

COMPANY RESULTS

Baidu Inc (9888 HK)

4Q23: Results In Line; All Eyes On AI-powered Ads And Ernie Bot In 2024

Baidu's 4Q23 results were within expectations. Revenue grew 6% yoy to Rmb35b, in line with consensus estimates. Gross margin expanded 1.4ppt yoy to 50.2%, within consensus expectations. Non-GAAP operating profit was Rmb7.1b, up 9% yoy, while non-GAAP operating profit margin came in at 20%. Non-GAAP net profit improved by 44% yoy to Rmb7.8b on one-off gains, exceeding consensus estimates by 22%. Maintain BUY with a lower target price of HK\$128.00 (US\$142.00).

4Q23 RESULTS

Year to 31 Dec (Rmbm)	4Q22	3Q23	4Q23	qoq	yoy	UOBKH	Var	Cons	Var
Total Net revenue	33,077	34,447	34,951	1%	6%	35,380	-1.2%	35,030	-0.2%
Online marketing services	19,571	21,346	20,804	-3%	6%	21,113	-1.5%		
Others	13,506	13,101	14,147	8%	5%	14,267	-0.8%		
COGS	16,945	16,294	17,418	7%	3%	17,048	2.2%		
Gross profits	16,132	18,153	17,533	-3%	9%	18,333	-4.4%	17,720	-1.1%
GPM	48.8%	52.7%	50.2%	-2.5 ppts	1.4 ppts	51.8%	-1.7 ppts	50.6%	-0.4 ppts
Operating expenses	11,697	12,018	12,300	2%	5%	13,173	-6.6%		
Non-GAAP operating income	6,497	7,596	7,075	-7%	9%	7,289	-2.9%		
Non-GAAP OPM	20%	22%	20%	-1.8 ppts	0.6 ppts	20.60%	-0.4 ppts		
Non-GAAP net income	5,371	7,267	7,755	7%	44%	6,453	20.2%	6,383	21.5%
Non-GAAP EPS (RMB)	1.89	2.55	2.74	7%	45%	2.27	20.8%	2.23	22.7%
Non-GAAP Net Margin	16.2%	21.1%	22.2%	1.1 ppts	6.0 ppts	18.2%	3.9 ppts	18.2%	4.0 ppts

Source: Baidu Corp Ltd, UOB Kay Hian

RESULTS

- Lukewarm revenue growth momentum in 4Q23.** Baidu Inc's (Baidu) core search revenue climbed 6.8% yoy to Rmb27.4b in 4Q23 (3Q23: 5.3% yoy), pressured by soft retail segment growth but bolstered by monetisation from generative AI-powered ads. Online marketing revenue growth remain stable to 6% yoy vs 7% in 3Q23, primarily supported by improved advertising eCPM and resilient performance of verticals including travel, healthcare, and business services. In Dec 23, Baidu App's monthly active users (MAU) reached 667m, up 3% yoy. Managed page accounted for 51% of Baidu Core's online marketing revenue in 4Q23. GenAI and LLM-related revenue reached Rmb656m in 4Q23 and should grow to several billion renminbi in 2024.
- Margin overview.** Gross margin edged up 1.4ppt yoy to 50.2%. 4Q23 non-GAAP operating income came in at Rmb7.1b, with non-GAAP operating margin expanding 1ppt yoy to 20%, despite increased investment in Ernie Bot. Baidu Core also delivered 22.6% core operating profit margin in 4Q23, improving from 4Q22's 21.4%. Non-GAAP net profit grew 44% yoy to Rmb7.8b, translating to net margin of 22%. This is primarily due to one-off gains, including Rmb96m of income tax benefit vs Rmb1.3b of income tax expense in 4Q22 and Rmb3.2b of gains from investees vs Rmb386m in 4Q22. Baidu returned US\$318mn to shareholders in 4Q23, and cumulative repurchase reached US\$669m under its share repurchase programme.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	123,221	134,598	146,514	158,914	172,960
EBITDA	21,934	29,246	28,022	28,470	35,696
Operating profit	15,457	21,856	21,129	21,683	28,570
Net profit (rep./act.)	7,534	21,549	19,833	22,375	28,411
Net profit (adj.)	20,680	28,747	28,245	31,514	34,293
EPS (Fen)	728.0	1,003.3	996.6	1,054.6	1,125.1
PE (x)	13.5	9.8	9.8	9.3	8.7
P/B (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	10.5	7.9	8.2	8.1	6.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.1	16.0	13.5	14.1	16.4
Net debt/(cash) to equity (%)	(26.8)	(11.2)	(19.7)	(26.1)	(32.1)
ROE (%)	3.5	9.2	7.7	7.7	8.7
Consensus net profit	-	-	27,191	30,550	37,120
UOBKH/Consensus (x)	-	-	1.04	1.03	0.92

