

Baidu (BIDU US)

Solid cloud revenue growth a bright spot

Baidu announced (18 Feb) 4Q24 results: Baidu Core revenue was RMB27.7bn, 3.5% better than Bloomberg consensus estimates; non-GAAP OP of Baidu Core reached RMB4.6bn in 4Q24, 1% ahead of consensus. For 2024, Baidu Core revenue totalled RMB104.7bn, up 1.3% YoY, and non-GAAP OP was RMB23.9bn, down 3% YoY. Driven by both strong AI-related GPU cloud revenue growth, as well as cross-selling from GPU cloud to CPU cloud and other cloud services, the 26% YoY growth in cloud services revenue was a solid beat to consensus, and we believe the growth trend of cloud business could sustain in 2025E. We narrow YoY decline forecast for core search ads business revenue to 0.7% in 2025E (from 1.3% previously; 2024: -2.8%) as business adjustment impact is likely better than feared. Combined with a lift in forecast of cloud services revenue, we raise 2025E revenue/non-GAAP NP forecast by 1%/4%. Our SOTP-based TP is lifted by 3% to US\$149.2. BUY.

■ **Solid cloud revenue growth beat consensus and likely to sustain in 2025E.** Baidu Cloud revenue reached RMB7.1bn in 4Q24, up 26% YoY (4Q23: 11%; 3Q24: 11%), and lifted its contribution to Baidu Core to 26% (4Q23: 20%). Management highlighted strong growth momentum for AI Cloud: ERNIE handled approximately 1.65 billion API calls daily in Dec 2024, with external API calls increasing by 178% QoQ. Margin expansion trend also sustained for cloud business in 4Q24, due to strong infrastructure capability and scale effect. Driven by the strong growth momentum which we believe could sustain, we lift 2025E cloud revenue growth forecast from 13% to 26% YoY (2024: 17%).

■ **YoY growth of ads revenue likely hit bottom but still takes time to return to positive trajectory.** In 4Q24, Baidu Core's online ads revenue was RMB17.9bn, down 6.5% YoY, but 1% better than consensus. Currently, about 22% of Baidu's search results are filled with Gen-AI generated results (mid-Nov 2024: 20%), and c. 83% of Baidu App's MAU have been engaged with generated content (mid-Nov 2024: 70%). Management noted a continuous improvement on user metrics: search queries per user on the Baidu app grew by 2% YoY in Dec 2024. With gradual and mild increase in monetization of Gen-AI related results, we are estimating a 5.5% YoY decline for Baidu Core ads business revenue in 1Q25E, and is looking for 0.7% YoY decline in core search ads business revenue in 2025E (previous: 1.3%). Backed by the enhancement in monetization of Gen-AI generated search results, we are positive that ads revenue should return to positive growth trajectory in 2H25E.

■ **Margin recovery could come along with recovery in ads business ahead.** Non-GAAP OPM for Baidu Core was 16.8% in 4Q24, down 5.8ppts YoY and 0.4ppts shy of consensus, due to increase in AI-related investment, as well as one-time losses of RMB1.0bn including the accrual of expected credit losses, write-down of inventories and others. Although increase in revenue contribution from lower-margin cloud business (vs. group average level) and headwinds for relatively high-margin ads revenue growth could still weigh on overall OPM of Baidu Core in the near term, we are positive that margin recovery should come along with recovery in ads business in 2H25E. We forecast 2025E non-GAAP OPM of 21.7% for Baidu Core (2024: 22.8%).

BUY (Maintain)

Target Price **US\$149.20**
 (Previous TP **US\$144.60**)
Up/Downside **65.5%**
Current Price **US\$90.16**

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Stock Data

Mkt Cap (US\$ mn)	31,533.5
Avg 3 mths t/o (US\$ mn)	330.9
52w High/Low (US\$)	115.13/77.43
Total Issued Shares (mn)	349.8

Source: FactSet

Shareholding Structure

Robin Yanhong Li	16.5%
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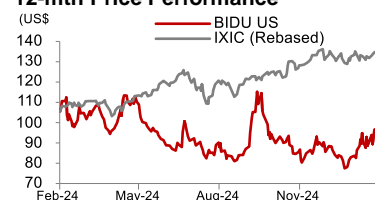
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.7%	6.6%
3-mth	4.8%	-0.6%
6-mth	0.0%	-10.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	134,598	133,125	138,802	148,202	156,580
YoY growth (%)	8.8	(1.1)	4.3	6.8	5.7
Adjusted net profit (RMB mn)	28,747.0	27,002.0	26,988.9	28,174.0	30,419.9
YoY growth (%)	39.0	(6.1)	(0.0)	4.4	8.0
EPS (Adjusted) (RMB)	81.06	77.20	77.17	80.55	86.98
Consensus EPS (RMB)	na	71.43	69.71	79.63	89.41
P/E (x)	11.3	9.6	10.3	9.9	9.0
ROE (%)	8.4	9.0	7.6	7.1	7.0

