

Baidu (BIDU US)

Soft ads to linger in 2Q22E for epidemic

Given epidemic resurgence from Mar, we expect Baidu to see short term pressure in 1H22E. We forecast its 1Q22 rev/adj. EPS +0.2%/-61% YoY, 1%/2% above consensus. AI Cloud would be relatively resilient despite some project delay (+45% YoY), to offset soft ads (forecasting online marketing revs -7% YoY) in 1Q22E. We keep positive on its AI cloud potential (forecasting +47% YoY in FY22E), backed by ACE smart transportation expansion. Ads would reach the bottom in 2Q22E if epidemic is not worsening (vs. prior 1Q22E), and some verticals already recovery signals (e.g. healthcare). We slightly trimmed topline by 2% in FY22-24E (in which ads +1% YoY in FY22E), and cut earnings by 3-5%, with new SOTP-based TP at US\$203.

- Expecting in-line 1Q22E.** We expect 1Q22 rev at RMB28bn, up 0.2% YoY (in line with guidance), 1% above consensus. Total online marketing revs was estimated at -7% YoY. We forecast 1Q22E Non-GAAP OPM of Baidu Core at 8%, in which ads margin at trough in 1Q22E. Adj. net profit was estimated -61% YoY to RMB1.7bn.
- Epidemic resurgence to drag 2Q22E recovery.** Given soft macro and epidemic impact, Baidu Core ads was estimated at -7% YoY in 1Q22E, well anticipated by the market. We expect 2Q22E as the trough of ads (-10% YoY, affecting key verticals such as medical service) if COVID-19 is not worsening, and then ads start to normalize once macro saw gradual recovery. We expect AI Cloud rev +45% YoY in 1Q22 (vs. +69% in 4Q21), still largely above industrial growth. Given travel limits under epidemic resurgence, AI cloud growth might see volatility in 2Q22E (forecasting rev +40% YoY), but long-term potential intact, backed by ACE smart transportation expansion. AI cloud would help multiple sectors (e.g. transportation, energy) to improve efficiency, with better margin outlook with standardization of service offerings. Auto progress might be partly affected by epidemic, but not meaningful to group monetization.
- Maintain BUY.** We slightly trimmed our earnings by 3-5% in FY22-24E, and cut the SOTP-based TP to US\$203 (23x FY23E P/E). Multiple downside risk is limited, and 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	133,379	148,730	167,629
YoY growth (%)	(0.8)	16.2	7.9	11.5	12.7
Adj. net income (RMB mn)	21,306	17,972	15,925	19,652	23,263
Adj. EPS (RMB)	61.6	51.7	45.1	55.1	64.6
YoY growth (%)	20.5	(16.1)	(12.8)	22.2	17.2
Consensus EPS	NA	NA	41.6	62.3	77.3
P/E (x)	13.4	16.0	18.4	15.0	12.8
P/B (x)	1.2	1.0	1.0	0.9	0.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	11.5	8.2	6.8	7.8	8.4
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\$218.8)
Up/Downside	+53.8%
Current Price	US\$129.6

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	44,770
Avg 3m t/o (US\$ mn)	641.67
52w High/Low (US\$)	222.68/102.18
Issued Shares (mn)	276

Source: Bloomberg

Shareholding Structure

BlackRock Inc	43.64%
Vanguard Group	3.7%
Primecap Management	3.5%

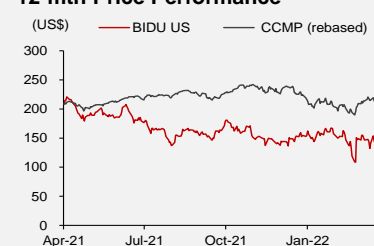
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.0%	-10.2%
3-mth	-16.2%	-6.6%
6-mth	-20.8%	-11.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 1Q22E financial preview

