

Baidu (BIDU US)

Pace of ads rev growth recovery key to watch

Baidu announced (21 Nov) its 3Q24 results: total revenue was RMB33.6bn, inline with both our forecast and Bloomberg consensus; excluding one-off foreign exchange loss of RMB1.1bn, non-GAAP net income would be RMB7.0bn, better than consensus of RMB6.2bn. Non-GAAP OP of Baidu Core reached RMB6.7bn, 1%/4% better than our forecast/ consensus, thanks to more optimized than expected R&D spending. Monetization of Gen-AI related initiative likely still takes time, and we expect Baidu to still prioritize product enhancement and user engagement improvement over monetization in 4Q24-1Q25, while we concur that the related investment in driving for business transformation is vital for Baidu's long-term business development. We cut our SOTP-based TP by 7% to US\$153.6 (was US\$164.8) to reflect fine-tuned outlook on ads revenue growth recovery. Maintain BUY.

■ Cloud revenue growth slowed as expected; but reacceleration in sight.

In 3Q24, non-ad revenue was up 12% YoY to RMB7.8bn and accounted for 29% of Baidu Core's revenue (3Q23: 26%). Baidu Cloud revenue reached RMB4.9bn in 3Q24, up 11% YoY (3Q23: -2%; 2Q24: 14%). The QoQ deceleration was driven by one-off business adjustment of Baidu Netdisk, and was inline with our expectation. Management noted that: 1) Gen-AI and foundation model contributed 11% of AI cloud revenue in 3Q24 (1Q24/2Q24: 6.9/9.0%), and is ramping up continuously; 2) cloud business continued to deliver non-GAAP profitability. We are positive on the reacceleration of Baidu Cloud revenue growth in 4Q24E, aided by the ramp-up in GPU cloud revenue, as well as related cross-sell opportunities from GPU to CPU cloud, and forecast cloud revenue growth of 13% YoY in 4Q24E.

■ **Monetization of Gen-AI related search likely still takes time.** In 3Q24, Baidu Core's online ads revenue was RMB18.8bn, down 5% YoY, and was largely inline with both our forecast and consensus. Currently, about 20% of Baidu's search results are filled with Gen-AI generated results (mid-Aug 2024: 18%), and c. 70% of Baidu App's MAU has been engaged with generated content. We expect Baidu to still prioritize product enhancement and user engagement improvement over monetization in 4Q24-1Q25, and to make incremental investments to drive for upgrade of its large language model. Although this may weigh on ads revenue growth recovery and lead to margin deterioration in the near term, in our view, Baidu's ads revenue growth should see recovery along with: 1) recovery in overall macro environment; 2) incremental monetization generated from Ernie Agent; and 3) monetization of related Gen-AI search results starting from 2025. We model -8%/-3% YoY decline in Baidu Core's ads revenue in 4Q24/2024E, but expect it to recover to 4% YoY growth in 2025E.

■ **Stringent cost control of other businesses to cushion margin deterioration in the near term.** Non-GAAP OPM for Baidu Core was 25.1% in 3Q24, flat YoY and 0.3/0.8ppts better than our forecast/consensus, thanks to more optimized than expected R&D spending. Owing to the potential YoY decline in ads revenue, as well as incremental investments to lay foundation for long-term business development, we expect Baidu Core to see near-term deterioration in OPM, but this could be partly cushioned by the ongoing loss reduction of other businesses such as intelligent driving, as well as profitability improvement of cloud business. We estimate Baidu Core to ink a non-GAAP OPM of 20.9/23.9% in 4Q24E/2024E (4Q23/2023: 22.5%/23.9%).

BUY (Maintain)

Target Price **US\$153.60**
 (Previous TP US\$164.80)
Up/Downside **77.1%**
Current Price **US\$86.75**

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Stock Data

Mkt Cap (US\$ mn)	30,357.1
Avg 3 mths t/o (US\$ mn)	130.5
52w High/Low (US\$)	124.00/81.01
Total Issued Shares (mn)	349.9

Source: FactSet

Shareholding Structure

Robin Yanhong Li	16.5%
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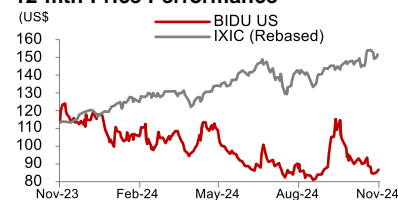
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.3%	-7.4%
3-mth	-3.3%	-8.7%
6-mth	-17.5%	-26.8%

