

Baidu (BIDU US)

Stepping-up Auto & AI investment ahead

Baidu delivered upbeat 1Q21 results, with revenue/adj. EPS +25%/+40% YoY, 3%/16% above consensus. 2Q21E rev guidance beat by 3% on strong ads rebound and non-ads ramp-up. As the key rev contributor in non-ads biz, mgmt expect cloud to accelerate in next few quarters. Margin would be diluted accordingly with higher mix of non-ads. In the long run, its auto unit progress in EVs production, ASD tech enhancement and AI Cloud would unlock valuation potential. We cut its earnings by 7%/7%/7% in FY21/22/23E, and lowered SOTP-based TP to US\$335.8 on lower margin from AI & auto investment.

- **1Q21 beat.** 1Q21 revenue was RMB28.1bn, +25% YoY, 3% above consensus. Non-GAAP EPS grew 40% YoY, 16% above consensus. Baidu Core Non-GAAP OPM of 25% is in-line with our estimate. 2Q21E rev guidance came in at RMB29.7-32.5bn (without YY Live), up 14-25% YoY, with midpoint 3% above consensus.
- **Baidu Core trends well, but alert on margin dilution.** Given low base, Baidu Core accelerated to +34% YoY in 1Q21 (vs. +6% in 4Q21), and is guided to grow at 20-33% YoY in 2Q21E (vs. our estimate of 20% YoY), mainly on strong ads recovery and rising contribution of non-ads biz (+70% YoY in 1Q21). AI Cloud biz would ramp up quickly and accelerate ahead, with key verticals in internet, media, financial services and transportation. Mgmt guided non-ads rev to surpass ads in 3 years. However, margin might see slight dilution (lower GPM & higher S&M) by higher rev mix from non-ads segment.
- **Intelligent Driving to speed up.** The stepping-up investment wave and more tech players into the auto sector triggered market concern on rising competition. Among these players, we think Baidu excels itself with tech edges in built-in map, cloud, miles test data and fully-fledged mobile ecosystem. We believe its ID speed-up progress would strengthen its monetization visibility, including: 1) rising date scale: 6.2mn miles of L4 testing (600mn simulated testing miles); 2) ASD enhanced technology with HD Maps, AVP, ANP; and 3) synergies from V2X infrastructure.
- **Maintain BUY.** To reflect margin dilution from non-ads biz, we trimmed its earnings by 7%/7%/7% in FY21/22/23E, and lowered SOTP-based TP to US\$335.8 from US\$377.8.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	107,413	107,074	125,804	145,013	166,170
YoY growth (%)	5.0	(0.3)	17.5	15.3	14.6
Adj. net income (RMB mn)	21,375	22,020	21,896	27,144	31,959
Adj. EPS (RMB)	61.3	63.9	63.6	78.8	92.8
YoY growth (%)	(7.6)	4.3	(0.6)	24.0	17.7
Consensus EPS	NA	NA	64.8	80.1	100.3
P/E (x)	19.9	19.1	19.2	15.5	13.1
P/B (x)	24.8	22.2	19.8	17.8	15.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.1	12.6	10.5	11.6	12.1
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$335.8
(Previous TP	US\$377.8)
Up/Downside	+78.0%
Current Price	US\$186.2

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	64,709
Avg 3 mths t/o (US\$ mn)	3,083.12
52w High/Low (US\$)	354.8/ 101.5
Total Issued Shares (mn)	278

Source: Bloomberg

Shareholding Structure

Morgan Stanley	7.33%
BlackRock	4.71%
Vanguard	3.55%

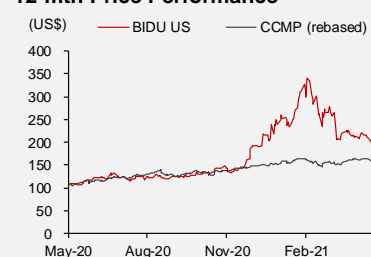
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-12.8%	-8.8%
3-mth	-42.9%	-40.3%
6-mth	26.0%	11.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

1. From Search to Auto – 19 Feb 2021
2. Solid 3Q20; Acquiring YY Live to bring synergy – 18 Nov 2020
3. Solid 2Q20 but guidance soft – 17 Aug 2020

