

COMPANY RESULTS

**Baidu Inc (9888 HK)**

1Q24: Earnings Beat; Subdued Ad Revenue Growth Stemming From Soft Macro

Baidu's 1Q24 results were within expectations. Revenue grew 1% yoy to Rmb31.5b, in line with consensus estimates. Gross margin remained flattish yoy at 51.5%, within consensus expectations. Non-GAAP operating profit was Rmb6.7b, up 4% yoy, while non-GAAP operating profit margin came in at 21%. Non-GAAP net profit improved by 22% yoy to Rmb7b on one-off gains, exceeding consensus estimates by 26%. Maintain BUY with a lower target price of HK\$126.00 (US\$140.00).

1Q24 RESULTS

| Year to 31 Dec (Rmbm)     | 1Q23   | 4Q23   | 1Q24   | QoQ      | YoY      | UOBKH  | Var      | Cons   | Var      |
|---------------------------|--------|--------|--------|----------|----------|--------|----------|--------|----------|
| Total Net revenue         | 31,144 | 34,951 | 31,513 | -10%     | 1%       | 32,452 | -2.9%    | 31,485 | 0.1%     |
| Online marketing services | 17,972 | 20,804 | 18,490 | -11%     | 3%       | 18,708 | -1.2%    |        |          |
| Others                    | 13,172 | 14,147 | 13,023 | -8%      | -1%      | 13,744 | -5.2%    |        |          |
| COGS                      | 15,152 | 17,418 | 15,291 | -12%     | 1%       | 16,645 | -8.1%    |        |          |
| Gross profits             | 15,992 | 17,533 | 16,222 | -7%      | 1%       | 15,807 | 2.6%     | 15,786 | 2.8%     |
| GPM                       | 51.3%  | 50.2%  | 51.5%  | 1.3 ppts | 0.1 ppts | 48.7%  | 2.8 ppts | 50.1%  | 1.3 ppts |
| Operating expenses        | 11,110 | 12,300 | 10,846 | -12%     | -2%      | 11,755 | -7.7%    |        |          |
| Non-GAAP operating income | 6,428  | 7,075  | 6,673  | -6%      | 4%       | 5,830  | 14.5%    |        |          |
| Non-GAAP OPM              | 21%    | 20%    | 21%    | 0.9 ppts | 0.5 ppts | 17.96% | 3.2 ppts |        |          |
| Non-GAAP net income       | 5,727  | 7,755  | 7,011  | -10%     | 22%      | 5,915  | 18.5%    | 5,568  | 25.9%    |
| Non-GAAP EPS (RMB)        | 16.10  | 21.86  | 19.91  | -9%      | 24%      | 19.91  | 0.0%     | 15.8   | 26.3%    |
| Non-GAAP Net Margin       | 18.4%  | 22.2%  | 22.2%  | 0.1 ppts | 3.9 ppts | 18.2%  | 4.0 ppts | 17.7%  | 4.6 ppts |

Source: Baidu Corp Ltd, UOB Kay Hian

RESULTS

- Lacklustre revenue growth momentum in 1Q24.** Baidu Inc's (Baidu) core search revenue edged up 3.5% yoy to Rmb23.8b in 1Q24 (4Q23: 7.2% yoy), pressured by soft retail segment growth but bolstered by monetisation from generative AI-powered ads. Online marketing revenue growth decelerated to 3% yoy vs 6% in 4Q23, primarily hampered by challenging macro leading to weakness in verticals including real-estate and franchising. Baidu believes the advertising recovery visibility remains subdued throughout 2Q/2H24. However, we expect Baidu's overall revenue growth to be anchored by generative AI (GenAI), as the company stated that the GenAI contributed Rmb100m in incremental revenue per quarter, with large language model (LLM)-related revenue to grow to several billion renminbi in 2024.
- Margin overview.** Gross margin remained flattish yoy at 51.5%. 1Q24 non-GAAP operating income came in at Rmb6.7b, with non-GAAP operating margin expanding 1ppt yoy to 21%, despite increased investment in Ernie Bot. Baidu Core also delivered 23.5% core operating profit margin in 1Q24, improving marginally from 1Q23's 23.3%. Non-GAAP net profit grew 22% yoy to Rmb7b, translating to net margin of 22%. In 1Q24, Baidu returned US\$229m (0.6% of market cap) to shareholders, amounting to US\$898m under the share repurchase program. With this, there is an aggregate of US\$4.1b (10.5% of market cap) remaining in the program.