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	133,283	142,228	151,451
YoY growth (%)	(0.7)	8.8	(1.0)	6.7	6.5
Adjusted net profit (RMB mn)	20,680.0	28,747.0	26,063.6	27,610.1	29,447.6
YoY growth (%)	9.8	39.0	(9.3)	5.9	6.7
EPS (Adjusted) (RMB)	58.90	81.06	74.48	78.90	84.15
Consensus EPS (RMB)	na	na	77.03	78.42	86.03
P/E (x)	28.9	10.9	9.6	9.8	9.1
ROE (%)	3.4	8.4	8.5	7.5	7.2

Source: Company data, Bloomberg, CMBIGM estimates

Quarterly results and estimates

Figure 1: Baidu: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	3Q24 Consensus	Diff%	CMBI estimates	Diff%
Baidu Group											
Online marketing	18.0	21.1	21.3	20.8	18.5	20.6	20.1	20.3	-0.8%	20.2	-0.3%
YoY growth (%)	6.2%	15.4%	7.0%	6.3%	2.9%	-2.2%	-5.8%				
Other services	13.2	13.0	13.1	14.1	13.0	13.3	13.4	13.3	1.2%	13.3	1.1%
YoY growth (%)	14.7%	14.0%	4.0%	4.7%	-1.1%	2.6%	2.7%				
Total revenue	31.1	34.1	34.4	35.0	31.5	33.9	33.6	33.6	0.0%	33.5	0.2%
YoY growth (%)	9.6%	14.9%	5.9%	5.7%	1.2%	-0.4%	-2.6%				
Gross profit	16.0	17.9	18.2	17.5	16.2	17.5	17.2	17.2	0.0%	17.0	0.7%
Operating profit	5.0	5.2	6.3	5.4	5.5	5.9	5.9	6.4	-6.9%	5.4	9.5%
Non-GAAP net profit	5.7	8.0	7.3	7.8	7.0	7.4	5.9	6.2	-5.7%	6.2	-5.1%
YoY growth (%)	48%	44%	23%	44%	22%	-8%	-19%				
GPM (%)	51.3%	52.5%	52.7%	50.2%	51.5%	51.7%	51.1%	51.1%	0.0 ppt	50.9%	0.2 ppt
OPM (%)	16.0%	15.3%	18.2%	15.4%	17.4%	17.5%	17.7%	19.0%	-1.3 ppt	16.2%	1.5 ppt
Non-GAAP NPM (%)	18.4%	23.5%	21.1%	22.2%	22.2%	21.8%	17.5%	18.6%	-1.1 ppt	18.5%	-1.0 ppt
Baidu Core											
Revenue	23.0	26.4	26.6	27.5	23.8	26.7	26.5	26.3	0.7%	26.4	0.3%
YoY growth (%)	7.6%	14.0%	5.3%	7.2%	3.5%	1.1%	-0.2%				
Baidu Core - online marketing	16.6	19.6	19.7	19.2	17.0	19.2	18.8	18.8	-0.4%	18.8	-0.4%
YoY growth (%)	6.3%	14.7%	5.2%	6.3%	2.7%	-2.2%	-4.6%				
Baidu Core - Others	6.4	6.8	6.9	8.3	6.8	7.5	7.8	7.5	3.3%	7.6	2.1%
YoY growth (%)	11.1%	12.1%	5.5%	9.1%	5.7%	10.3%	12.4%				
Non-GAAP OP	5.4	6.5	6.7	6.2	5.6	7.0	6.7	6.4	4.2%	6.6	1.4%
Non-GAAP NP	5.3	7.7	7.0	7.5	6.6	7.3	5.7	6.0	-5.5%	6.0	-4.8%
YoY growth (%)	38.5%	41.2%	20.6%	52.6%	25.8%	-5.3%	18.4%				
Non-GAAP OPM (%)	23.3%	24.7%	25.1%	22.5%	23.5%	26.2%	25.1%	24.2%	0.8 ppt	24.8%	0.3 ppt
Non-GAAP NPM (%)	22.9%	29.1%	26.2%	27.3%	27.8%	27.3%	21.4%	22.8%	-1.4 ppt	22.6%	-1.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Changes in forecast and valuation