Source: Baidu Inc, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$106.60
Target Price	HK\$128.00
Upside	+20.1%
(Previous TP)	HK\$135.00

COMPANY DESCRIPTION

Baidu Inc is a leading internet company that offers algorithmic search, enterprise search, news, voice assistance, online storage and navigation services.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	9888 HK
Shares issued (m):	2,255.4
Market cap (US\$m):	298,136.5
Market cap (US\$m):	38,090.8
3-mth avg daily t'over (US\$m):	105.3

Price Performance (%)

52-week high/low	HK\$155.10/HK\$95.60			
1mth	3mth	6mth	1yr	YTD
3.4	(11.2)	(19.7)	(20.9)	(8.2)

Major Shareholders

	%
BlackRock Inc	12.4
BBH & CO	4.9
Vanguard Group Inc	4.0
FY24 NAV/Share (Rmb)	101.31
FY24 Net Cash/Share (Rmb)	47.71

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- AI cloud: Positive rebound in 4Q23; poised to re-accelerate in 2024.** Other revenue delivered 5% yoy growth (vs 4% yoy in 3Q23), mainly dampened by lacklustre demand in intelligent transportation projects. AI Cloud revenue grew 8% yoy to Rmb5.5b (3Q23: 5%), primarily driven by stronger momentum generated by AI-related dependency. Baidu also expects AI Cloud revenue growth to accelerate in 2024, propelled by the growing momentum generated by AI-related dependency.
- Glimpse on iQiyi 4Q23 performance.** iQiyi delivered a softer revenue growth of 2.6% yoy to Rmb7.8b (3Q23: +7.3%), with advertising revenue growth of 6% yoy. iQiyi daily subscribers decreased 7.2m qoq to 100.3m, mainly dragged by seasonality and weaker content released. iQiyi delivered solid operating margin of 12% in 4Q23, driven by healthy advertising recovery.
- Encouraging visibility and solid progress in AI monetisation.** In 4Q23, there were 26,000 enterprises actively utilising ERNIE via API on a monthly basis, reflecting a 150% qoq surge. The daily queries handled by ERNIE soared 190% qoq to 50m. After reshaping to AI-powered ads, advertisers realised a 22% growth in conversion rate and a 5% reduction in self-feed acquisition costs.
- Apollo Go provided 839,000 rides in 4Q23,** surging by 49% yoy. As of end-Dec 23, cumulative rides provided to the public by Apollo Go reached 5m. In 4Q23, the proportion of fully driverless orders of Baidu's total products exceeded 45%, vs 40% in 3Q23.

EARNINGS REVISION/RISK

- We slightly lower our 2024 revenue forecast by 1%, translating to revenue growth of 9%. We keep our non-GAAP net profit forecast largely unchanged and expect Baidu to deliver adjusted net profit of Rmb5.8b/Rmb28.2b in 1Q24/2024, translating to net margin of 18%/19%.
- Risk: a) Weaker advertising business due to the macro slowdown and fierce competition in China's advertising industry, b) uncertainties over the autonomous driving segment and robotaxi launch, and c) the US' ban on the supply of high-end chips to Chinese tech giants.

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$128.00 (US\$142.00).** We assign core PE of 6x for 2024 in view of the tempered growth rate. Our target price implies 11.6x 2024F PE against 2024-27F EPS CAGR of 7%, with PEG of 1.7x. The company is currently trading at 9.6x 12-month forward PE, below its historical mean of 16.2x.

SHARE PRICE CATALYST

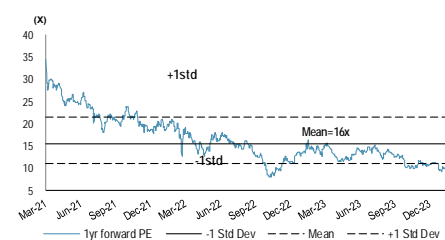
- a) Market share expansion in the AI cloud segment and autonomous driving segment, b) higher monetisation rates across all business units, and c) increase in synergies between Baidu's core business and new initiatives.

