

Baidu (BIDU US)

Expect mild ads revenue growth in 1Q24

We expect Baidu Core to deliver mild ads revenue growth in 1Q24, driven by solid performance in travel and e-commerce verticals, but partly offset by the soft performance in offline verticals which are in tune with macro activity levels. Baidu remains committed to investing in gen-AI related opportunities to drive long-term revenue and earnings growth, while focusing on quality growth and operating efficiency improvement of non-core business. The pace of monetization for gen-AI related ads and cloud revenue remains a key catalyst. We fine-tune our SOTP-based target price to US\$183.2 (was US\$186.2); maintain BUY.

- 1Q24 results preview.** We estimate Baidu Core booked revenue of RMB23.5bn in 1Q24, up 2% YoY but was 3% lower than Bloomberg consensus, mainly due to milder-than-expected ads revenue growth, and business adjustment for Xiaodu smart speaker-related business. For Baidu Core ads business, we forecast it booked revenue of RMB16.9bn, up 2% YoY, led by travel and e-commerce verticals, but partly offset by the soft performance in offline verticals post CNY holiday, such as home transaction and franchising, which in our view can be partly attributed to the macro headwinds that impacted business operation of SMEs. We forecast Baidu Core non-GAAP operating profit of RMB5.1bn in 1Q24, down 5% YoY due to incremental AI-related investment and likely softer-than-expected ads revenue growth, translating into a non-GAAP OPM of 21.8% (1Q23: 23.3%).
- Pace of monetization for gen-AI related ads and cloud revenue remains key catalyst.** We estimate AI-related ads revenue to contribute 2% of total Baidu Core ads revenue in 2024E, and gen-AI related cloud revenue to contribute 7% of cloud revenue in 2024E.
- Driving quality growth of non-core business.** We expect Baidu to drive quality growth for its non-core business, such as Baidu smart speaker. The strategic move to proactively scale down the business and focus more on profitability will likely weigh on short-term revenue growth but bring a better margin profile for the business, in our view.
- SOTP-based valuation of USD183.2 per ADS.** Our SOTP-based target price consists of: 1) US\$68.1 for Baidu Core ads, based on 7.0x 2024E non-GAAP PE; 2) US\$1.8 for Apollo ASD, based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC; 3) US\$35.2 for Baidu Cloud, based on 4.3x 2024E PS; 4) US\$65.0 in net cash; and 5) US\$13.2 for iQIYI and other investments, with a 30% holding discount.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	124,493	123,675	134,598	141,639	150,877
YoY growth (%)	16.3	(0.7)	8.8	5.2	6.5
Adjusted net profit (RMB mn)	18,830.0	20,680.0	28,747.0	27,023.8	28,998.1
YoY growth (%)	(14.5)	9.8	39.0	(6.0)	7.3
EPS (Adjusted) (RMB)	53.53	58.90	81.06	75.45	80.17
Consensus EPS (RMB)	na	na	80.85	73.04	84.20
P/E (x)	25.1	34.3	12.9	12.6	11.7
ROE (%)	5.1	3.4	8.4	7.8	7.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$183.20
(Previous TP)	US\$186.20
Up/Downside	77.8%
Current Price	US\$103.05

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Stock Data

Mkt Cap (US\$ mn)	36,908.4
Avg 3 mths t/o (US\$ mn)	330.5
52w High/Low (US\$)	155.99/97.81
Total Issued Shares (mn)	358.2

Source: FactSet

Shareholding Structure

Robin Yanhong Li	16.5%
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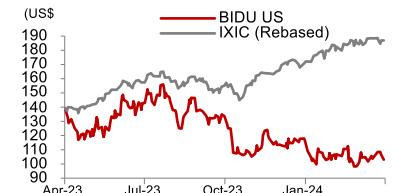
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.9%	3.8%
3-mth	-11.3%	-18.9%
6-mth	-22.9%	-36.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Changes in forecast and valuation

Figure 1: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	141.6	150.9	159.4	143.9	153.4	162.2	-1.6%	-1.6%	-1.8%
Gross Profit	73.2	78.3	83.2	74.9	80.2	85.3	-2.3%	-2.3%	-2.5%
Non-GAAP net profit	27.0	29.0	31.8	28.5	30.4	33.4	-5.0%	-4.6%	-4.6%
Gross Margin	51.6%	51.9%	52.2%	52.0%	52.3%	52.6%	-0.4 ppt	-0.4 ppt	-0.4 ppt
Non-GAAP net margin	19.1%	19.2%	20.0%	19.8%	19.8%	20.6%	-0.7 ppt	-0.6 ppt	-0.6 ppt

Source: CMBIGM estimates

SOTP valuation of US\$183.2 per ADS

Our SOTP-based target price is US\$183.2, which translates into 17.5x 2024E PE on a non-GAAP basis, or 11.3x if excluding net cash. Our new SOTP-based target price comprises, per ADS:

1) US\$68.1 (was US\$72.3) for Baidu Core (mainly including the core search and feed ads business, excluding Apollo and Baidu Cloud), based on unchanged 7.0x 2024E non-GAAP PE; the lowered valuation is mainly due to lowered forecast for revenue growth.