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY	Consensus	Diff %
Net revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,178	-14.8%	0.2%	27,949	1%
Revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,178	-14.8%	0.2%	27,949	1%
Operating profit	(437)	3,644	6,156	4,977	2,789	3,463	2,308	1,958	(511)	-126.1%	-118.3%	1,386	-137%
Adj. net profit	3,082	5,082	6,988	6,868	4,297	5,359	5,090	4,084	1,664	-59.3%	-61.3%	1,637	2%
Adj. EPS (Rmb)	8.84	14.73	20.35	20.08	12.38	15.41	14.66	11.60	4.72	-59.3%	-61.9%	4.91	-4%
Margin (%)													
Gross margin	34.9%	49.6%	54.6%	52.0%	46.7%	49.3%	49.5%	47.7%	44.9%			45.0%	
Operating margin	-1.9%	14.0%	21.8%	16.4%	9.9%	11.0%	7.2%	5.9%	-1.8%			5.0%	
Adj. net margin	13.7%	19.5%	24.8%	22.7%	15.3%	17.1%	15.9%	12.3%	5.9%			5.9%	
Growth (%)													
Revenue (YoY)	-6.5%	-1.1%	0.5%	4.8%	24.8%	20.4%	13.1%	9.3%	0.2%			-0.7%	
Revenue (QoQ)	-21.9%	15.5%	8.4%	7.2%	-7.0%	11.4%	1.8%	3.7%	-14.8%			-15.5%	
Operating profit	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%	-62.5%	-60.7%	-118.3%			-50.3%	
Adj. net profit	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%	-27.2%	-40.5%	-61.3%			162.5%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: 1Q22E revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	QoQ	YoY
Total revenue	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	28,178	-15%	0%
Online marketing services	14,243	17,688	20,201	20,708	18,094	20,828	21,050	20,723	16,871	-19%	-7%
Other services	8,302	8,346	8,031	9,555	10,040	10,522	10,871	12,365	11,307	-9%	13%

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	133,379	148,730	167,629	133,968	152,071	171,784	-0.4%	-2.2%	-2.4%
Gross Profit	65,734	73,781	84,605	64,779	75,056	85,963	1.5%	-1.7%	-1.6%
Operating Profit	17,026	23,276	27,993	13,258	19,177	27,546	28.4%	21.4%	1.6%
Adj. net profit	15,925	19,652	23,263	16,218	22,122	27,597	-1.8%	-11.2%	-15.7%
EPS (RMB)	45.08	55.08	64.55	41.59	62.30	77.25	8.4%	-11.6%	-16.4%
Gross Margin	49.3%	49.6%	50.5%	48.1%	49.4%	51.4%	+1.1ppts	+0.2ppts	-0.9ppts
Operating Margin	12.8%	15.6%	16.7%	11.6%	14.7%	18.8%	+1.2ppts	+0.9ppts	-2.1ppts
Net Margin	11.9%	13.2%	13.9%	12.5%	15.1%	14.6%	-0.5ppts	-1.9ppts	-0.7ppts

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	133,379	148,730	167,629	135,733	151,370	170,510	-1.7%	-1.7%	-1.7%
Gross Profit	65,734	73,781	84,605	67,351	75,578	86,539	-2.4%	-2.4%	-2.2%
Operating Profit	17,026	23,276	27,993	17,942	24,072	28,840	-5.1%	-3.3%	-2.9%
Adj. net profit	15,925	19,652	23,263	16,714	20,336	23,974	-4.7%	-3.4%	-3.0%
EPS (RMB)	45.08	55.08	64.55	47.31	56.99	67	-4.7%	-3.4%	-3.0%
Gross Margin	49.3%	49.6%	50.5%	49.6%	49.9%	50.8%	-0.3ppts	-0.3ppts	-0.3ppts
Operating Margin	12.8%	15.6%	16.7%	13.2%	15.9%	16.9%	-0.5ppts	-0.3ppts	-0.2ppts
Net Margin	11.9%	13.2%	13.9%	12.3%	13.4%	14.1%	-0.4ppts	-0.2ppts	-0.2ppts

Source: Company data, CMBIGM estimates

Figure 5: SOTP valuation

Segment (US\$mn)	Rev 22E	Rev 23E	NOPAT 22E	NOPAT 23E	P/E (x) 2022E	P/E (x) 2023E	EV/S (x) 2023E	Valuation (Rmb mn)	Valuation (US\$ mn)	Baidu's stake	To Baidu	\$/share
1 Core, Advertising	11,551	12,128	3,694	3,881	8.4x	8.0x	2.6x	198,698	31,047	100%	31,047	87.4
2 Cloud (ex ACE)	2,566	3,524					4.0x	90,218	14,097	100%	14,097	39.7
3 iQiyi	4,774	4,725	(190)	(4)			0.7x	35,447	3,370	56%	1,894	5.3
4 Autos	902	1,694					12.2x	132,798	20,750	83%	17,161	48.3
5 Xiaodu	1,048	1,168					4.3x	32,000	5,000	60%	3,000	8.4
6 Trip.com								94,438	14,756	11.5%	1,697	4.8
Net cash											21,124	59.5
NAV	20,840	23,239	2,313	2,688	36.0x	29.0x	3.9x				90,019	253.5
less holdco discount										20%	(18,004)	(50.7)
Total, in US\$mn	20,840	23,239			28.9x	23.5x	3.1x				72,015	203
Total, in HK\$mn											558,117	197
#s of diluted shares (mn)											355	

