

Baidu (BIDU US)

Cloud revenue a strong beat; driving for more aggressive product innovation for search

Baidu announced (21 May) 1Q25 results: Baidu Core revenue was RMB25.5bn, 10% better than Bloomberg consensus estimates, driven by the strong beat in cloud revenue; non-GAAP OP of Baidu Core reached RMB4.9bn, 11% ahead of consensus. Baidu is proactively investing in development opportunities for the AI era. While the product innovation plan for search is more fast-paced and determined than we expected, it may weigh on near-term ads revenue growth recovery. However, this is vital for long-term development. Meanwhile, robust cloud revenue growth could sustain, in our view, driven by both strong demand and Baidu's enhanced brand recognition. Combined with the move to enhance shareholder return, Baidu's valuation could see some support when weathering through uncertainty on ads monetization. To account for the mixed impact from likely slower than previously expected ads monetization and more rapid-than-expected cloud revenue growth, we lower 2025E rev/non-GAAP NP forecasts by 1/7%. Our SOTP-based TP is lowered by 1% to US\$144.6 (was US\$146.7). Maintain BUY.

■ **Cloud revenue growth a strong beat.** Baidu Cloud's revenue reached RMB6.7bn in 1Q25, up 42% YoY (1Q24: 12%; 4Q24: 26%), ahead of consensus at 26% YoY. This lifted its revenue contribution to Baidu Core to 26% (1Q24: 20%). The strong growth was driven by both robust growth in subscription-based cloud revenue aided by strong demand and Baidu's growing industry recognition, as well as in project-based cloud revenue. Baidu Cloud has seen steady YoY margin improvement trend, with OPM reached low-teens level in 1Q25. We believe the robust growth momentum for cloud could sustain, driven by both strong demand for AI and digitalization, as Baidu Cloud's enhanced its brand recognition for GPU cloud. We lift 2025E cloud revenue YoY growth forecast to 30% (was 26%).

■ **More proactive and aggressive search product rebuild may weigh on near-term ads revenue growth recovery.** In 1Q, Baidu Core's online ads revenue was RMB16.0bn, down 6% YoY, inline with consensus. As the performance of LLM is improving quickly while the cost can be significantly optimized at the same time, Baidu is more proactively leveraging LLM to innovate its search business. In April, c. 35% of Baidu's search results are filled with Gen-AI generated results (Jan 2025: 22%), and we expect the contribution to grow to >50% in the coming quarters. We expect Baidu to still prioritize user experience improvement over monetization when starting to test new format of ads monetization. The test may start in 2Q25, but it likely takes time to launch in full. While the product innovation plan is more fast-paced and determined than we expected, it may weigh on near-term ads revenue growth recovery. But this is vital for long-term development, in our view. For Baidu Core, we are now looking for 10% YoY decline for ads revenue growth in 2Q25E, and are lowering 2025E forecast to -7.4% (vs -0.7% prior).

■ **Margin recovery should come along with recovery in ads business.** Non-GAAP OPM for Baidu Core was 19.1% in 1Q25, down 4.4ppts YoY but was 0.3ppts better than consensus. The 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, but margin recovery should come along with recovery in ads business, in our view. We lower 2025E non-GAAP OPM forecast to 18.8% for Baidu Core (was 22.0%). Baidu has repurchased US\$445mn worth of shares YTD (c.1.5% of market cap), and we believe such move to enhance shareholder return should provide support for valuation.

BUY (Maintain)

Target Price **US\$144.60**
 (Previous TP) US\$146.70
Up/Downside **69.2%**
Current Price **US\$85.48**

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Stock Data

Mkt Cap (US\$ mn)	29,896.6
Avg 3 mths t/o (US\$ mn)	256.2
52w High/Low (US\$)	115.13/76.86
Total Issued Shares (mn)	349.8

Source: FactSet

Shareholding Structure

Handsome Reward Limited	16.1%
BlackRock, Inc.	4.6%

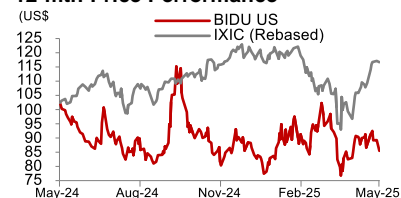
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.5%	-14.4%
3-mth	-6.4%	-4.5%
6-mth	6.4%	5.6%

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	136,367	147,011	156,888
YoY growth (%)	8.8	(1.1)	2.4	7.8	6.7
Adjusted net profit (RMB mn)	28,747.0	27,002.0	25,095.0	29,955.4	32,700.5
YoY growth (%)	39.0	(6.1)	(7.1)	19.4	9.2
EPS (Adjusted) (RMB)	81.06	77.20	71.75	85.65	93.50
Consensus EPS (RMB)	na	76.85	93.44	78.54	89.11
P/E (x)	10.6	9.0	9.0	8.0	7.3
ROE (%)	8.4	9.0	8.2	8.3	8.3