2) US\$1.8 for Apollo ASD (unchanged), based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC.

3) US\$35.2 for Baidu Cloud (unchanged), based on 4.3x 2024E PS;

4) US\$65.0 in net cash (was US\$64.9);

5) US\$13.2 for iQIYI and other investments (was US\$12.1), with a 30% holding discount applied to the share price of US\$18.8 as of market close on 9 April market close.

Figure 2: Baidu: SOTP valuation

Segment	NOPAT (US\$m)	Valuation method/multiple	Valuation (RMBmn)	Valuation (US\$m)	Baidu's stake	Valuation of Baidu's stake (US\$m)	USD/ADS	Valuation as % of total (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,483	7.0	175,542	24,381	100.0	24,381	68.1	37.1
2) Apollo ASD			4,740	658	100.0	658	1.8	1.0
3) Baidu Cloud (ex-ASD)		4.3	90,687	12,595	100.0	12,595	35.2	19.2
4) Net cash			167,574	23,274	100.0	23,274	65.0	35.5
Valuation of core business and cash						60,909	170.1	92.8
iQIYI and strategic investments								
1) iQIYI		Market value	29,849	4,146	51.5	2,135	6.0	
2) Trip.com group		Market value	239,932	33,324	10.8	3,599	10.0	
3) Uxin		Market value	63	9	9.1	1	0.0	
4) HAND Enterprise Solutions		Market value	6,268	871	5.3	46	0.1	
5) Kuaishou		Market value	198,064	27,509	3.1	854	2.4	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
Valuation of iQIYI and investments						6,744	18.8	
Valuation of iQIYI and investment (with						4,721	13.2	7.2

30% holding discount)	
Total Baidu valuation (US\$mn)	65,630
Number of ADS outstanding (mn)	358
Valuation per ADS (US\$)	183.2

Source: Company data, CMBIGM estimates

Note: 1) 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); 2) data as of 9 April 2024 market close;

Risks

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

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	107,074	124,493	123,675	134,598	141,639	150,877
Cost of goods sold	(55,158)	(64,314)	(63,935)	(65,031)	(68,482)	(72,561)
Gross profit	51,916	60,179	59,740	69,567	73,156	78,316
Operating expenses	(37,576)	(49,661)	(43,829)	(47,711)	(49,807)	(52,155)
SG&A expense	(18,063)	(24,723)	(20,514)	(23,519)	(24,645)	(25,800)
R&D expense	(19,513)	(24,938)	(23,315)	(24,192)	(25,162)	(26,355)
Operating profit	14,340	10,518	15,911	21,856	23,349	26,161
Share of (losses)/profits of associates/JV	(2,248)	(932)	(1,910)	(3,799)	(1,313)	(1,349)
Adjusted EBITDA	27,504	24,914	29,663	35,823	37,436	40,807
Net Interest income/(expense)	2,255	2,130	3,332	4,761	4,301	5,484
Foreign exchange gain/loss	(660)	100	(1,484)	595	0	0
Other income/expense	9,403	(1,038)	(5,737)	1,785	1,803	1,821
Pre-tax profit	23,090	10,778	10,112	25,198	28,140	32,117
Income tax	(4,064)	(3,187)	(2,578)	(3,649)	(5,860)	(7,723)
After tax profit	19,026	7,591	7,534	21,549	22,281	24,394
Minority interest	(3,446)	(2,635)	(25)	1,234	1,352	1,660
Net profit	22,472	10,226	7,559	20,315	20,929	22,734
Adjusted net profit	22,020	18,830	20,680	28,747	27,024	28,998
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	183,342	213,315	212,850	230,255	260,534	292,450
Cash & equivalents	35,782	36,850	53,156	25,231	56,028	86,148
Restricted cash	758	10,821	11,330	11,503	11,503	11,503
Account receivables	8,668	9,981	11,733	10,848	10,477	11,161
Other current assets	138,134	155,663	136,631	182,673	182,525	183,638
Non-current assets	149,366	166,719	178,123	176,504	174,153	176,869
PP&E	17,508	23,027	23,973	27,960	32,018	36,109
Intangibles	8,457	8,947	8,095	7,848	1,439	64
Goodwill	22,248	22,605	22,477	22,586	22,586	22,586
Other non-current assets	101,153	112,140	123,578	118,110	118,110	118,110
Total assets	332,708	380,034	390,973	406,759	434,687	469,319
Current liabilities	68,385	74,488	79,630	76,451	80,814	80,812
Short-term borrowings	3,016	4,168	5,343	10,257	10,257	10,257
Account payables	36,716	41,384	38,014	37,717	41,910	40,923
Other current liabilities	28,653	28,936	36,273	28,477	28,648	29,633
Non-current liabilities	72,480	81,594	73,538	67,700	62,682	62,238
Long-term borrowings	0	12,629	13,722	14,223	0	0
Bond payables	60,335	55,772	49,461	43,134	52,339	51,895
Obligations under finance leases	4,693	5,569	4,810	5,040	5,040	5,040
Deferred income	97	129	159	200	200	200
Other non-current liabilities	7,355	7,495	5,386	5,103	5,103	5,103
Total liabilities	140,865	156,082	153,168	144,151	143,496	143,050
Share capital	0	0	0	0	0	0
Capital surplus	47,213	73,888	79,855	87,099	87,202	87,305
Retained earnings	135,483	137,571	143,623	156,527	185,007	219,981
Other reserves	3,102	7,148	8,393	9,465	9,465	9,465
Total shareholders equity	185,798	218,607	231,871	253,091	281,674	316,751
Minority interest	6,045	5,345	5,934	9,517	9,517	9,517
Total equity and liabilities	332,708	380,034	390,973	406,759	434,687	469,319