Source: Company data, Bloomberg, CMBIGM estimates

Quarterly results and estimates

Figure 1: Baidu: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24 Consensus	Diff%
Baidu Group										
Online marketing	18.0	21.1	21.3	20.8	18.5	20.6	20.1	19.3	19.0	1.8%
YoY growth (%)	6.2%	15.4%	7.0%	6.3%	2.9%	-2.2%	-5.8%	-7.0%		
Other services	13.2	13.0	13.1	14.1	13.0	13.3	13.4	14.8	14.2	4.0%
YoY growth (%)	14.7%	14.0%	4.0%	4.7%	-1.1%	2.6%	2.7%	4.5%		
Total revenue	31.1	34.1	34.4	35.0	31.5	33.9	33.6	34.1	33.4	2.2%
YoY growth (%)	9.6%	14.9%	5.9%	5.7%	1.2%	-0.4%	-2.6%	-2.4%		
Gross profit	16.0	17.9	18.2	17.5	16.2	17.5	17.2	16.1	16.4	-1.5%
Operating profit	5.0	5.2	6.3	5.4	5.5	5.9	5.9	3.9	4.9	-19.8%
Non-GAAP net profit	5.7	8.0	7.3	7.8	7.0	7.4	5.9	6.7	4.8	39.1%
YoY growth (%)	48%	44%	23%	44%	22%	-8%	-19%	-13%		
GPM (%)	51.3%	52.5%	52.7%	50.2%	51.5%	51.7%	51.1%	47.2%	49.0%	-1.8 ppt
OPM (%)	16.0%	15.3%	18.2%	15.4%	17.4%	17.5%	17.7%	11.5%	14.6%	-3.2 ppt
Non-GAAP NPM (%)	18.4%	23.5%	21.1%	22.2%	22.2%	21.8%	17.5%	19.7%	14.4%	5.2 ppt
Baidu Core										
Revenue	23.0	26.4	26.6	27.5	23.8	26.7	26.5	27.7	26.8	3.5%
YoY growth (%)	7.6%	14.0%	5.3%	7.2%	3.5%	1.1%	-0.2%	0.8%		
Baidu Core - online marketing	16.6	19.6	19.7	19.2	17.0	19.2	18.8	17.9	17.7	1.1%
YoY growth (%)	6.3%	14.7%	5.2%	6.3%	2.7%	-2.2%	-4.6%	-6.5%		
Baidu Core - Others	6.4	6.8	6.9	8.3	6.8	7.5	7.8	9.8	9.0	8.3%
YoY growth (%)	11.1%	12.1%	5.5%	9.1%	5.7%	10.3%	12.4%	17.5%		
Non-GAAP OP	5.4	6.5	6.7	6.2	5.6	7.0	6.7	4.6	4.6	1.0%
Non-GAAP NP	5.3	7.7	7.0	7.5	6.6	7.3	5.7	6.7	4.8	40.6%
YoY growth (%)	38.5%	41.2%	20.6%	52.6%	25.8%	-5.3%	-18.4%	-10.1%		
Non-GAAP OPM (%)	23.3%	24.7%	25.1%	22.5%	23.5%	26.2%	25.1%	16.8%	17.2%	-0.4 ppt
Non-GAAP NPM (%)	22.9%	29.1%	26.2%	27.3%	27.8%	27.3%	21.4%	24.3%	17.9%	6.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Changes in forecast and valuation

Figure 2: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	138.8	148.2	156.6	136.4	143.3	-	1.7%	3.4%	-
Gross profit	70.8	76.2	81.3	68.6	72.0	-	3.1%	5.9%	-
Non-GAAP net profit	27.0	28.2	30.4	26.0	27.5	-	3.7%	2.4%	-
Gross margin	51.0%	51.4%	51.9%	50.3%	50.2%	-	0.7 ppt	1.2 ppt	-
Non-GAAP net margin	19.4%	19.0%	19.4%	19.1%	19.2%	-	0.4 ppt	-0.2 ppt	-

