

# Baidu (BIDU US)

## Expecting steady cloud revenue growth

For 1Q25E, we expect Baidu Core business revenue could reach RMB24.0bn, up 1% YoY, and would be 3% better than Bloomberg consensus, mainly driven by likely better-than-expected cloud revenue growth boosted by strong AI-related demand. Aided by solid cloud revenue growth, we are anticipating non-GAAP operating profit of RMB4.5bn for Baidu Core, 1% better than consensus. Baidu is still proactively driving business transformation, embedding more Gen-AI related search results to enhance user experience and improve user activity. While the monetization of Gen-AI related search results has not started yet, and ads revenue growth should continue to see some headwinds from both competition and business transformation in the short term, we expect the potential monetization to start from late-2Q25, which should help drive a further sequential recovery in both ads revenue growth and operating margin. We fine-tune our SOTP-based target price to US\$146.7 (was US\$149.2) mainly to account for the change in investment valuation, translating into 13.9x 2025E PE (non-GAAP). BUY.

- **Expecting mild recovery in ads business along with macro; ads monetization from AI related search results expected to kick in in late-2Q.** Within Baidu Core business, we are looking for a slightly narrower YoY decline sequentially for ads business, to -5.9% in 1Q25E (4Q24: -6.5%; 1Q24: +2.7% YoY) along with the mild recovery in macro. Although the YoY growth will still take time to return to positive trajectory, it is likely to hit bottom in 1Q25, and we are expecting sequential recovery on YoY growth through 2Q-4Q25 along with the monetization of AI related search results.
- **Cloud business should sustain solid rev growth momentum.** We are anticipating Baidu Cloud revenue growth of 26% YoY in 1Q25 (4Q24: 26%; 1Q24: 12%), boosted by the increase in AI related cloud demand. We maintain 26% YoY revenue growth forecast for cloud business for 2025E (2024: 17%), and see supporting factors coming from the ongoing strong cloud demand.
- **Short-term margin pressure as expected.** We estimate Baidu Core non-GAAP operating profit to reach RMB4.5bn in 1Q25E, 1% better than consensus, translating into 18.8% non-GAAP OPM (1Q24: 23.5%). The decline in non-GAAP OP was mainly due to the decline in ads revenue, and incremental investment to drive AI-related cloud revenue growth. However, we are positive that margin recovery should come along with recovery in ads business starting from late-2Q25E.
- **Change in forecast and valuation.** For Baidu group, we have trimmed down total revenue forecast by 1% for 2025-2027E, and non-GAAP net profit by 0-1%, mainly to factor in the downward revision of iQIYI revenue and earnings forecast. Our SOTP-based target price is fine-tuned to US\$146.7 (was US\$149.2) mainly to account for the change in investment valuation.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	134,598	133,125	137,622	146,452	154,661
YoY growth (%)	8.8	(1.1)	3.4	6.4	5.6
Adjusted net profit (RMB mn)	28,747.0	27,002.0	26,943.5	28,061.8	30,243.3
YoY growth (%)	39.0	(6.1)	(0.2)	4.2	7.8
EPS (Adjusted) (RMB)	81.06	77.20	77.04	80.23	86.47
Consensus EPS (RMB)	na	76.85	73.38	79.33	90.00
P/E (x)	10.7	9.1	9.8	9.4	8.6
ROE (%)	8.4	9.0	7.6	7.1	7.0

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** US\$146.70  
 (Previous TP US\$149.20)  
**Up/Downside** 72.1%  
**Current Price** US\$85.24

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### Stock Data

Mkt Cap (US\$ mn)	29,812.7
Avg 3 mths t/o (US\$ mn)	459.6
52w High/Low (US\$)	115.13/76.86
Total Issued Shares (mn)	349.8

Source: FactSet

### Shareholding Structure

Robin Yanhong Li	16.5%
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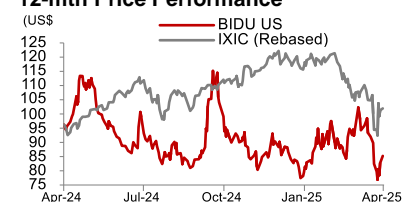
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-9.1%	-4.2%
3-mth	4.6%	21.2%
6-mth	-9.3%	-1.3%

Source: FactSet

### 12-month Price Performance



Source: FactSet

## Changes in forecast and valuation

Figure 1: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	137.6	146.5	154.7	138.8	148.2	156.6	-0.8%	-1.2%	-1.2%
Gross profit	70.3	75.5	80.4	70.8	76.2	81.3	-0.7%	-1.0%	-1.1%
Non-GAAP net profit	26.9	28.1	30.2	27.0	28.2	30.4	-0.2%	-0.4%	-0.6%
Gross margin	51.1%	51.5%	52.0%	51.0%	51.4%	51.9%	0.1 ppt	0.1 ppt	0.1 ppt
Non-GAAP net margin	19.6%	19.2%	19.6%	19.4%	19.0%	19.4%	0.1 ppt	0.2 ppt	0.1 ppt

Source: CMBIGM estimates

## SOTP valuation of US\$146.7 per ADS

Our new SOTP-based target price comprises, per ADS:

- 1) US\$51.8 for Baidu Core (mainly including the core ads business, excluding Apollo and Baidu Cloud), based on 5.0x 2025E non-GAAP PE (was US\$51.7 based on 5.0x 2025E 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 (unchanged), based on 3.4x 2025E PS;
- 4) US\$57.1 for net cash, iQIYI and other investments (was US\$59.6), with a 30% holding discount applied to the per share valuation of US\$81.5.

