

COMPANY RESULTS

Baidu Inc (9888 HK)

2Q24: Earnings Beat; Modest Online Ad Growth; Solid AI Cloud Revenue Growth

Baidu's 2Q24 results were within expectations. Revenue remained flattish yoy at Rmb33.9b, in line with consensus estimate. Gross margin inched down 1ppt yoy to 51.7%, within consensus expectation. Non-GAAP operating profit was Rmb7.5b, up 2% yoy, while non-GAAP operating profit margin came in at 22%. Non-GAAP net profit declined 8% yoy to Rmb7.4b, exceeding consensus estimate by 11%. Maintain BUY with a lower target price of HK\$110.00 (US\$123.00).

2024 RESULTS

Year to 31 Dec (Rmbm)	2023	1Q24	2Q24	qoq	yoy	UOBKH	Var	Cons	Var
Total Net revenue	34,056	31,513	33,931	8%	0%	35,641	-4.8%	34,108	-0.5%
Online marketing services	21,081	18,490	20,625	12%	-2%	21,864	-5.7%		
Others	12,975	13,023	13,306	2%	3%	13,778	-3.4%		
COGS	16,167	15,291	16,398	7%	1%	17,469	-6.1%		
Gross profits	17,889	16,222	17,533	8%	-2%	18,172	-3.5%	17,594	-0.3%
GPM	52.5%	51.5%	51.7%	0.2 ppt	(1 ppt)	51.0%	0.7 ppt	51.6%	0.1 ppt
Operating expenses	12,873	10,846	11,735	8%	-9%	12,961	-9.5%		
Non-GAAP operating income	7,334	6,673	7,500	12%	2%	7,463	0.5%		
Non-GAAP OPM	22%	21%	22%	0.9 ppt	0.6 ppt	20.94%	1.2 ppt		
Non-GAAP net income	7,998	7,011	7,396	5%	-8%	7,496	-1.3%	6,682	10.7%
Non-GAAP EPS (RMB)	22.55	19.91	21.02	6%	-7%	21.27	-1.2%	18.5	13.4%
Non-GAAP Net Margin	23.5%	22.2%	21.8%	(0.5 ppt)	(2ppt)	21.0%	0.8 ppt	19.6%	2.2 ppt

Source: Baidu Corp Ltd, UOB Kay Hian

RESULTS

- Flattish top-line growth in 2Q24.** Baidu Inc's (Baidu) core search revenue edged up 1% yoy to Rmb26.7b in 2Q24 (1Q24: 3.5% yoy), pressured by the retail segment's soft growth but bolstered by generative AI-powered ads monetisation. Online marketing revenue declined 2% yoy in 2Q24 vs a 3% yoy growth in 1Q24, primarily hampered by a challenging macro environment leading to weakness in verticals including real-estate and franchising. Baidu believes the advertising recovery visibility remains lacklustre throughout 2H24. However, we expect Baidu's overall revenue growth to be anchored by Rmb100m incremental revenue per quarter contributed by generative AI (GenAI), with large language model (LLM)-related revenue expanding to several billion renminbi in 2024. In Jun 24, Baidu App's monthly active users (MAU) grew 4% yoy to 703m. At this current juncture, 18% of Baidu's search results were generated by AI, up from 11% in May.
- Margin overview.** Gross margin inched down 1ppt yoy at 51.7%, with higher contribution from low margin businesses. 2Q24 non-GAAP operating income came in at Rmb7.5b, with non-GAAP operating margin expanding 1ppt yoy to 22%, despite increased investment in Ernie Bot. Baidu Core also delivered 26.2% core operating profit margin in 2Q24, improving marginally from 2Q23's 24.7%. Non-GAAP net profit fell 8% yoy to Rmb7.4b, translating to a net margin of 22%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	123,221	134,598	136,873	146,225	154,026
EBITDA	21,934	29,246	30,763	33,177	30,291
Operating profit	15,457	21,856	24,152	26,390	23,165
Net profit (rep./act.)	7,534	21,549	24,713	27,235	30,517
Net profit (adj.)	20,680	28,747	28,602	31,957	36,398
EPS (Fen)	728.0	1,009.6	1,018.2	1,069.4	1,194.1
PE (x)	10.9	7.8	7.8	7.4	6.6
P/B (x)	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	8.3	6.2	5.9	5.5	6.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.1	16.0	18.1	18.6	17.6
Net debt(cash) to equity (%)	(26.5)	(10.9)	(17.7)	(22.3)	(26.6)
ROE (%)	3.5	9.2	9.5	9.3	9.3
Consensus net profit	-	-	26,961	28,524	31,274
UOBKH/Consensus (x)	-	-	1.06	1.12	1.16

