

China / Hong Kong Company Update

Baidu Inc

Bloomberg: 9888 HK Equity | BIDU US EQUITY | Reuters: 9888.HK | BIDU.OQ

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 Aug 2022

HK: BUY

Last Traded Price (30 Aug 2022): HK\$146.30 (HSI : 19,949)
Price Target 12-mth: HK\$203 (38.8% upside) (Prev HK\$190)

US: BUY

Last Traded Price (30 Aug 2022): US\$137.69 (NASDAQ : 11,883)
Price Target 12-mth: US\$208 (51.1% upside) (Prev US\$195)

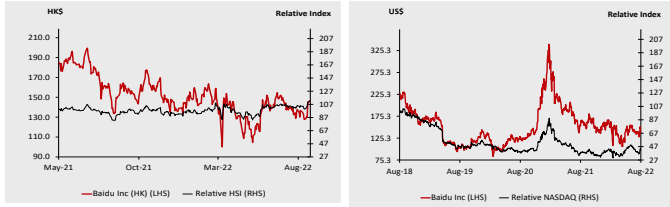
Analyst

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What's New

- 2Q22 revenue fell by 5% y-o-y to Rmb29.6bn, in line
- Non-GAAP net profit grew by 3% to Rmb5.5bn, above consensus due to tighter controls on SG&A and content costs
- Revised up core earnings by 15% for FY22F on higher operating efficiency
- Maintain BUY with higher TPs of HK\$203/US\$208 as we shift our valuation benchmark to FY23F

Price Relative



Forecasts and Valuation (HK Shares)

FY Dec (RMBm)	2021A	2022F	2023F	2024F
Turnover	124,493	128,436	146,613	170,365
EBITDA	14,833	18,287	21,572	25,751
Pre-tax Profit	10,778	14,816	18,101	22,251
Net Profit	10,226	13,016	15,901	19,751
Core profit	18,830	20,987	23,872	27,751
Core Profit Gth (Pre-ex)	(14.5)	11.5	13.7	10.5
EPS (RMB)	3.71	4.72	5.77	7.16
EPS (HK\$)	4.21	5.36	6.55	8.13
EPS Gth (%)	(54.9)	27.3	22.2	24.2
Diluted EPS (HK\$)	4.13	5.25	6.42	7.97
DPS (HK\$)	0.00	0.00	0.00	0.00
BV Per Share (HK\$)	86.87	95.11	104.54	115.55
PE (X)	34.7	27.3	22.3	18.0
P/Cash Flow (X)	17.7	9.9	9.0	8.0
P/Free CF (X)	38.5	14.2	12.4	10.6
EV/EBITDA (X)	17.5	13.1	10.1	7.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.7	1.5	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	5.2	5.9	6.5	7.4
Core Earnings Rev (%)		15	Nil	Nil
Consensus EPS (RMB)		5.60	7.13	8.31
Other Broker Recs:		B:25	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Leader in AI cloud and autonomous driving

Investment Thesis

Leading AI cloud player in China. Leading AI cloud player in China with c.30% market share. We forecast Baidu's cloud revenue to grow at a CAGR of 39% in FY21-FY24F, driven by nationwide smart transportation upgrade and growing demand for intelligent cloud services.

Monetisation of autonomous driving investment. Baidu is a leading player in the autonomous driving market. Current products include Robotaxi, ASD system, etc. We expect 35% three-year CAGR for ASD system products. According to IHS Markit, the self-driving shared-mobility market will reach Rmb1.3tn in 2023, with Robotaxi taking c.40% of the market. We haven't factored in the growth potential of Robotaxi in our forecast as the business is still at a very early stage. Further penetration of ASD or Robotaxi will support a valuation re-rate.

Baidu app contributing steady ad revenue. Baidu has dominated the search engine market for years. Baidu app continues to generate advertising income via its search function and feeds, supported by various new features, including Baijiahao, mini programmes, and Managed Page.