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	1Q25	1Q25 Consensus	Diff%
Baidu Group											
Online marketing	18.0	21.1	21.3	20.8	18.5	20.6	20.1	19.3	17.3	17.4	-0.5%
YoY growth (%)	6.2%	15.4%	7.0%	6.3%	2.9%	-2.2%	-5.8%	-7.0%	-6.4%		
Other services	13.2	13.0	13.1	14.1	13.0	13.3	13.4	14.8	15.1	13.6	11.3%
YoY growth (%)	14.7%	14.0%	4.0%	4.7%	-1.1%	2.6%	2.7%	4.5%	16.3%		
Total revenue	31.1	34.1	34.4	35.0	31.5	33.9	33.6	34.1	32.5	31.0	4.6%
YoY growth (%)	9.6%	14.9%	5.9%	5.7%	1.2%	-0.4%	-2.6%	-2.4%	3.0%		
Gross profit	16.0	17.9	18.2	17.5	16.2	17.5	17.2	16.1	15.0	15.2	-1.7%
Operating profit	5.0	5.2	6.3	5.4	5.5	5.9	5.9	3.9	4.5	4.9	-7.9%
Non-GAAP net profit	5.7	8.0	7.3	7.8	7.0	7.4	5.9	6.7	6.5	5.0	28.4%
YoY growth (%)	48%	44%	23%	44%	22%	-8%	-19%	-13%	-8%		
GPM (%)	51.3%	52.5%	52.7%	50.2%	51.5%	51.7%	51.1%	47.2%	46.1%	49.0%	-2.9 ppt
OPM (%)	16.0%	15.3%	18.2%	15.4%	17.4%	17.5%	17.7%	11.5%	13.9%	15.8%	-1.9 ppt
Non-GAAP NPM (%)	18.4%	23.5%	21.1%	22.2%	22.2%	21.8%	17.5%	19.7%	19.9%	16.2%	3.7 ppt
Baidu Core											
Revenue	23.0	26.4	26.6	27.5	23.8	26.7	26.5	27.7	25.5	23.2	9.9%
YoY growth (%)	7.6%	14.0%	5.3%	7.2%	3.5%	1.1%	-0.2%	0.8%	7.0%		
Baidu Core - online marketing	16.6	19.6	19.7	19.2	17.0	19.2	18.8	17.9	16.0	15.9	0.3%
YoY growth (%)	6.3%	14.7%	5.2%	6.3%	2.7%	-2.2%	-4.6%	-6.5%	-6.1%		
Baidu Core - Others	6.4	6.8	6.9	8.3	6.8	7.5	7.8	9.8	9.5	7.2	30.9%
YoY growth (%)	11.1%	12.1%	5.5%	9.1%	5.7%	10.3%	12.4%	17.5%	39.6%		
Non-GAAP OP	5.4	6.5	6.7	6.2	5.6	7.0	6.7	4.6	4.9	4.4	11.4%
Non-GAAP NP	5.3	7.7	7.0	7.5	6.6	7.3	5.7	6.7	6.3	4.7	34.6%
YoY growth (%)	38.5%	41.2%	20.6%	52.6%	25.8%	-5.3%	18.4%	10.1%	-4.5%		
Non-GAAP OPM (%)	23.3%	24.7%	25.1%	22.5%	23.5%	26.2%	25.1%	16.8%	19.1%	18.9%	0.3 ppt
Non-GAAP NPM (%)	22.9%	29.1%	26.2%	27.3%	27.8%	27.3%	21.4%	24.3%	24.9%	20.3%	4.6 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	136.4	147.0	156.9	137.5	146.3	154.6	-0.8%	0.5%	1.5%
Gross profit	64.6	74.0	80.1	70.2	75.4	80.3	-8.0%	-1.8%	-0.3%
Non-GAAP net profit	25.1	30.0	32.7	27.0	28.1	30.3	-6.9%	6.7%	8.1%
Gross margin	47.4%	50.3%	51.0%	51.1%	51.5%	52.0%	-3.7 ppt	-1.2 ppt	-0.9 ppt
Non-GAAP net margin	18.4%	20.4%	20.8%	19.6%	19.2%	19.6%	-1.2 ppt	1.2 ppt	1.3 ppt

Source: CMBIGM estimates

SOTP valuation of US\$144.6 per ADS

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

- 1) US\$48.2 (was US\$51.8) for Baidu Core (mainly including the core ads business, excluding Apollo and Baidu Cloud), based on unchanged 5.0x 2025E non-GAAP PE;
- 2) US\$0.3 for Apollo ASD (unchanged), based on unchanged 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$38.8 for Baidu Cloud (was US\$37.6), based on unchanged 3.4x 2025E PS;
- 4) US\$57.3 for net cash, iQIYI and other investments (was US\$57.1), with a 30% holding discount applied to the per share valuation of US\$81.9.