Figure 2: Baidu forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	133.3	142.2	151.5	133.8	144.7	154.9	-0.4%	-1.7%	-2.2%
Gross profit	67.7	72.5	77.6	67.8	74.1	79.8	-0.1%	-2.1%	-2.8%
Non-GAAP net profit	26.1	27.6	29.4	26.9	27.6	30.6	-3.1%	0.1%	-3.6%
Gross margin	50.8%	51.0%	51.2%	50.6%	51.2%	51.6%	0.1 ppt	-0.2 ppt	-0.3 ppt
Non-GAAP net margin	19.6%	19.4%	19.4%	20.1%	19.1%	19.7%	-0.5 ppt	0.4 ppt	-0.3 ppt

Source: CMBIGM estimates

SOTP valuation of US\$153.6 per ADS

Our new SOTP-based target price is US\$153.6 per ADS, which translates into 14x 2025E PE on a non-GAAP basis, or 8x if excluding net cash. Our SOTP-based target price comprises, per ADS:

- 1) US\$59.5 for Baidu Core (was US\$71.9; mainly including the core search and feed ads business, excluding Apollo and Baidu Cloud), based on a 6.0x 2024E non-GAAP PE (was 7.0x; the cut in target valuation multiple was mainly due to the short-term headwinds on growth and earnings);
- 2) US\$1.9 for Apollo ASD (unchanged), based on unchanged 2.0x 2030E revenue, and discounted back using a 13.0% WACC.
- 3) US\$32.6 for Baidu Cloud (was US\$32.5), based on unchanged 3.9x 2024E P/S.
- 4) US\$59.6 for net cash, iQIYI and other investments (was US\$58.4), with a 30% holding discount applied to the per share valuation of US\$85.2.

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)	3,471	6.0	149,959	20,828	100.0	20,828	59.5	38.7
2) Apollo ASD			4,740	658	100.0	658	1.9	1.2
3) Baidu Cloud (ex-ASD)		3.9	82,119	11,405	100.0	11,405	32.6	21.2
Valuation of core business						32,891	94.0	61.2
iQIYI, strategic investment, and net cash								
1) iQIYI		Market value	15,063	2,092	45.4	950	2.7	
2) Trip.com group		Market value	317,114	44,044	10.8	4,757	13.6	
3) Uxin		Market value	7,686	1,067	9.1	97	0.3	
4) HAND Enterprise Solutions		Market value	9,523	1,323	5.3	69	0.2	
5) Kuaishou		Market value	185,155	25,716	3.1	799	2.3	
6) Yusys Technologies		Market value	15,260	2,119	5.1	109	0.3	
4) Net cash		CMBI estimates	165,859	23,036	100.0	23,036	65.8	
Valuation of iQIYI, investments, and net cash						29,817	85.2	
Valuation of iQIYI, investment, and net cash (with 30% holding discount)						20,872	59.6	38.8
Total Baidu valuation (US\$mn)						53,763		
Number of ADS outstanding (mn)						350		
Valuation per ADS (US\$)						153.6		