Valuation:

We rolled forward our valuation benchmark to FY23F and derive our TPs of HK\$203/US\$208 based on the SOTP methodology: (1) Baidu Core: 12x on FY23F non-GAAP net profit (HK\$124); (2) Cloud: 5x FY23F price-to-sales (HK\$63); (3) autonomous driving: (HK\$5); and (4) market value of major listed investees (HK\$10).

Where we differ:

More optimistic about cloud and autonomous driving. We are more optimistic about Baidu's AI cloud and the monetisation of its autonomous driving business in the long term, supported by its investments in search and AI.

Key Risks to Our View:

(1) Regulatory changes; (2) macro slowdown, which negatively affects online advertising revenue; and (3) product execution risk in monetising its AI capability.

At A Glance

Issued Capital (m shs)	2,764
Mkt Cap (HK\$/US\$m)	404,373 / 51,521
Major Shareholders (%)	
NIL	
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	112.1
GICS Industry: Information Technology / Software & Services	



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Baidu Inc**WHAT'S NEW****2Q22 earnings above expectations thanks to cost optimisation; expect revenue growth to resume in 2H22****2Q22 results highlights**

- Revenue decreased by 5% y-o-y to Rmb29.6bn, in line with market expectations.
- Baidu's core revenue decreased by 4% to Rmb23.2bn, with online marketing revenue declining by 10% to Rmb17.1bn and non-online marketing revenue climbing by 22% to Rmb6.1bn, driven by cloud and other AI-powered businesses.
- Baidu AI Cloud business maintained its rapid growth momentum with revenue increasing by 31% y-o-y or 10% q-o-q in 2Q22. iQiyi's revenue decreased 13% to Rmb6.7bn in 2Q22.
- Non-GAAP net profit increased by 3% to Rmb5.5bn, above market expectations of c.Rmb3.7bn, due to better-than-expected cost optimisation and operating efficiency. We noticed that marketing expenses declined by 16% y-o-y due to a decrease in promotion activities.
- Note that iQiyi recorded non-GAAP net profit of Rmb79m in 2Q22, turning profitable in two consecutive quarters.

Outlook

- Online marketing business has been sluggish due to weakened business activities due to Covid resurgence in 2Q22. We expect revenue growth to pick up in 2H22 along with economic recovery.
- Management shared that June's performance was better than May while overall growth in 2H22 will depend on the macro environment. Several vertical sectors like e-commerce and short videos have raised their ad budgets.

- We believe mid to long term growth will remain robust, supported by cloud and AI-powered businesses and further monetization of intelligence driving technology.

-We have revised up our non-GAAP net profit by 15% for FY22F, to reflect tighter cost control and improving operating efficiency. We kept our FY23F/FY24F earnings largely unchanged. We maintain our BUY rating with new TPs of HK\$203/US\$208 based on the SOTP methodology: (1) Baidu Core: 12x on FY23F non-GAAP net profit (HK\$124); (2) Cloud: 5x FY23F price-to-sales (HK\$63); (3) autonomous driving: (HK\$5); and (4) market value of major listed investees (HK\$10).

Company Background

Established in 2000 and listed in 2005, Baidu is China's largest search platform in terms of mobile search traffic. In 2010, the company expanded into the online video segment by establishing iQiyi, China's largest online video platform in terms of monthly active users (MAUs). Baidu Core and iQiyi accounted for 72% and 28% of the company's FY20 revenue, respectively. The company's co-founder Robin Yanhong Li (李彦宏) is also its chairman and CEO.

