

### COMPANY UPDATE

## Baidu Inc (9888 HK)

Encouraging Visibility In The Deployment And Monetisation Of Apollo Go

We opine that Baidu's autonomous driving business is poised for profitability upon viable commercialisation. Wuhan has become the focal point of Baidu Apollo's driverless car operations. 1,000 Apollo Go driverless taxis have been deployed here, with peak daily orders per vehicle exceeding 20. We believe Baidu's outlook will be boosted by the integration of LLM which will foster monetisation of online ads and autonomous driving. Maintain BUY with a target price of HK\$126.00 (US\$140.00).

### WHAT'S NEW

- Wuhan driverless taxis completed 5m orders.** On 8 July, Baidu has reportedly deployed 1,000 Apollo Go driverless taxis in Wuhan, accumulating a total of 5m orders. As at end-23, Wuhan had opened over 3,378.73km of test roads (one-way mileage) across 12 administrative districts, reaching a population of over 7.7m. This surpasses both Phoenix and San Francisco in the US, making Wuhan one of the largest autonomous driving (AD) service areas in the world with driverless cars serving an area of 3,000 sqm.
- Over 20 orders per day per vehicle; Rmb7 for 10km ride.** According to a report from Wuhan, there has been robust growth in peak daily orders per vehicle, which have exceeded 20 and are close to the average daily orders of a traditional taxi driver. Data shows that the user satisfaction rating on the Apollo Go app is as high as 4.9 out of 5, with 94.2% of the reviews being perfect scores. Apollo Go rides have effectively eliminated operator fees and driver salaries, making it commercially viable and affordable. Apollo Go has currently launched passenger-carrying testing and operational services in 11 cities nationwide, achieving comprehensive coverage in first-tier cities.
- Baidu plans to deploy 1,000 sixth-generation Apollo Go cars in Wuhan by the end of 2024.** On 15 May, Baidu Apollo unveiled the sixth generation of its driverless car at Apollo Day 2024. The sixth-generation driverless car, equipped with Baidu Apollo's latest intelligent system solution, has reduced its vehicle cost by 60% compared with the fifth generation, priced at Rmb204,700 per unit. Wuhan is the first city to deploy the new sixth-generation driverless cars, which is targeted to reach 1,000 units by year-end.
- AD valuation to unfold meaningfully** with hastened development. By segment, we forecast revenue contribution from Robotaxi to account for 5% of AD revenue, smart transportation (ACE) to account for 74% of AD revenue in 2024, and intelligent vehicle solution (ASD) to account for 21% of AD revenue. We adopt 3x EV/Sales for the AD business on the strengthened monetisation capability. With higher deployment and economies of scale, Baidu expects Apollo Go to break even in Wuhan by the end of 2024 and achieve profitability in 2025.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	123,221	134,598	141,983	153,264	170,036
EBITDA	21,934	29,246	30,628	27,681	38,724
Operating profit	15,457	21,856	23,966	20,894	31,597
Net profit (rep./act.)	7,534	21,549	24,383	21,557	30,517
Net profit (adj.)	20,680	28,747	28,820	29,968	36,398
EPS (Fen)	728.0	1,003.3	1,021.9	1,002.8	1,194.1
PE (x)	11.0	8.0	7.9	8.0	6.7
P/B (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	8.4	6.3	6.0	6.7	4.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.1	16.0	17.2	14.1	17.6
Net debt/(cash) to equity (%)	(26.5)	(10.9)	(18.2)	(22.2)	(26.6)
ROE (%)	3.5	9.2	9.4	7.4	9.3
Consensus net profit	-	-	28,205	29,920	32,867
UOBKH/Consensus (x)	-	-	1.02	1.00	1.11

Source: Baidu Inc, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$95.05
Target Price	HK\$126.00
Upside	+32.6%

### 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 (HK\$m):	333,935.3
Market cap (US\$m):	42,682.5
3-mth avg daily t'over (US\$m):	98.4

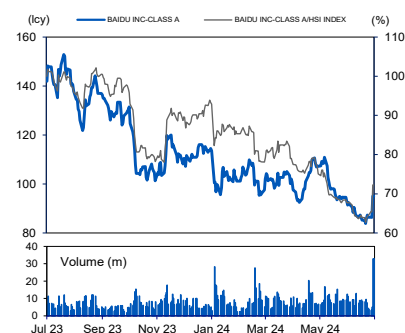
### Price Performance (%)

52-week high/low	HK\$162.50/HK\$75.10			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(11.0)	(19.3)	(8.9)	20.8	6.9

### Major Shareholders

BlackRock Inc	6.7
BBH & CO	4.9
Vanguard Group Inc	3.3
FY23 NAV/Share (Rmb)	88.26
FY23 Net Cash/Share (Rmb)	38.48