Source: Baidu Inc, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$86.45
Target Price	HK\$110.00
Upside	+27.2%
(Previous TP)	HK\$126.00)

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):	242,511.2
Market cap (US\$m):	31,105.5
3-mth avg daily t'over (US\$m):	98.6

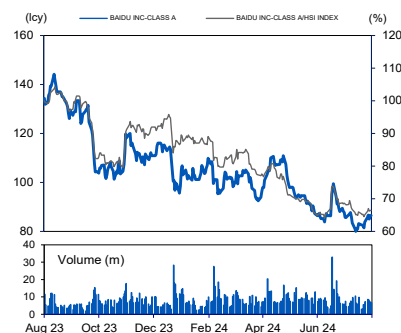
Price Performance (%)

52-week high/low	HK\$144.20/HK\$80.00			
1mth	3mth	6mth	1yr	YTD
(3.4)	(14.2)	(19.2)	(29.7)	(25.5)

Major Shareholders

	%
BlackRock Inc	12.4
BBH & CO	4.9
Vanguard Group Inc	4.0
FY24 NAV/Share (Rmb)	98.12
FY24 Net Cash/Share (Rmb)	17.40

PRICE CHART



Source: Bloomberg

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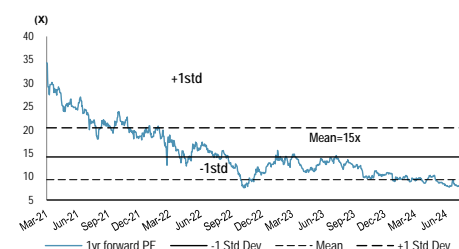
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STOCK IMPACT

- Encouraging AI cloud growth trajectory in 2Q24.** Other revenue elevated 3% yoy (vs -1% yoy in 1Q24), mainly bolstered by the resilient AI Cloud revenue which grew 14% yoy to Rmb4.7b (4Q23: 8%). This was primarily spurred by: a) incremental revenue generated from GenAI and LLM which accounted for 9% of AI Cloud revenue (vs 5% in 4Q23), and b) integration with Baidu's traditional CPU cloud business. In Jun 24, Baidu expanded the ERNIE family of models with the launch of ERNIE 4.0 Turbo, offering capabilities for typical use cases, and designed to run faster and at lower cost compared with ERNIE 4.0.
- Focusing on monetisation and loss reduction progress for Apollo Go.** Apollo Go provided about 899,000 rides in 2Q24, up 26% yoy. As of 28 Jul 24, the cumulative rides provided to the public by Apollo Go surpassed 7m. On 19 June, Apollo Go started offering 100% fully driverless operations in practically the entire Wuhan municipality, its largest operational city, marking a significant milestone. Meanwhile, the sixth-generation of autonomous vehicle, the RT6, is currently undergoing scalable testing.
- Glimpse on iQiyi's 2Q24 performance.** iQiyi delivered subdued revenue growth of -5% yoy to Rmb7.4b (1Q24: -5%), hampered by advertising revenue decline of 2% yoy, mainly dragged by membership subscription revenue. iQiyi's operating margin dropped 7ppt yoy to 6.7% in 2Q24, attributed to lacklustre advertising recovery.
- Share repurchases.** In 2Q24, Baidu returned US\$301m to shareholders, bringing the cumulative repurchase of US\$1.2b (4% of market cap) under the 2023 share repurchase programme. With this, there is an aggregate of US\$3.8b remaining under the 2023 share repurchase programme until the end of 2025.

