



Company Report: Baidu (BIDU US)

公司报告: 百度 (BIDU US)

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Online Marketing Services Business is Expected to Rally

在线营销服务业务预计复苏

- Under the expected rally of China online advertising market, we forecast yoy total revenue growth of Baidu (the "Company") in 4Q20 to be 4.5%. In addition, yoy growth of revenue from online marketing services is expected to turn positive in 4Q20 at estimated 3.2%, reaching RMB21.4 billion. We believe this resilience is mainly due to 1) efficient containment of the local COVID-19 epidemic and 2) expected high user base under the expanding Baidu ecosystem.
- Baidu announced its plan to establish a company to produce intelligent electric vehicles (EV), and that it has entered into a strategic partnership with multinational auto manufacturer Zhejiang Geely Holding Group ("Geely") on January 11. Baidu will provide intelligent driving capabilities to power the passenger vehicle for the new venture, and Geely, which holds the distinction of best-selling Chinese automobile brand in the past few years under Volvo and Geely brands, will contribute its expertise in automobile design and manufacturing. We believe the collaboration could further amplify the Company's Apollo ecosystem.
- We expect that Apollo's business model will be categorized into "B2B", "B2C" and "B2G". We are positive on the Company's Apollo business monetization potential with expected penetration in both smart vehicles and smart transportation infrastructure.
- We maintain the investment rating as "Accumulate" and revise up TP to US\$290.00, based on 25.1x 2022 Non-GAAP PER. The new TP represents 31.7x/ 27.9x/ 25.1x non-GAAP 2020-2022 PER, respectively.
- 在中国在线广告市场的预期复苏下, 我们预计百度("公司")在2020年第四季度的总收入同比增长速为4.5%。此外, 在线营销服务收入的同比增长预计将在2020年第四季度转正(为3.2%), 至人民币214亿元。我们认为业务恢复主要是由于1) 新冠疫情得到了很好的控制, 以及2) 在不断扩大的百度生态系统下预期的高用户基础。
- 1月11号, 百度宣布计划建立一家生产智能电动汽车的公司, 并已与跨国汽车制造商浙江吉利控股集团("吉利")达成战略合作伙伴关系。百度将为新合资企业提供智能驾驶能力, 为新乘用车赋能。吉利则将在汽车设计和制造领域发挥专业作用。吉利在过去几年以沃尔沃和吉利品牌赢得了中国最畅销汽车品牌的称号。我们认为, 此次合作将进一步丰富公司的阿波罗生态系统。
- 我们预计阿波罗的业务模式将分为"B2B"、"B2C"和"B2G"。基于其在智能汽车和智能交通基础设施上的预期渗透率, 我们对公司阿波罗业务的货币化潜力充满信心。
- 我们维持投资评级为"收集"且上调目标价至290.00美元, 基于25.1倍2022年非GAAP市盈率。新目标价分别相当于31.7倍/27.9倍/25.1倍2020年至2022年非GAAP市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

US\$290.00

Revised from 原目标价:

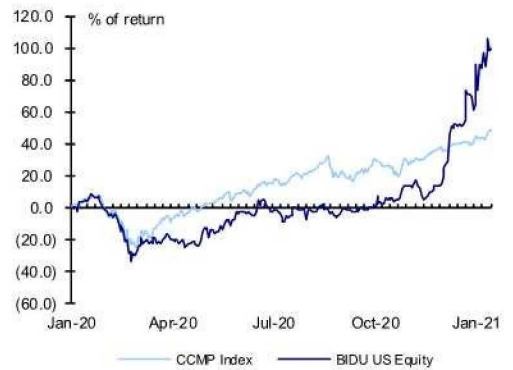
US\$220.00

ADS price ADS价格:

US\$254.870

Stock performance

股价表现



Change in ADS Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	33.4	91.7	96.1
Rel. % to NASDAQ Index 相对纳指变动 %	26.9	71.7	49.7
Avg. ADS price(US\$) 平均股价 (美元)	229.6	175.0	130.7

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADS	Earnings/ADS	PER	BV/ADS	PBR	DP ADS	Yield	ROE
年结	收入	股东净利	每份 ADS 净利	每份 ADS 净利变动	市盈率	每份 ADS 净资产	市净率	每份 ADS 股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	102,277	27,573	78.636	146.1	22.3	466.772	3.8	0.000	0.0	19.8
2019A	107,413	2,057	5.680	(92.8)	312.4	469.647	3.8	0.000	0.0	1.3
2020F	106,995	21,286	62.543	1,001.1	26.7	556.282	3.0	0.000	0.0	12.1
2021F	125,867	15,481	45.581	(27.1)	36.7	615.766	2.7	0.000	0.0	7.8
2022F	139,731	18,101	53.372	17.1	31.3	683.985	2.4	0.000	0.0	8.2