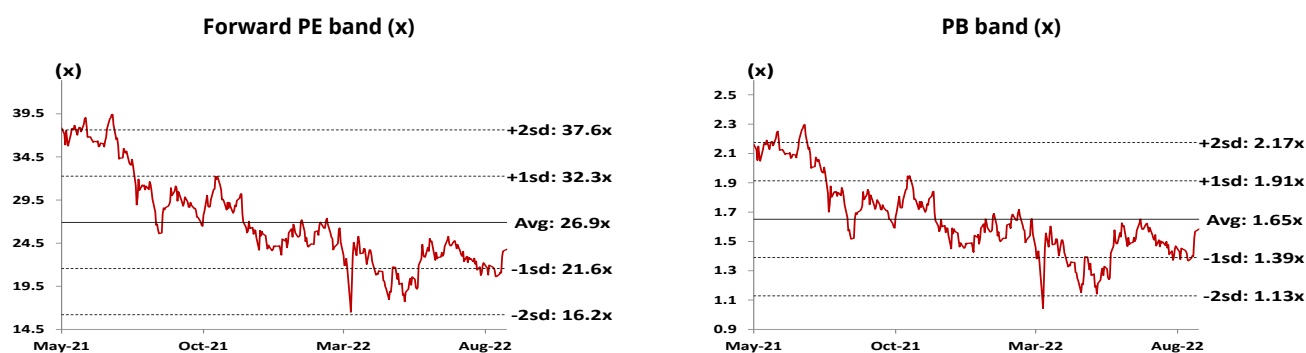
Baidu Inc

Quarterly / Interim Income Statement (RMBm)

FY Dec	2Q2021	1Q2022	2Q2022	% chg_yoy	% chg_qoq
Revenue	31,350	28,411	29,647	(5.4)	4.4
Cost of Goods Sold	(15,897)	(15,546)	(15,171)	(4.6)	(2.4)
Gross Profit	15,453	12,865	14,476	(6.3)	12.5
Other Oper. (Exp)/Inc	(11,990)	(10,264)	(11,076)	(7.6)	7.9
Operating Profit	3,463	2,601	3,400	(1.8)	30.7
Other Non Opg (Exp)/Inc	(2,923)	(3,297)	(30.0)	99.0	(99.1)
Associates & JV Inc	(4.0)	(408)	(603)	(14,975.0)	47.8
Net Interest (Exp)/Inc	497	744	784	57.7	5.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	1,033	(360)	3,551	243.8	nm
Tax	(2,197)	(391)	(25.0)	(98.9)	(93.6)
Minority Interest	581	(134)	111	(80.9)	(182.8)
Net Profit	(583)	(885)	3,637	nm	(511.0)
Net profit bef Except.	(583)	(885)	3,637	nm	(511.0)
EBITDA	2,252	471	4,400	95.4	834.2
Margins (%)					
Gross Margins	49.3	45.3	48.8		
Opg Profit Margins	11.0	9.2	11.5		
Net Profit Margins	(1.9)	(3.1)	12.3		

Source: Company, DBS HK

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Baidu Inc

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Baidu app MAU (m)	544.0	622.0	653.1	685.8	720.0
iQiyi MAU (m)	101.7	96.8	96.8	99.7	102.7

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (RMB m)					
Baidu core	78,684	95,163	99,746	116,627	137,678
iQiyi	29,707	30,554	29,690	30,986	33,687
Others	(1,317)	(1,224)	(1,000)	(1,000)	(1,000)
Total	107,074	124,493	128,436	146,613	170,365

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	107,074	124,493	128,436	146,613	170,365
Cost of Goods Sold	(55,158)	(64,314)	(67,814)	(77,705)	(89,442)
Gross Profit	51,916	60,179	60,622	68,908	80,923
Other Opng (Exp)/Inc	(37,576)	(49,661)	(48,806)	(53,807)	(61,672)
Operating Profit	14,340	10,518	11,816	15,101	19,251
Other Non Opng (Exp)/Inc	8,743	(938)	0	0	0
Associates & JV Inc	(2,248)	(932)	0	0	0
Net Interest (Exp)/Inc	2,255	2,130	3,000	3,000	3,000
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	23,090	10,778	14,816	18,101	22,251
Tax	(4,064)	(3,187)	(3,000)	(3,000)	(3,000)
Minority Interest	3,446	2,635	1,200	800	500
Preference Dividend	0	0	0	0	0
Net Profit	22,472	10,226	13,016	15,901	19,751
Net Profit before Except.	22,472	10,226	13,016	15,901	19,751
EBITDA	27,270	14,833	18,287	21,572	25,751
Growth					
Revenue Gth (%)	(0.3)	16.3	3.2	14.2	16.2
EBITDA Gth (%)	796.2	(45.6)	23.3	18.0	19.4
Opg Profit Gth (%)	127.4	(26.7)	12.3	27.8	27.5
Net Profit Gth (%)	992.5	(54.5)	27.3	22.2	24.2
Margins & Ratio					
Gross Margins (%)	48.5	48.3	47.2	47.0	47.5
Opg Profit Margin (%)	13.4	8.4	9.2	10.3	11.3
Net Profit Margin (%)	21.0	8.2	10.1	10.8	11.6
ROAE (%)	13.0	5.2	5.9	6.5	7.4
ROA (%)	7.1	2.9	3.3	3.8	4.4
ROCE (%)	4.4	2.5	2.9	3.6	4.4
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Baidu Inc