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Revenue	106,360	123,635	133,379	148,730	167,629
Online marketing	74,288	80,450	80,991	84,075	86,101
Other services	32,072	43,185	52,387	64,655	81,528
COSG	(55,158)	(64,314)	(67,645)	(74,949)	(83,024)
Gross profit	51,202	59,321	65,734	73,781	84,605
R&D	(19,513)	(24,938)	(30,631)	(31,662)	(35,257)
S&GA	(18,063)	(23,747)	(26,492)	(28,245)	(31,718)
Operating profit	13,626	9,660	8,611	13,873	17,630
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	0	0	0
Loss from E.M.I	(2,248)	(932)	(1,318)	(1,116)	(1,091)
Other income	9,403	(1,038)	0	0	0
Pre-tax profit	22,376	9,920	10,112	15,960	20,417
Tax	(4,064)	(3,187)	(4,358)	(5,966)	(7,240)
MI	3,446	2,635	2,061	501	(31)
Net profit	18,312	6,733	5,755	9,995	13,177
Adjustment	2,994	11,239	10,170	9,658	10,086
Non GAAP Net profit	21,306	17,972	15,925	19,652	23,263

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	18,312	6,733	5,755	9,995	13,177
D&A	22,714	23,317	30,449	30,447	32,362
Change in WC	(18,207)	(15,712)	(24,748)	(20,101)	(22,193)
Others	667	5,784	8,642	9,750	10,786
Operating CF	23,486	20,122	20,098	30,091	34,132
Capex	(5,084)	(12,202)	(11,103)	(12,769)	(14,684)
Associates	0	0	0	0	0
Others	(22,468)	(19,242)	(6,312)	(4,554)	(3,624)
Investing CF	(27,552)	(31,444)	(17,415)	(17,323)	(18,309)
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	1,759	12,996	16,051
Cash (beg of yr)	34,439	35,826	46,957	48,716	61,712
FX	(212)	(943)	0	0	0
Cash (end of yr)	35,826	46,957	48,716	61,712	77,763
Pledge cash	758	0	0	0	0
Cash at balance sheet	18,312	6,733	5,755	9,995	13,177

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	149,366	166,719	163,943	170,868	176,864
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	30,545	30,893	31,255
Others	15,116	32,743	25,681	26,648	27,751
Current assets	183,342	213,315	219,390	236,130	256,304
Cash	36,540	47,671	48,716	61,712	77,763
Account receivable	8,668	9,981	11,328	12,632	14,237
Associates	726	1,368	1,368	1,368	1,368
Others	138,134	155,663	159,346	161,786	164,304
Current liabilities	68,385	74,488	63,162	66,854	68,832
Borrowings	3,016	4,168	3,016	3,016	3,016
Payables	41,468	41,384	41,347	43,875	44,757
Associates	1,324	1,764	1,764	1,764	1,764
Others	22,577	27,172	17,035	18,198	19,295
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	233,232	253,205	277,396
Total Equity	191,843	223,952	238,577	258,550	282,741

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	69.8	65.1	60.7	56.5	51.4
Other services	30.2	34.9	39.3	43.5	48.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.1	48.0	49.3	49.6	50.5
Pre-tax margin	21.0	8.0	7.6	10.7	12.2
Net margin	18.2	32.1	43.1	37.4	35.5
Tax rate	17.2	5.4	4.3	6.7	7.9
Balance sheet ratios					
Current ratio (x)	2.7	2.9	3.5	3.5	3.7
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	6.8	7.8	8.4
ROA	6.4	4.7	4.2	4.8	5.4
Per share					
EPADS (RMB)	62	52	45	55	65
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	6,942	8,048	8,442	9,058	9,807

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