Figure 2: Baidu: SOTP valuation

Segment	NOPAT (USDmn)	Valuation method/multiple	Valuation (RMBmn)	Valuation (USDmn)	Baidu's stake	Valuation of Baidu's stake (USDmn)	USD/ADS	Valuation as % of total (%)
<b>Core business and cash</b>								
1) Baidu core (ex-Apollo and Cloud)	3,621	5.0	130,356	18,105	100.0	18,105	51.8	35.3
2) Apollo ASD			714	99	100.0	99	0.3	0.2
3) Baidu Cloud (ex-ASD)		3.4	94,666	13,148	100.0	13,148	37.6	25.6
<b>Valuation of core business</b>						<b>31,352</b>	<b>89.6</b>	<b>61.1</b>
<b>iQIYI, strategic investment, and net cash</b>								
1) iQIYI		Market value	11,371	1,579	45.4	717	2.0	
2) Trip.com group		Market value	292,307	40,598	10.8	4,385	12.5	
3) Uxin		Market value	5,196	722	9.1	66	0.2	
4) HAND Enterprise Solutions		Market value	12,271	2,287	5.3	120	0.3	
5) Kuaishou		Market value	201,380	27,969	3.1	869	2.5	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
4) Net cash		CMBI estimates	160,126	22,240	100.0	22,240	63.6	
<b>Valuation of iQIYI, investments, and net cash</b>						<b>28,505</b>	<b>81.5</b>	
<b>Valuation of iQIYI, investment, and net cash (with 30% holding discount)</b>						<b>19,953</b>	<b>57.1</b>	<b>38.9</b>

<b>Total Baidu valuation (US\$mn)</b>	<b>51,305</b>
<b>Number of ADS outstanding (mn)</b>	<b>350</b>
<b>Valuation per ADS (US\$)</b>	<b>146.7</b>

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	137,622	146,452	154,661
Cost of goods sold	(63,935)	(65,031)	(66,102)	(67,322)	(70,979)	(74,280)
Gross profit	59,740	69,567	67,023	70,301	75,473	80,381
Operating expenses	(43,829)	(47,711)	(45,753)	(48,871)	(51,588)	(53,722)
SG&A expense	(20,514)	(23,519)	(23,620)	(24,910)	(26,654)	(27,684)
R&D expense	(23,315)	(24,192)	(22,133)	(23,961)	(24,934)	(26,038)
Operating profit	15,911	21,856	21,270	21,430	23,885	26,659
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	33,594	36,510	39,708
Net Interest income/(expense)	3,332	4,761	5,138	5,309	5,506	5,614
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	27,584	30,600	33,868
Income tax	(2,578)	(3,649)	(4,447)	(4,884)	(6,779)	(7,799)
After tax profit	7,534	21,549	24,175	22,700	23,821	26,069
Minority interest	(25)	1,234	415	556	658	770
Net profit	7,559	20,315	23,760	22,144	23,163	25,299
Adjusted net profit	20,680	28,747	27,002	26,944	28,062	30,243
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	212,850	230,255	168,849	185,372	206,299	227,543
Cash & equivalents	53,156	25,231	24,832	47,743	66,931	86,505
Restricted cash	11,330	11,503	11,697	11,697	11,697	11,697
Account receivables	11,733	10,848	10,104	10,180	10,833	11,441
Other current assets	136,631	182,673	122,216	115,752	116,838	117,900
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	457,698	488,422	519,654
Current liabilities	79,630	76,451	80,953	76,205	75,930	75,016
Short-term borrowings	5,343	10,257	10,669	10,669	10,669	10,669
Account payables	38,014	37,717	41,443	37,328	36,111	34,322
Other current liabilities	36,273	28,477	28,841	28,208	29,150	30,025
Non-current liabilities	73,538	67,700	63,215	61,964	59,848	56,540
Long-term borrowings	13,722	14,223	15,596	0	0	0
Bond payables	49,461	43,134	36,347	50,692	48,576	45,268
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	138,169	135,779	131,557
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	212,232	245,244	280,595
Other reserves	8,393	9,465	9,870	9,870	9,870	9,870
Total shareholders equity	231,871	253,091	273,490	309,407	342,522	377,976
Minority interest	5,934	9,517	10,122	10,122	10,122	10,122
Total equity and liabilities	390,973	406,759	427,780	457,698	488,422	519,654

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	10,112	25,198	28,622	27,584	30,600	33,868
Depreciation & amortization	14,725	14,908	6,108	6,335	6,372	6,167
Tax paid	(2,578)	(3,649)	(4,447)	(4,884)	(6,779)	(7,799)
Change in working capital	(16,758)	(13,067)	(570)	1,640	(2,013)	(2,584)
Others	20,669	13,225	(8,479)	5,579	5,729	5,821
<b>Net cash from operations</b>	<b>26,170</b>	<b>36,615</b>	<b>21,234</b>	<b>36,254</b>	<b>33,908</b>	<b>35,474</b>
<b>Investing</b>						
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)
<b>Net cash from investing</b>	<b>(3,944)</b>	<b>(50,397)</b>	<b>(8,555)</b>	<b>(15,716)</b>	<b>(16,169)</b>	<b>(16,155)</b>
<b>Financing</b>						
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)	17,909	1,448	256
<b>Net cash from financing</b>	<b>(6,390)</b>	<b>(14,162)</b>	<b>(13,759)</b>	<b>2,313</b>	<b>1,448</b>	<b>256</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	47,671	65,236	37,574	36,589	59,440	78,628
Exchange difference	1,729	282	95	0	0	0
<b>Cash at the end of the year</b>	<b>65,236</b>	<b>37,574</b>	<b>36,589</b>	<b>59,440</b>	<b>78,628</b>	<b>98,202</b>

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

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