Quarterly Income Statement (RMB m)

FY Dec	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022
Revenue	31,350	31,921	33,088	28,411	29,647
Cost of Goods Sold	(15,897)	(16,126)	(17,289)	(15,546)	(15,171)
Gross Profit	15,453	15,795	15,799	12,865	14,476
Other Oper. (Exp)/Inc	(11,990)	(13,487)	(13,841)	(10,264)	(11,076)
Operating Profit	3,463	2,308	1,958	2,601	3,400
Other Non Opg (Exp)/Inc	(2,923)	(22,072)	539	(3,297)	(30)
Associates & JV Inc	(4)	(4)	(773)	(408)	(603)
Net Interest (Exp)/Inc	497	582	641	744	784
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,033	(19,186)	2,365	(360)	3,551
Tax	(2,197)	1,839	(1,295)	(391)	(25)
Minority Interest	581	788	645	(134)	111
Net Profit	(583)	(16,559)	1,715	(885)	3,637
Net profit bef Except.	(583)	(16,559)	1,715	(885)	3,637
EBITDA	(18,438)	(18,438)	3,251	471	4,400

Growth (QoQ)

Revenue Gth (%)	11.4	1.8	3.7	(14.1)	4.4
EBITDA Gth (%)	(91.9)	N/A	N/A	(85.5)	834.2
Opg Profit Gth (%)	24.2	(33.4)	(15.2)	32.8	30.7
Net Profit Gth (%)	(102.3)	2,740.3	(110.4)	(151.6)	(511.0)

Growth (YoY)

Revenue Gth (%)	20.4	13.1	9.3	1.0	(5.4)
EBITDA Gth (%)	(55.3)	N/A	(50.6)	(98.3)	95.4
Opg Profit Gth (%)	(5.0)	(62.5)	(60.7)	(6.7)	(1.8)
Net Profit Gth (%)	N/A	N/A	(66.9)	N/A	N/A

Margins

Gross Margins (%)	49.3	49.5	47.7	45.3	48.8
Opg Profit Margins (%)	11.0	7.2	5.9	9.2	11.5
Net Profit Margins (%)	(1.9)	(51.9)	5.2	(3.1)	12.3