SOTP VALUATION

Segment (US\$mn)	Rev 24E	NOPAT 24E	P/E (x) 2024E	EV/S (x) 2024E	Valuation (Rmb mn)	Valuation (US\$ mn)	Baidu's stake (%)	To Baidu	\$/share	% of	
Core, Advertising	79,307	25,448	6	2	152,687	21,207	100.0	21,207	60	42%	
Cloud (ex ADE)	12,962			3	38,885	5,401	100.0	5,401	15	11%	
iQiyi, long form video	34,071			0.7	25,279	3,511	56.2	1,973	6	4%	
Autos	15,123			3	43,122	5,989	75.1	4,497	13	9%	
- Apollo (ADE, Robotaxi)	8,864				26,591	3,693	100.0	3,693	10	7%	
- Intelligent EV	6,259				16,531	2,296	35.0	804	2	2%	
Xiaodu	5,970			3	18,000	2,500	60.0	1,500	4	3%	
Subtotal								34,577	98	69%	
Total investments								4,552	13	9%	
Core op. + investments								38,219	108	76%	
Net cash								24,597	69	49%	
NAV	26,417	2,912		2.4				62,816	177	125%	
less holdco discount								20%	(12,563)	(35)	-25%
Total, in US\$mn	26,417			1.9				50,253	142		
Total, in HK\$mn								361,820	128		
#s of diluted shares (mn)								354			

Source: Baidu, UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	134,598	146,514	158,914	172,960
EBITDA	29,246	28,022	28,470	35,696
Deprec. & amort.	7,390	6,893	6,787	7,127
EBIT	21,856	21,129	21,683	28,570
Total other non-operating income	1,490	(500)	(730)	(194)
Associate contributions	(2,909)	(1,954)	(1,554)	(2,325)
Net interest income/(expense)	4,761	7,628	8,190	6,651
Pre-tax profit	25,198	26,302	27,589	32,702
Tax	(3,649)	(6,469)	(5,213)	(4,291)
Minorities	1,234	970	970	1,751
Net profit	21,549	19,833	22,375	28,411
Net profit (adj.)	28,747	28,245	31,514	34,293

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	36,615	41,013	42,538	48,738
Pre-tax profit	25,198	26,302	27,589	32,702
Tax	(3,649)	(6,469)	(5,213)	(4,291)
Deprec. & amort.	7,390	6,893	6,787	7,127
Working capital changes	(12,727)	(12,990)	(14,422)	(14,429)
Other operating cashflows	20,403	27,276	27,797	27,629
Investing	(50,397)	(14,691)	(16,397)	(18,357)
Capex (growth)	(9,529)	(10,958)	(12,602)	(14,492)
Others	(40,868)	(3,733)	(3,795)	(3,865)
Financing	(14,162)	(7,041)	200	200
Dividend payments	200	200	200	200
Issue of shares	0	200	200	200
Loan repayment	0	0	0	0
Others/interest paid	(14,362)	(7,441)	(200)	(200)
Net cash inflow (outflow)	(27,944)	19,281	26,342	30,581
Beginning cash & cash equivalent	65,236	37,574	56,855	83,196
Changes due to forex impact	282	0	0	0
Ending cash & cash equivalent	37,574	56,855	83,196	113,777

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	27,960	22,717	21,266	19,524
Other LT assets	148,544	151,288	156,013	160,838
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	37,574	56,855	83,196	113,777
Other current assets	192,681	196,228	198,757	201,636
Total assets	406,759	427,088	459,232	495,776
ST debt	10,257	3,016	3,016	3,016
Other current liabilities	66,194	59,928	58,484	57,800
Other LT liabilities	67,700	67,700	67,700	67,700
Shareholders' equity	243,626	273,875	307,463	344,691
Minority interest	9,465	9,465	9,465	9,465
Total liabilities & equity	406,759	427,088	459,232	495,776

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.7	19.1	17.9	20.6
Pre-tax margin	18.7	18.0	17.4	18.9
Net margin	16.0	13.5	14.1	16.4
ROA	5.4	4.8	5.0	5.9
ROE	9.2	7.7	7.7	8.7
Growth				
Turnover	9.2	8.9	8.5	8.8
EBITDA	33.3	(4.2)	1.6	25.4
Pre-tax profit	149.2	4.4	4.9	18.5
Net profit	186.0	(8.0)	12.8	27.0
Net profit (adj.)	39.0	(1.7)	11.6	8.8
EPS	37.8	(0.7)	5.8	6.7
Leverage				
Debt to total capital	3.9	1.1	0.9	0.8
Debt to equity	4.2	1.1	1.0	0.9
Net debt/(cash) to equity	(11.2)	(19.7)	(26.1)	(32.1)

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