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	23,090	10,778	10,112	25,198	28,140	32,117
Depreciation & amortization	18,180	16,438	14,725	14,908	5,742	5,654
Tax paid	(4,064)	(3,187)	(2,578)	(3,649)	(5,860)	(7,723)
Change in working capital	(18,207)	(18,691)	(16,758)	(13,067)	4,881	(1,798)
Others	5,201	14,784	20,669	13,225	6,897	7,120
Net cash from operations	24,200	20,122	26,170	36,615	39,802	35,369
Investing						
Capital expenditure	(5,084)	(10,896)	(8,286)	(11,190)	(8,286)	(8,286)
Acquisition of subsidiaries/ investments	(2,396)	(247)	(14)	(115)	0	0
Net proceeds from disposal of short-term investments	(486)	0	0	0	0	0
Others	(19,586)	(20,301)	4,356	(39,092)	(104)	(84)
Net cash from investing	(27,552)	(31,444)	(3,944)	(50,397)	(8,390)	(8,370)
Financing						
Net borrowings	12,390	8,840	(6,813)	(13,093)	(14,223)	0
Share repurchases	(13,054)	(7,581)	(1,925)	(4,764)	0	0
Others	6,329	22,137	2,348	3,695	12,769	3,121
Net cash from financing	5,665	23,396	(6,390)	(14,162)	(1,454)	3,121
Net change in cash						
Cash at the beginning of the year	34,439	36,540	47,671	65,236	37,574	67,531
Exchange difference	(212)	(943)	1,729	282	0	0
Cash at the end of the year	36,540	47,671	65,236	37,574	67,531	97,651
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(0.3%)	16.3%	(0.7%)	8.8%	5.2%	6.5%
Gross profit	16.5%	15.9%	(0.7%)	16.4%	5.2%	7.1%
Operating profit	127.4%	(26.7%)	51.3%	37.4%	6.8%	12.0%
Net profit	992.5%	(54.5%)	(26.1%)	168.8%	3.0%	8.6%
Adj. net profit	21.1%	(14.5%)	9.8%	39.0%	(6.0%)	7.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	48.5%	48.3%	48.3%	51.7%	51.6%	51.9%
Operating margin	13.4%	8.4%	12.9%	16.2%	16.5%	17.3%
Adj. net profit margin	20.6%	15.1%	16.7%	21.4%	19.1%	19.2%
Return on equity (ROE)	12.8%	5.1%	3.4%	8.4%	7.8%	7.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Current ratio (x)	2.7	2.9	2.7	3.0	3.2	3.6
Receivable turnover days	27.0	27.0	31.6	29.0	26.0	25.8
Payable turnover days	226.5	218.6	223.5	220.6	219.7	205.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	11.3	25.1	34.3	12.9	12.6	11.7
P/E (diluted)	11.4	25.6	34.6	13.0	12.8	11.9
P/B	1.4	1.2	1.1	1.0	0.9	0.9
P/CFPS	13.4	28.4	14.6	10.4	8.5	10.0

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

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