Source: CMBIGM estimates

SOTP valuation of US\$149.2 per ADS

Our new SOTP-based target price of US\$149.2 comprises, per ADS:

- 1) US\$51.7 for Baidu Core (mainly including the core ads business, excluding Apollo and Baidu Cloud), based on 5.0x 2025E non-GAAP PE (was US\$49.7 based on 5.0x 2024E PE);
- 2) US\$0.3 for Apollo ASD (unchanged), based on 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$37.6 for Baidu Cloud, based on 3.4x 2025E PS (was US\$32.6 per ADS based on 3.4x 2025E PS);
- 4) US\$59.6 for net cash, iQIYI and other investments (was US\$62.7), with a 30% holding discount applied to the per share valuation of US\$85.1.

Figure 3: Baidu: SOTP valuation

Segment	NOPAT/Revenue (USDmn)	Valuation method/multiple	Valuation (RMBmn)	Valuation (USDmn)	Baidu's stake	Valuation of Baidu's stake (USDmn)	USD/ADS	Valuation as % of total (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,618	5.0	130,235	18,088	100.0	18,088	51.7	34.7
2) Apollo ASD			714	99	100.0	99	0.3	0.2
3) Baidu Cloud (ex-ASD)	3,816	3.4	94,666	13,148	100.0	13,148	37.6	25.2
Valuation of core business						31,336	89.6	60.1
iQIYI, strategic investment, and net cash								
1) iQIYI		Market value	17,550	2,438	45.4	1,107	3.2	
2) Trip.com group		Market value	335,504	46,598	10.8	5,033	14.4	
3) Uxin		Market value	6,495	902	9.1	82	0.2	
4) HAND Enterprise Solutions		Market value	12,271	2,886	5.3	152	0.4	
5) Kuaishou		Market value	233,948	32,493	3.1	1,009	2.9	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
4) Net cash		CMBI estimates	160,472	22,288	100.0	22,288	63.7	
Valuation of iQIYI, investments, and net cash						29,779	85.1	
Valuation of iQIYI, investment, and net cash (with 30% holding discount)						20,845	59.6	39.9
Total Baidu valuation (US\$mn)						52,181		
Number of ADS outstanding (mn)						350		
Valuation per ADS (US\$)						149.2		

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 from Gen-AI related business.
- 2) Slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	123,675	134,598	133,125	138,802	148,202	156,580
Cost of goods sold	(63,935)	(65,031)	(66,102)	(68,027)	(71,961)	(75,302)
Gross profit	59,740	69,567	67,023	70,775	76,241	81,278
Operating expenses	(43,829)	(47,711)	(45,753)	(49,299)	(52,212)	(54,397)
SG&A expense	(20,514)	(23,519)	(23,620)	(25,123)	(26,973)	(28,028)
R&D expense	(23,315)	(24,192)	(22,133)	(24,176)	(25,239)	(26,370)
Operating profit	15,911	21,856	21,270	21,476	24,029	26,881
Share of (losses)/profits of associates/JV	(1,910)	(3,799)	(691)	846	1,209	1,595
Adjusted EBITDA	29,663	35,824	33,077	33,697	36,726	40,006
Net Interest income/(expense)	3,332	4,761	5,138	5,309	5,523	5,642
Foreign exchange gain/loss	(1,484)	595	1,076	0	0	0
Other income/expense	(5,737)	1,785	1,829	0	0	0
Pre-tax profit	10,112	25,198	28,622	27,630	30,762	34,117
Income tax	(2,578)	(3,649)	(4,447)	(4,900)	(6,823)	(7,864)
After tax profit	7,534	21,549	24,175	22,730	23,938	26,253
Minority interest	(25)	1,234	415	597	734	854
Net profit	7,559	20,315	23,760	22,133	23,204	25,399
Adjusted net profit	20,680	28,747	27,002	26,989	28,174	30,420
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	212,850	230,255	168,849	185,927	207,251	228,804
Cash & equivalents	53,156	25,231	24,832	48,104	67,593	87,444
Restricted cash	11,330	11,503	11,697	11,697	11,697	11,697
Account receivables	11,733	10,848	10,104	10,268	10,963	11,583
Other current assets	136,631	182,673	122,216	115,858	116,998	118,080
Non-current assets	178,123	176,504	258,931	272,326	282,124	292,112
PP&E	23,973	27,960	30,102	51,135	62,323	73,715
Intangibles	8,095	7,848	7,702	64	(1,326)	(2,730)
Goodwill	22,477	22,586	22,586	22,586	22,586	22,586
Other non-current assets	123,578	118,110	198,541	198,541	198,541	198,541
Total assets	390,973	406,759	427,780	458,253	489,374	520,916
Current liabilities	79,630	76,451	80,953	76,651	76,548	75,647
Short-term borrowings	5,343	10,257	10,669	10,669	10,669	10,669
Account payables	38,014	37,717	41,443	37,648	36,543	34,748
Other current liabilities	36,273	28,477	28,841	28,334	29,336	30,230
Non-current liabilities	73,538	67,700	63,215	61,979	59,890	56,608
Long-term borrowings	13,722	14,223	15,596	0	0	0
Bond payables	49,461	43,134	36,347	50,707	48,618	45,336
Obligations under finance leases	4,810	5,040	4,973	4,973	4,973	4,973
Deferred income	159	200	231	231	231	231
Other non-current liabilities	5,386	5,103	6,068	6,068	6,068	6,068
Total liabilities	153,168	144,151	144,168	138,630	136,438	132,255
Share capital	0	0	0	0	0	0
Capital surplus	79,855	87,099	87,202	87,305	87,408	87,511
Retained earnings	143,623	156,527	176,418	212,326	245,536	281,158
Other reserves	8,393	9,465	9,870	9,870	9,870	9,870
Total shareholders equity	231,871	253,091	273,490	309,501	342,814	378,539
Minority interest	5,934	9,517	10,122	10,122	10,122	10,122
Total equity and liabilities	390,973	406,759	427,780	458,253	489,374	520,916