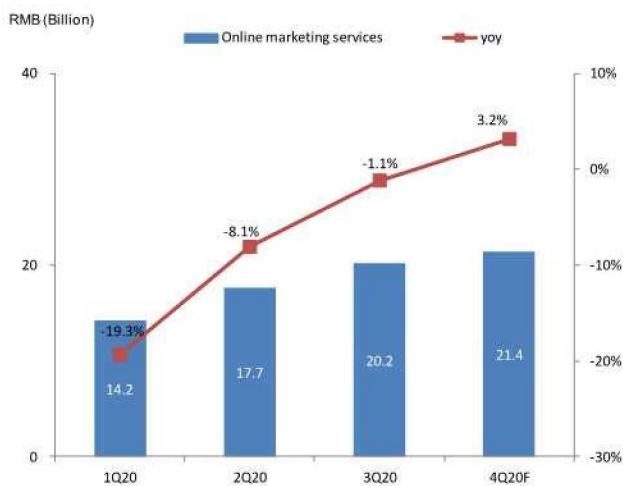
ADS in issue (m) 总 ADS 数 (m)	344.0	Major shareholder 大股东	Robin Li 16.1%
Market cap. (US\$ m) 市值 (US\$ m)	87,675.3	Free float (%) 自由流通比率 (%)	80.0
3 month average vol. 3 个月平均成交量 ('000)	7,835.2	FY21 Net gearing (%) FY21 净负债/股东资金 (%)	(6.1)
52 Weeks high/low (US\$) 52 周高/低 (US\$)	264.940 / 82.000	FY21 Non-GAAP PER	24.9

Source: the Company, Guotai Junan International.

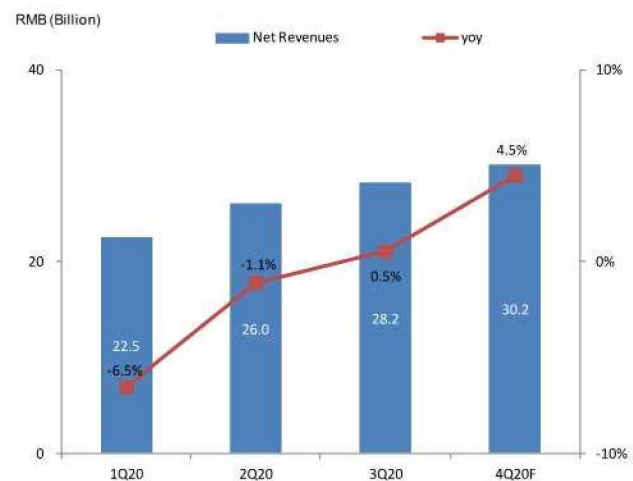


Under the expected rally of China's online advertising market, we maintain our yoy total revenue growth forecast for the Company in 4Q20 at 4.5%. In addition, yoy growth of revenue from online marketing services is expected to turn positive in 4Q20, estimated at 3.2%, reaching RMB21.4 billion. We believe this resilience is mainly due to 1) efficient containment of the local COVID-19 epidemic, where offline merchants are expected to have increased marketing spending and 2) expected high user base under the expanding Baidu ecosystem. According to Aurora Mobile, a third-party data company, user penetration rate of Baidu App exceeded 40% in 4Q20, up 1.7 ppts yoy. Furthermore, MAU of Baidu App is expected to be 450 million in 4Q20. On the content development side, in 2020, the Company strengthened its support to content providers, for example, 1) Bai Chuan Plan to Baijiahao's (BJH) content creator, and 2) Xingzhi Plan 2.0 to improve knowledge base of video content creators. On the live broadcast development side, on May 2020, the Company announced that knowledge-based live broadcast will be key to its mobile ecosystem development. On October 2020, the Company released its pan-entertainment-based live broadcast product, Yinbo, and announced the acquisition of JOYY Inc's domestic video-based entertainment live stream business in China (YY Live) one month later. The investment in live content development has started to show meaningful results, with view count over 900 million and 317% growth of content creators in November 2020, according to a Report from Baidu Live Broadcast Ecosystem Observation. For the Company's short-video development, we believe that the Company will focus much on pan-knowledge-based short videos and improve its products, ecosystem of creation and ecosystem of content. We believe that this could enhance user time spent on the Baidu ecosystem and we are positive on the Company's future online marketing services development.

Figure-1: Baidu's Online Marketing Services Revenue Estimations and YoY Growth **Figure-2: Baidu's Revenue Estimations and YoY Growth**



Source: the Company, Guotai Junan International.



