

Baidu (BIDU US)

Impact from proactive business adjustment likely in line with our expectation

We expect Baidu Core business to deliver revenue growth in line with our expectation but slightly slower than market consensus estimates in 2Q24E, owing to the proactive business adjustment to embed more GenAI-related results in search results which are currently under-monetized, as well as the soft macro environment which has weighed on overall advertising budget. However, we are positive that this proactive adjustment could help improve user experience and enhance long-term monetization prospects. Cloud profitability is on expansion track, and the increase in penetration of fully driverless cars, as well as the deployment of new car models could drive unit economics (UE) improvement for Robotaxi business, in our view. We maintain both our financial forecast and SOTP-based target price of US\$183.0 per ADS unchanged. Maintain BUY.

- **2Q24 results preview.** We estimate Baidu Core booked revenue of RMB26.3bn in 2Q24, flat YoY but 2.7% lower than Bloomberg consensus, mainly dragged by ads performance, which is likely softer than market expected but in line with our expectation. For Baidu Core ads business, we forecast it to have booked revenue of RMB19.0bn, down 3.0% YoY, mainly due to: 1) proactive business adjustment to embed more GenAI-related search results in search business, which should improve user experience but currently has a relatively low monetization level; 2) milder-than-expected economic growth which has weighed on the growth of overall advertising budget; and 3) fierce industry competition. However, in terms of non-GAAP OP, we expect business operating efficiency improvement to offset incremental AI-related investment, and estimate Baidu Core logged RMB6.5bn in 2Q24, flat YoY, translating into a non-GAAP OPM of 24.7%.
- **Ramping up of AI-related cloud revenue drives acceleration in YoY cloud revenue growth.** We estimate Baidu Cloud revenue growth of 14% YoY in 2Q24, improved from 12% in 1Q24 and 5% in 2Q23, driven by the ramp-up of AI-related cloud revenue. The increased contribution of AI-related cloud revenue should also drive margin expansion given that it enjoys a relatively higher margin compared to segment average.
- **Increasing penetration of fully driverless cars and RT6 model to drive significant UE expansion for Robotaxi.** Baidu highlighted that the rides provided by fully driverless vehicles accounted for over 70% of the total for Robotaxi in April 2024 in Wuhan, up from 45%/55% in 4Q23/1Q24, and expected it to reach 100% in the coming quarters. Also, Baidu noted that the new-generation car RT6 was only priced at RMB204.6k, significantly lowered from that of c. RMB480k for RT5, which could help reduce hardware depreciation cost post deployment. We see the increasing penetration of fully driverless cars and reduction in hardware depreciation cost as key drivers for Robotaxi's UE improvement and conducted operation scenario analysis in Wuhan in our previous note ([link](#)). Management targets to achieve UE breakeven for Apollo Go operations in Wuhan in the near future.

BUY (Maintain)

Target Price US\$183.00
Up/Downside 96.5%
Current Price US\$93.15

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Stock Data

Mkt Cap (US\$ mn)	33,362.6
Avg 3 mths t/o (US\$ mn)	85.1
52w High/Low (US\$)	155.99/86.21
Total Issued Shares (mn)	358.2

Source: FactSet

Shareholding Structure

Robin Yanhong Li	16.5%
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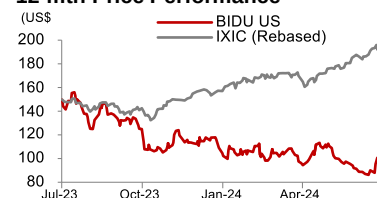
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.3%	-3.0%
3-mth	-3.1%	-16.8%
6-mth	-10.9%	-27.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	123,675	134,598	138,474	149,352	159,707
YoY growth (%)	(0.7)	8.8	2.9	7.9	6.9
Adjusted net profit (RMB mn)	20,680.0	28,747.0	27,667.3	29,614.4	33,011.2
YoY growth (%)	9.8	39.0	(3.8)	7.0	11.5
EPS (Adjusted) (RMB)	58.90	81.06	77.25	81.87	90.36
Consensus EPS (RMB)			79.29	83.41	91.52
P/E (x)	31.1	11.7	11.3	10.3	9.2
ROE (%)	3.4	8.4	8.0	7.8	7.9

Source: Company data, Bloomberg, CMBIGM estimates

SOTP valuation of US\$183.0 per ADS

Our SOTP-based target price is unchanged at US\$183.0 per ADS, which translates into 17.1x 2024E PE on a non-GAAP basis, or 11.1x if excluding net cash. Our SOTP-based target price comprises, per ADS:

- 1) US\$69.2 for Baidu Core (mainly including the core search and feed ads business, excluding Apollo and Baidu Cloud), based on an unchanged 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\$32.2 for Baidu Cloud, based on 3.9x 2024E PS;
- 4) US\$64.6 of net cash;
- 5) US\$15.2 for iQIYI and other investments, with a 30% holding discount applied to the share price of US\$21.7.