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Still lacking stable regulations.** On 8 July, the Beijing Municipal Bureau of Economy and Information Technology solicited public opinions on the "Beijing Autonomous Driving Vehicle Regulations (Draft)". In 2022, a Baidu Robotaxi test vehicle was involved in a crash, and Baidu has officially responded that the accident was caused by a rear-end collision with a truck while the test vehicle was driving normally. According to the Draft, if an L4-level AD accident occurs and there is no one in the vehicle, the responsibility will be on the vehicle owner and the operator. For L2 and L3 levels of AD, the vehicle will alert the driver before an accident occurs. If the driver fails to respond in time, the driver will be responsible.
- Key highlights from WAIC: a) major Upgrade for Qianfan LLM.** For model toolchains, the industry-first Dynamic Programming Optimization (DPO) and Kahneman-Tversky Optimization (KTO) training methods have been introduced. Meanwhile for AI-native application development, Qianfan AppBuilder has undergone a comprehensive upgrade for enterprise-level retrieval-enhanced generation. In the medical and education sectors, Hangzhou Quanzhen Medicine has developed an AI medical assistant on Baidu Intelligent Cloud's Qianfan platform, significantly improving diagnostic efficiency and accuracy. **b) Baidu's Ernie 4.0 available for free.** Ernie Intelligence Platform (AgentBuilder) is now offering the Ernie 4.0 model for free. The free availability of the Ernie 4.0 model extends the capabilities of the Ernie Intelligence Platform. Currently, 200,000 developers and 63,000 enterprises have joined the platform.
- Online ad growth to improve in 4Q24.** We forecast online marketing revenue to remain subdued in 2Q/3Q24 (4% yoy in 2Q24) and expect a potential recovery in 4Q24. Management expects AI-supported queries to revitalize advertising efforts, with incremental revenue from the merchant side currently amounting to several billion renminbi annually. Baidu expects to see robust user engagement growth driven by Gen-AI enhanced search capabilities. The company is committed to continuously reinventing its search engine, progressively increasing the integration of AI search within selective verticals.

### EARNINGS REVISION/RISK

- We keep our forecasts largely unchanged.
- Risks:** a) Weaker advertising growth due to the soft macro economy and fierce competition, b) uncertainties facing the advertising segment and Robotaxi launch, c) shrinking government budget, and d) the US' ban on the supply of high-end chips to China.

### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of HK\$126.00 (US\$140.00).** We assign 3x 2024F EV/Sales to Baidu's AI Cloud segment. We expect improved user adoption by individuals and enterprises for Baidu given its early mover advantage to capture the rapidly rising demand from industry players. Our target price implies 10.8x 2024F PE against 2024-27F EPS CAGR of 9%, with PEG of 1.2x. The company is currently trading at 8.3x 2024F PE, below its historical mean of 15.2x.

### SHARE PRICE CATALYST

- a) Market share expansion in the AI Cloud and AD segments, b) higher monetisation rates across business units, and c) synergies between Baidu's core business and new initiatives.

### SOTP VALUATION

Segment (US\$m)	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	10,969	3,520	6	2	151,621	21,117	100.0	21,117	60	43%
Cloud (ex ADE)	1,817			3	39,129	5,450	100.0	5,450	15	11%
iQiyi, long form video	4,635			1	25,209	3,511	56.2	1,973	6	4%
Autos	2,106			3	40,965	5,705	77.1	4,398	12	9%
- Apollo (ADE, Robotaxi)	1,235				26,517	3,693	100.0	3,693	10	7%
- Intelligent EV	872				14,448	2,012	35.0	704	2	1%
Xiaodu	843			3	15,796	2,200	60.0	1,320	4	3%
Subtotal								34,258	97	69%
Investments										
Total investments								4,554	13	9%
Core op. + investments								37,901	108	77%
Net cash								23,997	68	48%
NAV	22,213	3,622		2.3				61,898	176	125%
less holdco discount							20%	(12,380)	(35)	-25%
Total, in US\$m	22,213			1.9				49,518	140	
Total, in HK\$m								356,530	126	