Source: Company, DBS HK

Baidu Inc

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	17,508	23,027	27,923	32,819	37,715
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	131,858	143,692	143,692	143,692	143,692
Cash & ST Invt	162,942	190,914	209,443	231,709	258,624
Inventory	0	0	0	0	0
Debtors	8,668	9,981	11,493	13,234	15,238
Other Current Assets	11,732	12,420	12,418	12,418	12,418
Total Assets	332,708	380,034	404,969	433,872	467,688
ST Debt	15,195	14,675	14,675	14,675	14,675
Creditors	36,716	41,384	46,350	51,912	58,142
Other Current Liab	16,474	18,429	19,525	20,710	21,989
LT Debt	60,335	68,401	68,401	68,401	68,401
Other LT Liabilities	12,145	13,193	13,193	13,193	13,193
Shareholder's Equity	185,798	218,607	238,679	261,636	288,443
Minority Interests	6,045	5,345	4,145	3,345	2,845
Total Cap. & Liab.	332,708	380,034	404,969	433,872	467,688
Non-Cash Wkg. Capital	(32,790)	(37,412)	(41,965)	(46,970)	(52,474)
Net Cash/(Debt)	87,412	107,838	126,367	148,633	175,548
Debtors Turn (avg days)	27.4	27.3	30.5	30.8	30.5
Creditors Turn (avg days)	260.0	245.2	261.0	251.7	242.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.4
Current Ratio (x)	2.7	2.9	2.9	2.9	3.0
Quick Ratio (x)	2.5	2.7	2.7	2.8	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	6.7	13.1	13.1	13.1	13.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	23,090	10,778	14,816	18,101	22,251
Dep. & Amort.	22,714	22,559	18,471	18,471	18,500
Tax Paid	(4,064)	(3,187)	(3,000)	(3,000)	(3,000)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	(45)	0	0	0
Chg in Wkg.Cap.	(18,207)	(18,691)	4,551	5,005	5,504
Other Operating CF	667	8,708	1,058	1,056	1,056
Net Operating CF	24,200	20,122	35,896	39,633	44,311
Capital Exp.(net)	(5,084)	(10,896)	(10,896)	(10,896)	(10,896)
Other Invt.(net)	(23,373)	(8,584)	(12,471)	(12,471)	(12,500)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	905	(11,964)	6,000	6,000	6,000
Net Investing CF	(27,552)	(31,444)	(17,367)	(17,367)	(17,396)
Div Paid	0	0	0	0	0
Chg in Gross Debt	18	31	0	0	0
Capital Issues	(12,826)	(7,246)	0	0	0
Other Financing CF	(18,279)	(18,003)	(66,200)	(88,466)	(115,381)
Net Financing CF	(31,087)	(25,218)	(66,200)	(88,466)	(115,381)
Currency Adjustments	36,540	47,671	66,200	88,466	115,381
Chg in Cash	2,101	11,131	18,529	22,266	26,915
Opg CFPS (RMB)	15.52	14.07	11.37	12.56	14.07
Free CFPS (RMB)	7.00	3.35	9.06	10.42	12.12

Source: Company, DBS HK

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HK Share - Target Price & Ratings History



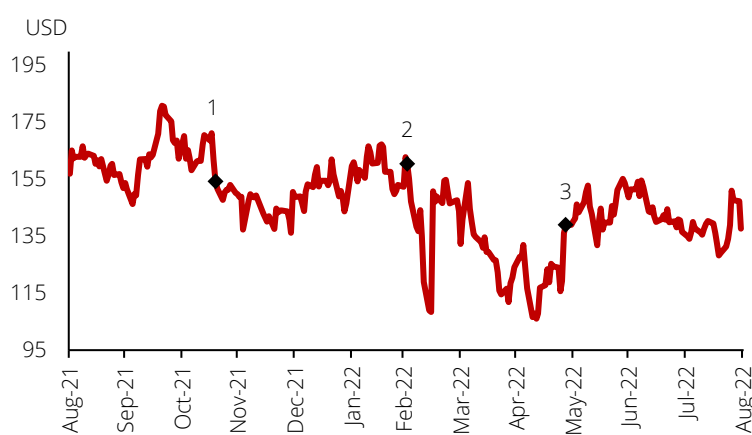
S.No.	Date	Closing Price	Target Price	Rating
1	18-Nov-21	HK\$169.70	HK\$210.00	BUY
2	2-Mar-22	HK\$148.10	HK\$207.00	BUY
3	27-May-22	HK\$115.70	HK\$190.00	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

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US Share - Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	18-Nov-21	US\$161.82	US\$216.00	BUY
2	2-Mar-22	US\$162.86	US\$212.00	BUY
3	27-May-22	US\$136.19	US\$195.00	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

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Baidu Inc

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 31 Aug 2022 11:17:27 (HKT)

Dissemination Date: 31 Aug 2022 11:43:10 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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Baidu Inc

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