Source: Company data, CMBIGM estimates

Note: American depositary share (ADS); iQIYI (IQ US); Trip.com Group (TCOM US); Uxin (UXIN US); HAND Enterprise solution (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	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	124,493	123,675	134,598	133,283	142,228	151,451
Cost of goods sold	(64,314)	(63,935)	(65,031)	(65,613)	(69,735)	(73,837)
Gross profit	60,179	59,740	69,567	67,669	72,493	77,615
Operating expenses	(49,661)	(43,829)	(47,711)	(45,480)	(48,092)	(50,306)
SG&A expense	(24,723)	(20,514)	(23,519)	(22,658)	(23,894)	(24,989)
R&D expense	(24,938)	(23,315)	(24,192)	(22,822)	(24,198)	(25,317)
Operating profit	10,518	15,911	21,856	22,189	24,401	27,309
Share of (losses)/profits of associates/JV	(932)	(1,910)	(3,799)	(492)	(879)	(879)
Adjusted EBITDA	24,914	29,663	35,824	34,193	37,061	40,444
Net Interest income/(expense)	2,130	3,332	4,761	4,933	5,421	6,457
Foreign exchange gain/loss	100	(1,484)	595	(802)	(642)	(513)
Other income/expense	(1,038)	(5,737)	1,785	1,806	0	0
Pre-tax profit	10,778	10,112	25,198	27,634	28,301	32,373
Income tax	(3,187)	(2,578)	(3,649)	(3,941)	(5,073)	(7,222)
After tax profit	7,591	7,534	21,549	23,694	23,228	25,151
Minority interest	(2,635)	(25)	1,234	918	960	1,162
Net profit	10,226	7,559	20,315	22,776	22,268	23,989
Adjusted net profit	18,830	20,680	28,747	26,064	27,610	29,448
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	213,315	212,850	230,255	257,522	287,040	316,940
Cash & equivalents	36,850	53,156	25,231	54,368	82,154	110,241
Restricted cash	10,821	11,330	11,503	11,503	11,503	11,503
Account receivables	9,981	11,733	10,848	9,859	10,521	11,203
Other current assets	155,663	136,631	182,673	181,792	182,861	183,992
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	431,675	463,909	496,727
Current liabilities	74,488	79,630	76,451	77,451	77,544	77,295
Short-term borrowings	4,168	5,343	10,257	10,257	10,257	10,257
Account payables	41,384	38,014	37,717	39,437	38,577	37,344
Other current liabilities	28,936	36,273	28,477	27,756	28,710	29,694
Non-current liabilities	81,594	73,538	67,700	62,737	61,937	59,972
Long-term borrowings	12,629	13,722	14,223	0	0	0
Bond payables	55,772	49,461	43,134	52,394	51,594	49,629
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	140,187	139,481	137,267
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	185,304	218,141	253,070
Other reserves	7,148	8,393	9,465	9,465	9,465	9,465
Total shareholders equity	218,607	231,871	253,091	281,971	314,911	349,943
Minority interest	5,345	5,934	9,517	9,517	9,517	9,517
Total equity and liabilities	380,034	390,973	406,759	431,675	463,909	496,727

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	10,778	10,112	25,198	27,634	28,301	32,373
Depreciation & amortization	16,438	14,725	14,908	5,742	5,654	5,435
Tax paid	(3,187)	(2,578)	(3,649)	(3,941)	(5,073)	(7,222)
Change in working capital	(18,691)	(16,758)	(13,067)	2,869	(1,638)	(2,062)
Others	14,784	20,669	13,225	5,781	6,148	6,318
Net cash from operations	20,122	26,170	36,615	38,087	33,392	34,841
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	12,824	2,764	1,599
Net cash from financing	23,396	(6,390)	(14,162)	(1,399)	2,764	1,599
Net change in cash						
Cash at the beginning of the year	36,540	47,671	65,236	37,574	65,871	93,657
Exchange difference	(943)	1,729	282	0	0	0
Cash at the end of the year	47,671	65,236	37,574	65,871	93,657	121,744
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	16.3%	(0.7%)	8.8%	(1.0%)	6.7%	6.5%
Gross profit	15.9%	(0.7%)	16.4%	(2.7%)	7.1%	7.1%
Operating profit	(26.7%)	51.3%	37.4%	1.5%	10.0%	11.9%
Net profit	(54.5%)	(26.1%)	168.8%	12.1%	(2.2%)	7.7%
Adj. net profit	(14.5%)	9.8%	39.0%	(9.3%)	5.9%	6.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	48.3%	48.3%	51.7%	50.8%	51.0%	51.2%
Operating margin	8.4%	12.9%	16.2%	16.6%	17.2%	18.0%
Adj. net profit margin	15.1%	16.7%	21.4%	19.6%	19.4%	19.4%
Return on equity (ROE)	5.1%	3.4%	8.4%	8.5%	7.5%	7.2%
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)	(0.6)
Current ratio (x)	2.9	2.7	3.0	3.3	3.7	4.1
Receivable turnover days	27.0	31.6	29.0	26.8	25.8	25.8
Payable turnover days	218.6	223.5	220.6	222.5	201.4	185.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	21.2	28.9	10.9	9.6	9.8	9.1
P/E (diluted)	21.6	29.2	11.0	9.7	9.9	9.2
P/B	1.0	1.0	0.9	0.8	0.7	0.6
P/CFPS	24.0	12.3	8.8	7.4	8.8	8.3

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

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