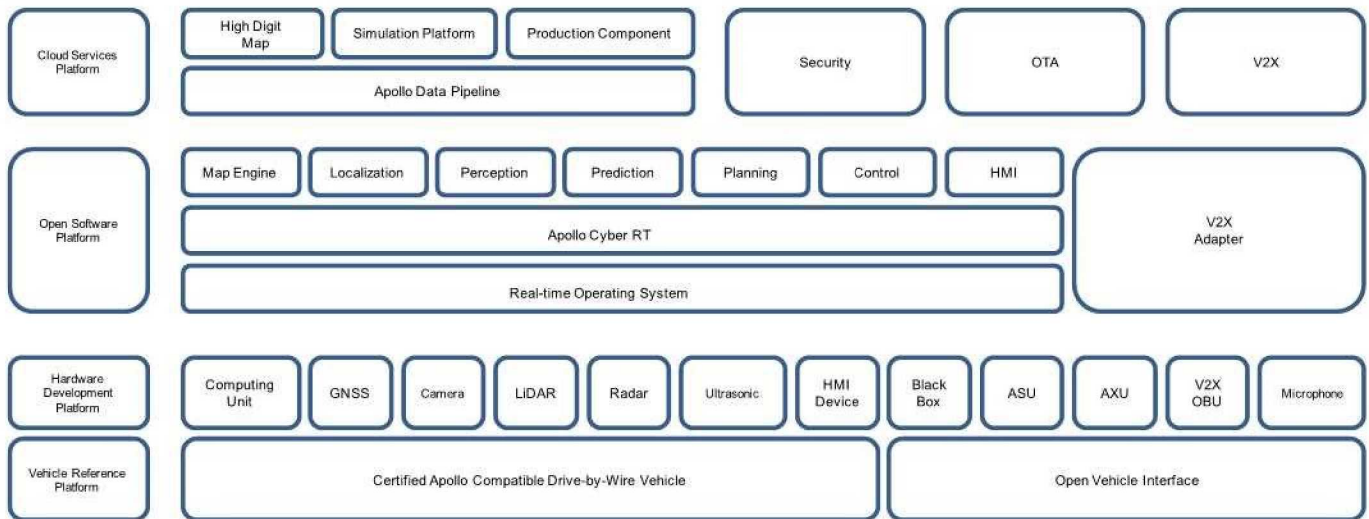
Source: the Company, Guotai Junan International.

Baidu announced its plan to establish a company to produce intelligent electric vehicles (EV), and that it has entered into a strategic partnership with multinational auto manufacturer Geely on January 11, 2021. Baidu will provide intelligent driving capabilities to power the passenger vehicle for the new venture, and Geely, which holds the distinction of best-selling Chinese automobile brand in the past few years under Volvo and Geely brands, will contribute its expertise in automobile design and manufacturing. The Company believes that China has become the world's largest market for EVs, and EV consumers will have higher expectations from next-generation smart vehicles. Under the plan of EV production, we believe that strong synergy effect could take place between Baidu and Geely. Baidu would take advantage of its AI powered technology, such as Apollo autonomous driving, Baidu's Internet of vehicles operating system (IOV OS), etc., to 1) amplify its ecosystem and 2) enhance user in-car experience. We believe that the development of the Company's Apollo business will give growth momentum in the coming years. In addition, on December 8, 2020, Baidu hosted the 2020 Apollo ecosystem partner summit in Guangzhou. The Company expects total vehicles with IOV OS to exceed 100 million in the next three years.

We believe that the development of the Company's Apollo business will give growth momentum in the coming years. We expect Apollo's business model will be categorized into "B2B", "B2C" and "B2G": 1) B2B: the Company is expected to provide Apollo technology application to its automaker partners, for example, IOV OS; 2) B2C: robotaxi is expected to be provided and further penetration rate is expected; 3) B2G: the Company is expected to collaborate with local governments in supporting smart transportation infrastructure development.



Figure-3: Framework of Apollo 6.0



Source: the Company, Guotai Junan International.