Figure 1: Baidu: SOTP valuation

Segment	NOPAT (US\$mn)	Valuation method/multiple	Valuation (RMBmn)	Valuation (US\$mn)	Baidu's stake	Valuation of Baidu's stake (US\$mn)	USD/ADS	Valuation as % of total (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,539	7.0	178,883	24,776	100.0	24,776	69.2	37.8
2) Apollo ASD			4,740	656	100.0	656	1.8	1.0
3) Baidu Cloud (ex-ASD)		3.9	83,214	11,526	100.0	11,526	32.2	17.6
4) Net cash			167,080	23,141	100.0	23,141	64.6	35.3
Valuation of core business and cash						60,099	167.8	91.7
iQIYI and strategic investments								
1) iQIYI		Market value	35,752	4,952	51.5	2,550	7.1	
2) Trip.com group		Market value	272,408	37,730	10.8	4,075	11.4	
3) Uxin		Market value	120	17	9.1	2	0.0	
4) HAND Enterprise Solutions		Market value	6,362	881	5.3	46	0.1	
5) Kuaishou		Market value	233,379	32,324	3.1	1,004	2.8	
6) Yusys Technologies		Market value	15,260	2,114	5.1	109	0.3	
Valuation of iQIYI and investments						7,785	21.7	
Valuation of iQIYI and investments (with 30% holding discount)						5,450	15.2	8.3
Total Baidu valuation (US\$mn)						65,549		
Number of ADS outstanding (mn)						358		
Valuation per ADS (US\$)						183.0		

Source: Company data, CMBIGM estimates

Note: 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)

Risks

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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	124,493	123,675	134,598	138,474	149,352	159,707
Cost of goods sold	(64,314)	(63,935)	(65,031)	(66,864)	(71,089)	(74,883)
Gross profit	60,179	59,740	69,567	71,609	78,263	84,824
Operating expenses	(49,661)	(43,829)	(47,711)	(47,549)	(50,705)	(53,438)
SG&A expense	(24,723)	(20,514)	(23,519)	(23,264)	(24,942)	(26,352)
R&D expense	(24,938)	(23,315)	(24,192)	(24,285)	(25,764)	(27,087)
Operating profit	10,518	15,911	21,856	24,060	27,558	31,385
Share of (losses)/profits of associates/JV	(932)	(1,910)	(3,799)	(844)	(879)	(879)
Adjusted EBITDA	24,914	29,663	35,824	37,193	41,302	45,707
Net Interest income/(expense)	2,130	3,332	4,761	4,918	5,465	6,611
Foreign exchange gain/loss	100	(1,484)	595	401	321	257
Other income/expense	(1,038)	(5,737)	1,785	(275)	(278)	(281)
Pre-tax profit	10,778	10,112	25,198	28,261	32,187	37,093
Income tax	(3,187)	(2,578)	(3,649)	(5,500)	(6,941)	(8,298)
After tax profit	7,591	7,534	21,549	22,761	25,246	28,795
Minority interest	(2,635)	(25)	1,234	1,491	1,792	2,147
Net profit	10,226	7,559	20,315	21,270	23,454	26,648
Adjusted net profit	18,830	20,680	28,747	27,667	29,614	33,011