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,112	25,198	28,622	27,630	30,762	34,117
Depreciation & amortization	14,725	14,908	6,108	6,335	6,372	6,167
Tax paid	(2,578)	(3,649)	(4,447)	(4,900)	(6,823)	(7,864)
Change in working capital	(16,758)	(13,067)	(570)	1,892	(1,938)	(2,603)
Others	20,669	13,225	(8,479)	5,643	5,810	5,908
Net cash from operations	26,170	36,615	21,234	36,600	34,182	35,725
Investing						
Capital expenditure	(8,286)	(11,190)	(14,211)	(15,632)	(16,101)	(16,101)
Acquisition of subsidiaries/ investments	(14)	(115)	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	4,356	(39,092)	5,656	(84)	(67)	(54)
Net cash from investing	(3,944)	(50,397)	(8,555)	(15,716)	(16,169)	(16,155)
Financing						
Net borrowings	(6,813)	(13,093)	3,948	(15,596)	0	0
Share repurchases	(1,925)	(4,764)	0	0	0	0
Others	2,348	3,695	(17,707)	17,924	1,474	282
Net cash from financing	(6,390)	(14,162)	(13,759)	2,328	1,474	282
Net change in cash						
Cash at the beginning of the year	47,671	65,236	37,574	36,589	59,801	79,290
Exchange difference	1,729	282	95	0	0	0
Cash at the end of the year	65,236	37,574	36,589	59,801	79,290	99,141
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(0.7%)	8.8%	(1.1%)	4.3%	6.8%	5.7%
Gross profit	(0.7%)	16.4%	(3.7%)	5.6%	7.7%	6.6%
Operating profit	51.3%	37.4%	(2.7%)	1.0%	11.9%	11.9%
Net profit	(26.1%)	168.8%	17.0%	(6.8%)	4.8%	9.5%
Adj. net profit	9.8%	39.0%	(6.1%)	(0.0%)	4.4%	8.0%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	48.3%	51.7%	50.3%	51.0%	51.4%	51.9%
Operating margin	12.9%	16.2%	16.0%	15.5%	16.2%	17.2%
Adj. net profit margin	16.7%	21.4%	20.3%	19.4%	19.0%	19.4%
Return on equity (ROE)	3.4%	8.4%	9.0%	7.6%	7.1%	7.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.5)	(0.2)	(0.5)	(0.5)	(0.5)
Current ratio (x)	2.7	3.0	2.1	2.4	2.7	3.0
Receivable turnover days	31.6	29.0	26.8	26.1	25.8	25.9
Payable turnover days	223.5	220.6	220.7	203.8	185.6	170.4
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	30.2	11.3	9.6	10.3	9.9	9.0
P/E (diluted)	30.5	11.5	9.7	10.4	9.9	9.0
P/B	1.0	0.9	0.8	0.7	0.7	0.6
P/CFPS	12.9	9.2	32.7	10.9	12.7	11.7

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

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