Valuation

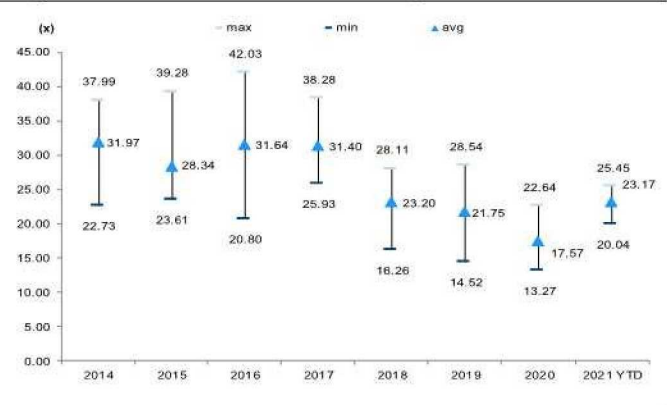
We maintain the investment rating as "Accumulate" and revise up TP to US\$290.00. With expected further cultivation of Baidu App ecosystem, we are positive on the Company's user expansion and the growth of Company's online marketing services. We believe that in the short-to-medium term, the Company's online marketing services business will be the main revenue driver. On the other hand, we believe that revenue contribution from non-advertising business will further extend under the development of the Company's content ecosystem, such as live business and short video business. Furthermore, in the long term, we believe that the Company's Apollo business will start to bear fruit with expected penetration on both smart vehicles and smart transportation infrastructure. We leave our earnings forecasts of 2020-2022 unchanged but roll over the valuation base to 2022F. Therefore, we revise up our TP to US\$290.00, based on 25.1x 2022 Non-GAAP PER. The new TP represents 31.7x/ 27.9x/ 25.1x 2020/ 2021/ 2022 non-GAAP PER.

Figure-4: Baidu's Non-GAAP Forward PE Graph



Source: Bloomberg.

Figure-5: Baidu's Historical PE Range



Source: Bloomberg.