Figure 1: 1Q21 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY	Consensus	Diff %
Net revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	-7.0%	24.8%	27,269	3%
Revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	-7.0%	24.8%	27,269	3%
Operating profit	(936)	233	2355	4,655	(437)	3,644	6,156	4,977	2,789	-44.0%	-738.2%	2,727	2%
Adj. net profit	967	3,635	4,387	9,193	3,082	5,082	6,988	6,868	4,297	-37.4%	39.4%	3,620	19%
Adj. EPS (Rmb)	2.77	10.11	12.61	26.54	8.84	14.73	20.35	20.08	12.38	-38.3%	40.0%	10.63	16%
Margin (%)													
Gross margin	38.5%	38.8%	41.7%	46.3%	34.9%	49.6%	54.6%	52.0%	46.7%			45.2%	
Operating margin	-3.9%	0.9%	8.4%	16.1%	-1.9%	14.0%	21.8%	16.4%	9.9%			10.0%	
Adj. net margin	4.0%	13.8%	15.6%	31.8%	13.7%	19.5%	24.8%	22.7%	15.3%			13.3%	
Growth (%)													
Revenue (YoY)	15.4%	1.4%	24.9%	6.2%	-6.5%	-1.1%	0.5%	4.8%	24.8%			21.0%	
Revenue (QoQ)	-11.3%	9.1%	6.7%	2.9%	-21.9%	15.5%	8.4%	7.2%	-7.0%			-9.9%	
Operating profit	-120.5%	-95.7%	-46.8%	318.6%	-53.3%	1463.9%	161.4%	6.9%	-738.2%			-724.0%	
Adj. net profit	-78.9%	-51.1%	-35.0%	95.5%	218.7%	39.8%	59.3%	-25.3%	39.4%			17.5%	

Source: Company data, Bloomberg

Figure 2: 1Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Total revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	-7%	25%
Online marketing services	17,657	19,327	20,434	20,765	14,243	17,688	20,201	20,708	18,094	-13%	27%
Other services	6,466	7,089	7,646	8,119	8,302	8,346	8,031	9,555	10,040	5%	21%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	125,804	145,013	166,170	126,595	144,558	161,877	-0.6%	0.3%	2.7%
Gross Profit	59,987	72,833	86,099	61,613	72,825	82,987	-2.6%	0.0%	3.8%
Operating Profit	12,181	16,278	20,462	19,153	25,552	35,532	-36.4%	-36.3%	-42.4%
Adj. net profit	21,896	27,144	31,959	22,564	27,688	34,876	-3.0%	-2.0%	-8.4%
EPS (RMB)	63.57	78.80	92.78	64.79	80.11	100.29	-1.9%	-1.6%	-7.5%
Gross Margin	47.7%	50.2%	51.8%	48.7%	50.4%	51.3%	-1.0ppts	-0.2ppts	+0.5ppts
Operating Margin	9.7%	11.2%	12.3%	15.1%	17.7%	21.9%	-5.4ppts	-6.5ppts	-9.6ppts
Net Margin	17.4%	18.7%	19.2%	17.8%	19.2%	21.5%	-0.4ppts	-0.4ppts	-2.3ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	125,804	145,013	166,170	125,804	145,013	166,170	0.0%	0.0%	0.0%
Gross Profit	59,987	72,833	86,099	60,653	74,369	87,860	-1.1%	-2.1%	-2.0%
Operating Profit	12,181	16,278	20,462	14,106	18,539	23,053	-13.6%	-12.2%	-11.2%
Adj. net profit	21,896	27,144	31,959	23,616	29,221	34,339	-7.3%	-7.1%	-6.9%
EPS (RMB)	63.57	78.80	92.78	68.56	84.83	99.69	-7.3%	-7.1%	-6.9%
Gross Margin	47.7%	50.2%	51.8%	48.2%	51.3%	52.9%	-0.5ppts	-1.1ppts	-1.1ppts
Operating Margin	9.7%	11.2%	12.3%	11.2%	12.8%	13.9%	-1.5ppts	-1.6ppts	-1.6ppts
Net Margin	17.4%	18.7%	19.2%	18.8%	20.2%	20.7%	-1.4ppts	-1.4ppts	-1.4ppts

Source: Company data, CMBIS estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied/Implied		Metrics		Shareholding %
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E	
Core search + news feed	54.7	158.7	EV/EBIT	14.8	13.0	3.7	4.2	100%
Cloud	17.8	51.6	EV/Sales	10.6	8.0	1.7	2.2	100%
Apollo	14.6	42.3	EV/Sales	11.2	8.0	1.3	1.8	100%
iQiyi	6.3	18.2	Mkt cap					57%
Ctrip	3.0	8.7	Mkt cap					12%
Net (Debt)/Cash	19.4	56.2	Cash forecasted on Balance sheet					
Equity Value	116	335.8						