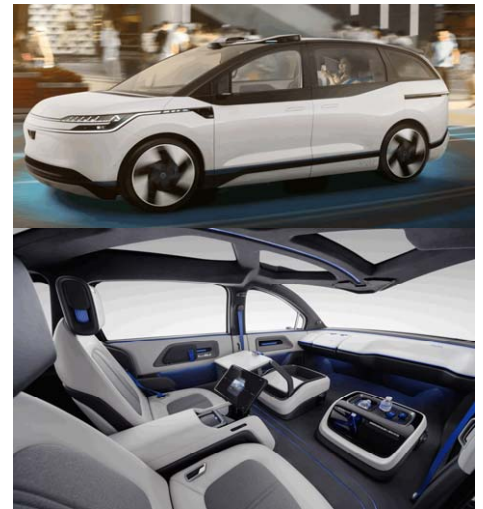
Source: Baidu, UOB Kay Hian

### APOLLO GO RUNNING IN WUHAN



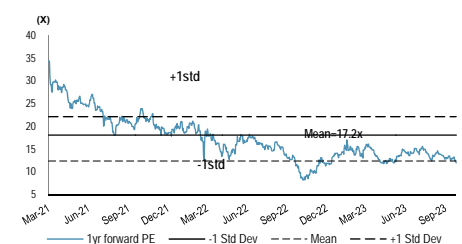
Source: Bloomberg, UOB Kay Hian

### APOLLO RT6 PRICED AT RMB204,600



Source: Bloomberg, UOB Kay Hian

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Net turnover</b>	134,598	141,983	153,264	170,036
EBITDA	29,246	30,628	27,681	38,724
Deprec. & amort.	7,390	6,661	6,787	7,127
EBIT	21,856	23,966	20,894	31,597
Total other non-operating income	1,490	(704)	(678)	(194)
Associate contributions	(2,909)	(1,356)	(1,657)	(2,325)
Net interest income/(expense)	4,761	7,548	8,297	9,006
<b>Pre-tax profit</b>	<b>25,198</b>	<b>29,454</b>	<b>26,856</b>	<b>35,057</b>
Tax	(3,649)	(5,071)	(5,299)	(4,540)
Minorities	1,234	1,252	970	1,751
<b>Net profit</b>	<b>21,549</b>	<b>24,383</b>	<b>21,557</b>	<b>30,517</b>
Net profit (adj.)	28,747	28,820	29,968	36,398

### CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>36,615</b>	<b>41,347</b>	<b>42,240</b>	<b>53,883</b>
Pre-tax profit	25,198	29,454	26,856	35,057
Tax	(3,649)	(5,071)	(5,299)	(4,540)
Deprec. & amort.	7,390	6,661	6,787	7,127
Working capital changes	(13,067)	(14,192)	(14,433)	(13,999)
Other operating cashflows	20,743	24,494	28,329	30,707
<b>Investing</b>	<b>(50,397)</b>	<b>(18,822)</b>	<b>(24,174)</b>	<b>(31,411)</b>
Capex (growth)	(11,190)	(15,112)	(20,408)	(27,560)
Others	(39,207)	(3,710)	(3,766)	(3,850)
<b>Financing</b>	<b>(14,162)</b>	<b>(7,138)</b>	<b>103</b>	<b>103</b>
Dividend payments	(1,200)	103	103	103
Issue of shares	0	103	103	103
Loan repayment	2,120	0	0	0
Others/interest paid	(15,082)	(7,344)	(103)	(103)
<b>Net cash inflow (outflow)</b>	<b>(27,944)</b>	<b>15,387</b>	<b>18,169</b>	<b>22,561</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>65,236</b>	<b>37,574</b>	<b>52,961</b>	<b>71,130</b>
Changes due to forex impact	282	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>36,734</b>	<b>52,961</b>	<b>71,130</b>	<b>95,460</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	27,960	30,589	35,540	43,685
Other LT assets	148,544	150,685	155,493	160,417
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	36,734	52,961	71,130	95,460
Other current assets	193,521	195,808	198,158	201,860
<b>Total assets</b>	<b>406,759</b>	<b>430,042</b>	<b>460,321</b>	<b>501,696</b>
ST debt	10,257	3,016	3,016	3,016
Other current liabilities	66,194	58,307	56,672	56,950
Other LT liabilities	67,700	67,700	67,700	67,700
Shareholders' equity	243,626	275,067	306,980	347,227
Minority interest	9,465	9,465	9,465	9,465
<b>Total liabilities &amp; equity</b>	<b>406,759</b>	<b>430,042</b>	<b>460,321</b>	<b>501,696</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	21.7	21.6	18.1	22.8
Pre-tax margin	18.7	20.7	17.5	20.3
Net margin	16.0	17.2	14.1	17.6
ROA	5.4	5.8	4.8	6.3
ROE	9.2	9.4	7.4	9.3
<b>Growth</b>				
Turnover	9.2	5.5	7.9	10.9
EBITDA	33.3	4.7	(9.6)	39.9
Pre-tax profit	149.2	16.9	(8.8)	30.5
Net profit	186.0	13.2	(11.6)	41.6
Net profit (adj.)	39.0	0.3	4.0	21.5
EPS	37.8	1.9	(1.9)	19.1
<b>Leverage</b>				
Debt to total capital	3.9	1.0	0.9	0.8
Debt to equity	4.2	1.1	1.0	0.9
Net debt/(cash) to equity	(10.9)	(18.2)	(22.2)	(26.6)

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