Table-1: Peers Comparison

Company	Ticker	Currency	Price	PER (x)			PBR (x)			P/S	PEG	Market Cap Local currency (million)
				20F	21F	22F	20F	21F	22F	20F	20F-22F	
US Online Game Companies												
Glu Mobile Inc	GLUU US	USD	9.140	20.6	16.4	13.0	3.8	3.3	2.6	2.9	0.8	1,572
Sciply Corp-Class A	SCPL US	USD	17.490	14.7	14.8	17.8	8.2	3.9	2.5	3.8	(1.7)	2,211
Take-Two Interactive Softwre	TTWO US	USD	203.990	57.0	36.3	35.2	9.1	7.0	6.0	4.3	1.9	23,463
Electronic Arts Inc	EA US	USD	146.300	14.1	27.0	24.6	5.6	5.3	5.0	5.3	2.6	42,438
Activision Blizzard Inc	ATVI US	USD	93.400	27.6	26.7	23.3	4.8	4.2	3.6	8.9	3.1	72,185
Netease	NTES US	USD	124.290	34.0	28.7	24.5	6.3	5.3	4.6	7.6	1.9	85,887
Simple Average				28.0	25.0	23.1	6.3	4.8	4.1	5.5	1.5	
Weighted Average				30.3	28.3	25.1	6.0	5.1	4.5	7.2	2.4	
HK Online Game Companies												
Kingsoft Corp Ltd	3888 HK	HKD	65.700	15.1	57.0	43.3	3.7	3.4	3.2	13.0	(0.4)	87,168
Forgame Holdings Ltd	484 HK	HKD	2.300	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	390
Linekong Interactive Group C	8267 HK	HKD	0.450	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	166
Idreamsky Technology Holding	1119 HK	HKD	4.140	8.8	7.6	6.9	1.1	1.0	n.a.	1.4	0.7	5,295
Tencent	700 HK	HKD	766.500	50.3	40.1	33.0	10.9	8.7	7.0	11.9	2.1	6,965,181
Boyaa Interactive Int.	434 HK	HKD	0.670	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	476
Fingertango Inc	6860 HK	HKD	0.630	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,255
Fire Rock Holdings Ltd	1909 HK	HKD	4.540	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4,262
Digital Hollywood Interactiv	2022 HK	HKD	0.082	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	156
Ourgame International Holdin	6899 HK	HKD	0.480	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	507
Baioo Family Interactive Ltd	2100 HK	HKD	1.570	10.5	8.5	6.4	2.1	1.9	1.6	3.8	0.4	5,978
Felyu Technology Internation	1022 HK	HKD	0.180	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	278
Friendtimes Inc	6820 HK	HKD	2.680	9.3	7.1	6.1	2.3	1.9	1.5	2.0	0.4	5,539
IGG	799 HK	HKD	11.280	8.6	10.3	9.8	3.5	2.8	2.3	2.4	(1.5)	12,631
Zengame Technology Holding	2660 HK	HKD	1.080	3.4	3.2	3.0	1.1	0.9	0.7	1.0	0.5	1,140
Homeland Interactive Technol	3798 HK	HKD	6.990	22.3	18.9	14.2	n.a.	n.a.	n.a.	10.6	0.9	8,641
Cmge Technology Group Ltd	302 HK	HKD	3.380	8.2	6.5	5.6	1.5	1.3	1.2	1.5	0.4	8,133
Xd Inc	2400 HK	HKD	65.100	54.6	39.9	31.1	9.1	7.5	6.2	7.2	1.7	28,064
Netdragon	777 HK	HKD	19.440	12.1	9.4	8.1	1.5	1.4	1.2	1.4	0.6	10,435
Archosaur Games Inc.	9990HK	HKD	23.200	27.5	14.1	11.7	5.2	4.3	3.5	9.1	0.5	
Simple Average				19.2	18.5	14.9	3.8	3.2	2.8	5.4	0.5	
Weighted Average				49.5	40.0	32.9	10.8	8.6	6.9	11.9	2.1	
Advertising Companies												
China Literature Ltd	772 HK	HKD	57.000	n.a.	35.7	27.1	2.9	2.7	2.4	6.1	n.a.	60,541
Momo Inc-Spon Adr	MOMO US	USD	16.520	9.3	8.7	7.4	1.8	1.6	1.4	1.5	0.8	3,448
Bilibili Inc-Sponsored Adr	BILI US	USD	134.270	n.a.	n.a.	n.a.	44.4	58.9	57.5	25.6	1.2	46,650
Sohu.Com Inc	SOHU US	USD	18.720	n.a.	9.6	n.a.	3.6	3.1	2.5	0.4	0.1	735
Weibo	WB US	USD	44.110	20.4	17.0	15.3	3.6	3.0	2.5	6.0	1.3	9,989
Cheetah Mobile	CMCM US	USD	2.270	29.5	13.0	12.1	n.a.	n.a.	n.a.	1.3	0.5	316
Soufun	SFUN US	USD	12.660	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	114
Phoenix New Media	FENG US	USD	1.440	n.a.	20.6	7.6	n.a.	n.a.	n.a.	0.6	n.a.	105
Twitter Inc	TWTR US	USD	47.840	n.a.	56.2	41.1	4.7	4.4	4.1	10.5	n.a.	38,050
Sina	SINA US	USD	42.750	20.3	17.9	17.9	1.5	1.1	1.0	1.2	3.2	2,554
Facebook	FB US	USD	278.010	26.7	23.7	19.4	6.5	5.2	4.2	9.4	1.5	791,854
Simple Average				21.2	22.5	18.5	8.6	10.0	9.5	6.3	1.2	
Weighted Average				26.5	25.1	20.3	8.3	7.9	6.9	10.2	1.5	
E-commerce Companies												
Pinduoduo Inc-Adr	PDD US	USD	180.430	(527.6)	419.6	115.3	48.1	46.7	33.4	27.7	n.a.	222,043
Alibaba*	BABA US	USD	261.380	37.5	25.6	21.1	6.6	4.7	4.0	7.1	1.2	707,199
VIPSHOP	VIPS US	USD	29.080	22.4	18.3	15.7	4.5	3.7	3.1	1.3	1.2	19,697
EBay	EBAY US	USD	57.250	16.9	15.6	13.9	15.6	8.2	5.7	3.9	1.6	39,465
JD.com	JD US	USD	98.380	59.7	42.1	29.9	8.0	7.0	5.9	1.3	1.4	153,955
AMAZON	MZN US	USD	3294.000	68.3	55.7	41.2	18.1	13.4	9.9	4.4	2.4	1,652,768
Simple Average				(53.8)	96.1	39.5	16.8	13.9	10.3	7.6	1.6	
Weighted Average				11.7	75.4	40.8	16.9	13.3	10.0	6.7	2.0	
Search Engine Companies												
Sogou Inc-Adr	SOGO US	USD	8.360	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	3,240
Alphabet Inc-CIA	GOOGL US	USD	1894.280	n.a.	27.3	23.1	5.8	5.0	4.2	8.6	1.7	1,283,147
Baidu Inc - Spon Adr	BIDU US	USD	254.870	26.3	24.9	21.0	3.1	2.7	2.4	5.3	2.2	86,930
Simple Average				26.3	26.1	22.0	4.4	3.9	3.3	5.6	1.9	
Weighted Average				26.3	27.2	23.0	5.7	4.9	4.1	8.4	1.7	
Overall Average				8.2	37.7	23.6	8.0	7.2	6.0	6.1	1.3	
Overall Weighted Average				28.9	39.2	28.4	9.5	8.0	6.5	8.9	1.9	

Source: Bloomberg.
Note: * represents figures of FY19/FY20/FY21



Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; Or the fundamental outlook of the sector is unfavorable.

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