Figure 3: 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 (%)
Core business and cash								
1) Baidu core (ex-Apollo and Cloud)	3,373	5.0	121,441	16,867	100.0	16,867	48.2	33.3
2) Apollo ASD			714	99	100.0	99	0.3	0.2
3) Baidu Cloud (ex-ASD)		3.4	97,671	13,565	100.0	13,565	38.8	26.8
Valuation of core business						30,532	87.3	60.4
iQIYI, strategic investment, and net cash								
1) iQIYI		Market value	12,896	1,791	45.4	813	2.3	
2) Trip.com group		Market value	328,121	45,572	10.8	4,922	14.1	
3) Uxin		Market value	6,739	936	9.1	85	0.2	
4) HAND Enterprise Solutions		Market value	12,271	2,443	5.3	128	0.4	
5) Kuaishou		Market value	198,719	27,600	3.1	857	2.5	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
4) Net cash		CMBI estimates	156,395	21,722	100.0	21,722	62.1	
Valuation of iQIYI, investments, and net cash						28,636	81.9	
Valuation of iQIYI, investment, and net cash (with 30% holding discount)						20,045	57.3	39.6
Total Baidu valuation (US\$mn)						50,577		
Number of ADS outstanding (mn)						350		
Valuation per ADS (US\$)						144.6		

Source: Company data, CMBIGM estimates

Note: American depositary share (ADS); iQIYI (IQ US); Trip.com Group (TCOM US); Uxin (UXIN US); HAND Enterprise solution (300 170 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	136,367	147,011	156,888
Cost of goods sold	(63,935)	(65,031)	(66,102)	(71,796)	(73,012)	(76,828)
Gross profit	59,740	69,567	67,023	64,571	73,998	80,060
Operating expenses	(43,829)	(47,711)	(45,753)	(45,457)	(48,280)	(50,745)
SG&A expense	(20,514)	(23,519)	(23,620)	(24,410)	(26,168)	(27,455)
R&D expense	(23,315)	(24,192)	(22,133)	(21,047)	(22,112)	(23,290)
Operating profit	15,911	21,856	21,270	19,114	25,718	29,315
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	29,825	36,816	40,761
Net Interest income/(expense)	3,332	4,761	5,138	6,978	5,315	5,387
Foreign exchange gain/loss	(1,484)	595	1,076	0	0	0
Other income/expense	(5,737)	1,785	1,829	2,260	2,283	2,305
Pre-tax profit	10,112	25,198	28,622	29,198	34,525	38,603
Income tax	(2,578)	(3,649)	(4,447)	(4,908)	(7,235)	(8,425)
After tax profit	7,534	21,549	24,175	24,290	27,291	30,177
Minority interest	(25)	1,234	415	490	592	703
Net profit	7,559	20,315	23,760	23,800	26,698	29,474
Adjusted net profit	20,680	28,747	27,002	25,095	29,955	32,700
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	212,850	230,255	168,849	180,869	200,665	221,354
Cash & equivalents	53,156	25,231	24,832	43,445	61,204	79,943
Restricted cash	11,330	11,503	11,697	11,697	11,697	11,697
Account receivables	11,733	10,848	10,104	10,087	10,875	11,605
Other current assets	136,631	182,673	122,216	115,639	116,889	118,109
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	453,195	482,788	513,466
Current liabilities	79,630	76,451	80,953	75,731	76,128	75,748
Short-term borrowings	5,343	10,257	10,669	10,669	10,669	10,669
Account payables	38,014	37,717	41,443	36,987	36,249	34,816
Other current liabilities	36,273	28,477	28,841	28,074	29,209	30,263
Non-current liabilities	73,538	67,700	63,215	61,397	59,124	55,800
Long-term borrowings	13,722	14,223	15,596	0	0	0
Bond payables	49,461	43,134	36,347	50,125	47,852	44,528
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	137,127	135,252	131,548
Share capital	0	0	0	0	0	0
Capital surplus	79,855	87,099	87,146	87,193	87,240	87,287
Retained earnings	143,623	156,527	176,474	208,883	240,304	274,639
Other reserves	8,393	9,465	9,870	9,870	9,870	9,870
Total shareholders equity	231,871	253,091	273,490	305,946	337,414	371,796
Minority interest	5,934	9,517	10,122	10,122	10,122	10,122
Total equity and liabilities	390,973	406,759	427,780	453,195	482,788	513,466

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,112	25,198	28,622	29,198	34,525	38,603
Depreciation & amortization	14,725	14,908	14,628	6,335	6,372	6,167
Tax paid	(2,578)	(3,649)	(4,447)	(4,908)	(7,235)	(8,425)
Change in working capital	(16,758)	(13,067)	(27,512)	1,371	(1,640)	(2,331)
Others	20,669	13,225	9,943	4,003	4,090	4,116
Net cash from operations	26,170	36,615	21,234	35,999	36,113	38,130
Investing						
Capital expenditure	(8,286)	(11,190)	(8,134)	(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)	(421)	(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)	(2,914)	(15,596)	0	0
Share repurchases	(1,925)	(4,764)	(6,324)	0	0	0
Others	2,348	3,695	(4,521)	13,866	(2,185)	(3,236)
Net cash from financing	(6,390)	(14,162)	(13,759)	(1,730)	(2,185)	(3,236)
Net change in cash						
Cash at the beginning of the year	47,671	65,236	37,574	36,589	55,142	72,901
Exchange difference	1,729	282	95	0	0	0
Cash at the end of the year	65,236	37,574	36,589	55,142	72,901	91,640

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

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