%	15.8%	16.7%	12.2%	13.4%	14.2%	+3.16ppts	+2.33ppts	+2.43ppts

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	126,739	142,944	159,984
Online marketing	74,288	80,450	76,797	80,740	82,643
Other services	32,072	43,185	49,943	62,204	77,342
COSG	(55,158)	(64,314)	(64,146)	(70,976)	(77,847)
Gross profit	51,202	59,321	62,594	71,968	82,138
R&D	(19,513)	(24,938)	(26,444)	(31,362)	(35,182)
S&GA	(18,063)	(23,747)	(24,661)	(26,559)	(29,274)
Operating profit	13,626	9,660	9,305	13,487	17,003
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	(340)	0	0
Loss from E.M.I	(2,248)	(932)	(1,398)	(1,197)	(1,171)
Other income	9,403	(1,038)	(2,987)	0	0
Pre-tax profit	22,376	9,920	7,399	15,493	19,710
Tax	(4,064)	(3,187)	(2,419)	(3,224)	(3,909)
MI	3,446	2,635	1,020	501	(31)
Net profit	18,312	6,733	7,357	13,480	17,203
Adjustment	2,994	11,239	12,214	9,144	9,564
Non GAAP Net profit	21,306	17,972	19,572	22,624	26,767

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	18,312	6,733	7,357	13,480	17,203
D&A	22,714	23,317	30,425	30,426	32,334
Change in WC	(18,207)	(15,712)	(26,154)	(19,778)	(22,294)
Others	667	5,784	8,297	9,216	10,236
Operating CF	23,486	20,122	19,925	33,344	37,479
Capex	(5,084)	(12,202)	(11,103)	(12,769)	(14,684)
Associates	0	0	0	0	0
Others	(22,468)	(19,242)	(6,289)	(4,535)	(3,598)
Investing CF	(27,552)	(31,444)	(17,393)	(17,304)	(18,283)
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	1,608	16,268	19,424
Cash (beg of yr)	34,439	35,826	46,957	48,566	64,834
FX	(212)	(943)	0	0	0
Cash (end of yr)	35,826	46,957	48,566	64,834	84,258
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	163,945	170,872	176,869
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	30,897	31,261
Others	15,116	32,743	25,681	26,648	27,751
Current assets	183,342	213,315	215,274	234,166	255,878
Cash	36,540	47,671	45,901	60,913	78,892
Account receivable	8,668	9,981	10,763	12,138	13,585
Associates	726	1,368	1,368	1,368	1,368
Others	138,134	155,663	158,611	161,115	163,402
Current liabilities	68,385	74,488	60,644	64,796	66,272
Borrowings	3,016	4,168	3,016	3,016	3,016
Payables	41,468	41,384	39,283	42,161	42,706
Associates	1,324	1,764	1,764	1,764	1,764
Others	22,577	27,172	16,580	17,856	18,785
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	234,489	257,413	285,080
Total Equity	191,843	223,952	239,834	262,758	290,425

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	69.8	65.1	60.6	56.5	51.7
Other services	30.2	34.9	39.4	43.5	48.3
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.1	48.0	49.1	50.1	51.0
Pre-tax margin	21.0	8.0	5.8	10.8	12.3
Net margin	18.2	32.1	35.2	20.8	19.8
Tax rate	17.2	5.4	5.8	9.4	10.8
Balance sheet ratios					
Current ratio (x)	2.7	2.9	3.5	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	8.3	8.8	9.4
ROA	6.4	4.7	5.1	5.5	6.1
Per share					
EPADS (RMB)	62	52	56	65	76
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	6,942	8,048	8,636	9,368	10,252

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