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net Revenue	107,413	107,074	125,804	145,013	166,170
Online marketing	78,093	72,840	89,714	102,274	116,592
Other services	29,320	34,234	36,090	42,739	49,577
COSG	(62,850)	(55,158)	(65,817)	(72,180)	(80,070)
Gross profit	44,563	51,916	59,987	72,833	86,099
R&D	(18,346)	(19,513)	(26,419)	(31,903)	(37,388)
S&GA	(19,910)	(18,063)	(21,387)	(24,652)	(28,249)
Operating profit	6,307	14,340	12,181	16,278	20,462
Interest income	6,060	5,358	6,295	7,256	8,315
Interest exp.	(2,960)	(3,103)	(3,382)	(3,382)	(3,382)
Exchange loss	(33)	(660)	0	0	0
Loss from E.M.I	(1,254)	(2,248)	0	0	0
Other income	(8,460)	9,403	9,403	9,403	9,403
Pre-tax profit	(340)	23,090	24,498	29,556	34,799
Tax	(1,948)	(4,064)	(4,410)	(5,320)	(6,264)
MI	4,345	3,446	1,406	1,696	1,997
Net profit	2,057	22,472	21,494	25,932	30,532
Adjustment	19,318	(452)	402	1,212	1,427
Non GAAP Net profit	21,375	22,020	21,896	27,144	31,959

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(2,288)	19,026	20,088	24,236	28,535
D&A	19,879	15,090	19,258	23,751	28,854
Change in WC	(1,270)	1,034	(1,668)	2,110	2,783
Others	5,626	(10,950)	0	0	0
Operating CF	21,948	24,200	37,678	50,097	60,171
Capex	(18,993)	(22,792)	(27,350)	(32,820)	(39,384)
Associates	0	0	0	0	0
Others	3,506	(4,760)	0	0	0
Investing CF	(15,488)	(27,552)	(27,350)	(32,820)	(39,384)
Chg in capital	(353)	0	0	0	0
Change of Debts	(4,072)	9,602	0	0	0
Others	3,770	(3,937)	0	0	0
Financing CF	(655)	5,665	0	0	0
Change in cash	5,805	2,313	10,328	17,276	20,787
Cash (beg of yr)	27,638	33,443	35,544	45,872	63,148
FX	0	(212)	0	0	0
Cash (end of yr)	33,443	35,782	45,872	63,148	83,935
Pledge cash	996	758	758	758	758
Cash at balance sheet	34,439	36,540	46,630	63,906	84,693

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	135,754	149,366	165,393	174,462	184,992
Fixed asset	18,311	17,508	25,220	29,912	35,619
Long term investment	69,410	76,233	76,233	76,233	76,233
Intangible assets	26,137	30,705	39,019	43,397	48,220
Others	14,564	15,116	15,116	15,116	15,116
Current assets	165,562	183,342	192,629	211,107	233,216
Cash	34,439	36,540	46,630	63,906	84,693
Account receivable	7,416	8,668	7,865	9,066	10,389
Associates	1,594	726	726	726	726
Others	123,707	138,134	138,134	138,133	138,133
Current liabilities	57,380	68,385	61,162	64,473	68,578
Borrowings	3,355	10,443	10,443	10,443	10,443
Payables	43,763	49,342	46,871	50,182	54,287
Associates	2,231	1,324	1,324	1,324	1,324
Others	8,031	7,276	2,524	2,523	2,523
Non-current liabilities	71,121	72,480	65,265	65,265	65,265
Long term liabilities	45,894	48,408	48,408	48,408	48,408
Deferred taxation	3,273	3,067	3,067	3,067	3,067
Others	21,954	21,005	13,790	13,790	13,790
MI	9,216	9,147	4,639	2,942	945
S/H equity	163,599	182,696	207,565	233,497	264,030
Total Equity	172,815	191,843	212,204	236,440	264,975

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online marketing	72.7	68.0	71.3	70.5	70.2
Other services	27.3	32.0	28.7	29.5	29.8
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	41.5	48.5	47.7	50.2	51.8
Pre-tax margin	-0.3	21.6	19.5	20.4	20.9
Net margin	-2.1	17.8	16.0	16.7	17.2
Tax rate	-573.5	17.6	18.0	18.0	18.0
Balance sheet ratios					
Current ratio (x)	2.9	2.7	3.1	3.3	3.4
Debtors turnover	22.8	22.8	22.8	22.8	22.8
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	13.1	12.6	10.5	11.6	12.1
ROA	5.7	5.9	5.7	6.6	7.2
Per share					
EPADS (RMB)	61	64	64	79	93
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	492	548	616	686	769

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.