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	213,315	212,850	230,255	259,577	293,046	328,354
Cash & equivalents	36,850	53,156	25,231	55,584	86,994	120,287
Restricted cash	10,821	11,330	11,503	11,503	11,503	11,503
Account receivables	9,981	11,733	10,848	10,243	11,048	11,814
Other current assets	155,663	136,631	182,673	182,248	183,501	184,750
Non-current assets	166,719	178,123	176,504	174,153	176,869	179,788
PP&E	23,027	23,973	27,960	32,018	36,109	40,418
Intangibles	8,947	8,095	7,848	1,439	64	(1,326)
Goodwill	22,605	22,477	22,586	22,586	22,586	22,586
Other non-current assets	112,140	123,578	118,110	118,110	118,110	118,110
Total assets	380,034	390,973	406,759	433,730	469,915	508,142
Current liabilities	74,488	79,630	76,451	79,540	80,236	80,211
Short-term borrowings	4,168	5,343	10,257	10,257	10,257	10,257
Account payables	41,384	38,014	37,717	40,973	40,509	39,380
Other current liabilities	28,936	36,273	28,477	28,310	29,470	30,574
Non-current liabilities	81,594	73,538	67,700	62,731	62,403	61,027
Long-term borrowings	12,629	13,722	14,223	0	0	0
Bond payables	55,772	49,461	43,134	52,388	52,060	50,684
Obligations under finance leases	5,569	4,810	5,040	5,040	5,040	5,040
Deferred income	129	159	200	200	200	200
Other non-current liabilities	7,495	5,386	5,103	5,103	5,103	5,103
Total liabilities	156,082	153,168	144,151	142,271	142,640	141,239
Share capital	0	0	0	0	0	0
Capital surplus	73,888	79,855	87,099	87,202	87,305	87,408
Retained earnings	137,571	143,623	156,527	185,275	220,989	260,513
Other reserves	7,148	8,393	9,465	9,465	9,465	9,465
Total shareholders equity	218,607	231,871	253,091	281,942	317,759	357,386
Minority interest	5,345	5,934	9,517	9,517	9,517	9,517
Total equity and liabilities	380,034	390,973	406,759	433,730	469,915	508,142

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,778	10,112	25,198	28,261	32,187	37,093
Depreciation & amortization	16,438	14,725	14,908	5,742	5,654	5,435
Tax paid	(3,187)	(2,578)	(3,649)	(5,500)	(6,941)	(8,298)
Change in working capital	(18,691)	(16,758)	(13,067)	4,119	(1,362)	(2,040)
Others	14,784	20,669	13,225	6,685	7,007	7,269
Net cash from operations	20,122	26,170	36,615	39,307	36,545	39,458
Investing						
Capital expenditure	(10,896)	(8,286)	(11,190)	(8,286)	(8,286)	(8,286)
Acquisition of subsidiaries/ investments	(247)	(14)	(115)	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(20,301)	4,356	(39,092)	(104)	(84)	(67)
Net cash from investing	(31,444)	(3,944)	(50,397)	(8,390)	(8,370)	(8,353)
Financing						
Net borrowings	8,840	(6,813)	(13,093)	(14,223)	0	0
Share repurchases	(7,581)	(1,925)	(4,764)	0	0	0
Others	22,137	2,348	3,695	12,818	3,236	2,188
Net cash from financing	23,396	(6,390)	(14,162)	(1,405)	3,236	2,188
Net change in cash						
Cash at the beginning of the year	36,540	47,671	65,236	37,574	67,087	98,497
Exchange difference	(943)	1,729	282	0	0	0
Cash at the end of the year	47,671	65,236	37,574	67,087	98,497	131,790
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	16.3%	(0.7%)	8.8%	2.9%	7.9%	6.9%
Gross profit	15.9%	(0.7%)	16.4%	2.9%	9.3%	8.4%
Operating profit	(26.7%)	51.3%	37.4%	10.1%	14.5%	13.9%
Net profit	(54.5%)	(26.1%)	168.8%	4.7%	10.3%	13.6%
Adj. net profit	(14.5%)	9.8%	39.0%	(3.8%)	7.0%	11.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	48.3%	48.3%	51.7%	51.7%	52.4%	53.1%
Operating margin	8.4%	12.9%	16.2%	17.4%	18.5%	19.7%
Adj. net profit margin	15.1%	16.7%	21.4%	20.0%	19.8%	20.7%
Return on equity (ROE)	5.1%	3.4%	8.4%	8.0%	7.8%	7.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	2.9	2.7	3.0	3.3	3.7	4.1
Receivable turnover days	27.0	31.6	29.0	26.3	25.7	25.8
Payable turnover days	218.6	223.5	220.6	222.5	206.3	192.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	22.8	31.1	11.7	11.3	10.3	9.2
P/E (diluted)	23.3	31.4	11.8	11.4	10.4	9.3
P/B	1.1	1.0	0.9	0.9	0.8	0.7
P/CFPS	25.8	13.3	9.4	7.8	8.7	7.9

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

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