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)                        | 13.8    | 10.0    | 9.8     | 10.0    | 8.4     |
| P/B (x)                       | 1.3     | 1.2     | 1.0     | 1.0     | 0.9     |
| EV/EBITDA (x)                 | 11.0    | 8.2     | 7.9     | 8.7     | 6.2     |
| 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          | -       | -       | 27,102  | 29,685  | 33,156  |
| UOBKH/Consensus (x)           | -       | -       | 1.06    | 1.01    | 1.10    |

Source: Baidu Inc, Bloomberg, UOB Kay Hian

BUY

(Maintained)

|               |            |
|---------------|------------|
| Share Price   | HK\$108.40 |
| Target Price  | HK\$126.00 |
| Upside        | +16.2%     |
| (Previous TP) | HK\$128.00 |

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):              | 2,280.4                |
| Market cap (HK\$m):             | 304,085.8              |
| Market cap (US\$m):             | 38,958.9               |
| 3-mth avg daily t'over (US\$m): | 112.2                  |

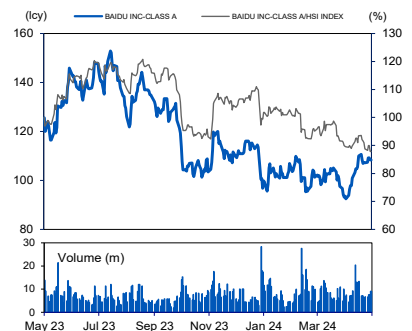
Price Performance (%)

|                  |                      |       |        |       |
|------------------|----------------------|-------|--------|-------|
| 52-week high/low | HK\$152.90/HK\$92.50 |       |        |       |
| 1mth             | 3mth                 | 6mth  | 1yr    | YTD   |
| 15.1             | 1.4                  | (0.4) | (12.8) | (6.6) |

Major Shareholders

|                           |       |
|---------------------------|-------|
|                           | %     |
| BlackRock Inc             | 12.4  |
| BBH & CO                  | 4.9   |
| Vanguard Group Inc        | 4.0   |
| FY24 NAV/Share (Rmb)      | 97.95 |
| FY24 Net Cash/Share (Rmb) | 17.79 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

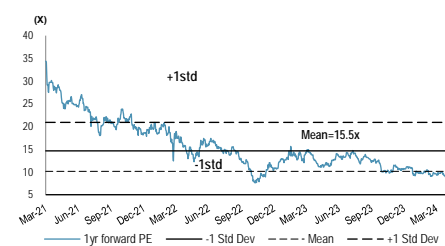
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### STOCK IMPACT

- AI cloud growth trajectory remained intact in 1Q24.** Other revenue dipped 1% yoy (vs 5% yoy in 4Q23), mainly dampened by lacklustre demand in intelligent transportation projects. The resilient AI Cloud revenue grew 12% yoy to Rmb4.7b (4Q23: 8%), primarily spurred by: a) incremental revenue generated from GenAI and LLM which accounted for 6.9% of AI Cloud revenue, and b) integration with Baidu's traditional CPU cloud business.
- Promising progress and outlook on AI monetisation.** In 1Q24, Baidu expanded the ERNIE family of models by launching several lightweight LLMs, making ERNIE increasingly affordable. In addition, Baidu launched and improved the tools on its MaaS platform for enterprise customers in 1Q24. After reconstructing the one-stop shop for document creation using GenAI and LLMs from Baidu Core, Baidu saw a double-digit yoy growth in paying users in 1Q24. Meanwhile, we are optimistic on the monetisation opportunities following the integration of ERNIE into Baidu Search and Feed which is yet to be unveiled.
- Apollo Go: Baidu remains focused on scaling up business and narrowing losses.** Apollo Go provided about 826,000 rides in 1Q24, up 25% yoy. As of 19 Apr 24, the cumulative rides provided to the public by Apollo Go surpassed 6m. In April, the proportion of fully driverless orders rose to 70%, up from just 10% in Aug 22 and 45% in 4Q23. Baidu expects this figure to reach 100% in the coming quarters, thereby minimising costs related to safety officers.
- Glimpse of iQiyi 1Q24 performance.** iQiyi delivered weak revenue growth of -5% yoy to Rmb7.9b (4Q23: +1.5%), with advertising revenue growth of 6% yoy, mainly dragged by membership subscription revenue. iQiyi delivered solid operating margin of 13.7% in 1Q24, boosted by healthy advertising recovery.

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- We lower our 2Q24/2024 revenue forecast by 2%/1%, translating to revenue growth of 5%/5% in view of the soft revenue growth in 1Q24. We raise our 2Q24/2024 non-GAAP net profit forecast by 1%/1% and expect Baidu to deliver adjusted net profit of Rmb7.5b/Rmb28.8b in 2Q24/2024, translating to net margin of 21%/20%.
- 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\$126.00 (US\$140.00).** We assign core PE of 6x for 2024 in view of the tempered growth rate. 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 9.3x 2024F PE, below its historical mean of 15.5x.

### 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\$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   |           |               | 0.8            | 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%  |
| 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

### PROFIT & LOSS

| Year to 31 Dec (Rmbm)            | 2023           | 2024F          | 2025F          | 2026F          |
|----------------------------------|----------------|----------------|----------------|----------------|
| <b>Net turnover</b>              | <b>134,598</b> | <b>141,983</b> | <b>153,264</b> | <b>170,036</b> |
| 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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