12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

EARNINGS REVISION/RISK

- We lower our 3Q24/2024 revenue forecast by 5%/4% respectively, translating to revenue growth of 2%/2% in view of the flattish revenue growth in 2Q24. We trimmed our 3Q24/2024 non-GAAP net profit forecast by 1%/1% and expect Baidu to deliver adjusted net profit of Rmb7.5b/Rmb28.8b, respectively, with a net margin of 20%/20%.
- Risk: a) Weaker advertising business due to the soft macro environment and fierce competition in China's advertising industry, b) uncertainties over the autonomous driving segment, 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\$110.00 (US\$123.00).** We assign core PE of 4x for 2025 in view of the lacklustre growth momentum. Our target price implies 8.7x 2025F PE against 2025-28 EPS CAGR of 8%, with PEG of 1.1x. The company is currently trading at 6.7x 2025F 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 25F	NOPAT 25F	P/E (x) 2025F	EV/S (x) 2025F	Valuation (Rmb m)	Valuation (US\$ m)	Baidu's stake (%)	To Baidu	\$/share
Core, Advertising	11,059	3,586	4	1	102,976	14,342	100.0	14,342	38
Cloud (ex ADE)	1,626			3	35,017	4,877	100.0	4,877	13
iQiyi, long form video	4,571			0.8	25,209	3,511	56.2	1,973	5
Autos	1,680			3	37,932	5,283	80.4	4,250	11
- Apollo (ADE, Robotaxi)	1,235				26,517	3,693	100.0	3,693	10
- Intelligent EV	446				11,414	1,590	35.0	556	1
Xiaodu	843			3	15,796	2,200	60.0	1,320	4
Subtotal								26,762	72
Total investments								4,554	12
Core op. + investments								30,405	81
Net cash								26,903	72
NAV	22,213	3,622		2.2				57,308	153
less holdco discount							20%	(11,462)	(31)
Total, in US\$m	22,213			1.7				45,846	123
Total, in HK\$m								330,093	110

Source: Baidu, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	134,598	136,873	146,225	154,026
EBITDA	29,246	30,763	33,177	30,291
Deprec. & amort.	7,390	6,612	6,787	7,127
EBIT	21,856	24,152	26,390	23,165
Total other non-operating income	1,490	(1,062)	(290)	(194)
Associate contributions	(2,909)	(35)	(714)	(1,071)
Net interest income/(expense)	4,761	6,545	7,908	9,006
Pre-tax profit	25,198	29,600	33,294	35,057
Tax	(3,649)	(4,886)	(6,058)	(4,540)
Minorities	1,234	1,146	970	1,751
Net profit	21,549	24,713	27,235	30,517
Net profit (adj.)	28,747	28,602	31,957	36,398

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	36,615	40,106	44,101	53,883
Pre-tax profit	25,198	29,600	33,294	35,057
Tax	(3,649)	(4,886)	(6,058)	(4,540)
Deprec. & amort.	7,390	6,612	6,787	7,127
Working capital changes	(13,067)	(15,094)	(14,499)	(14,721)
Other operating cashflows	20,743	23,875	24,577	30,707
Investing	(50,397)	(18,796)	(24,139)	(31,331)
Capex (growth)	(11,190)	(15,112)	(20,408)	(27,560)
Others	(39,207)	(3,684)	(3,731)	(3,770)
Financing	(14,162)	(7,138)	103	103
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)
Net cash inflow (outflow)	(27,944)	14,171	20,065	22,561
Beginning cash & cash equivalent	65,236	37,574	51,745	71,810
Changes due to forex impact	282	0	0	0
Ending cash & cash equivalent	36,734	51,745	71,810	95,460

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	150,675	155,471	160,366
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	36,734	51,745	71,810	95,460
Other current assets	193,521	194,883	196,869	200,489
Total assets	406,759	427,892	459,690	501,696
ST debt	10,257	3,016	3,016	3,016
Other current liabilities	66,194	56,479	54,414	52,295
Other LT liabilities	67,700	67,700	67,700	67,700
Shareholders' equity	243,626	274,744	308,607	347,227
Minority interest	9,465	9,465	9,465	9,465
Total liabilities & equity	406,759	427,892	459,690	501,696

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.7	22.5	22.7	19.7
Pre-tax margin	18.7	21.6	22.8	20.3
Net margin	16.0	18.1	18.6	17.6
ROA	5.4	5.9	6.1	6.3
ROE	9.2	9.5	9.3	9.3
Growth				
Turnover	9.2	1.7	6.8	5.3
EBITDA	33.3	5.2	7.8	(8.7)
Pre-tax profit	149.2	17.5	12.5	5.3
Net profit	186.0	14.7	10.2	12.1
Net profit (adj.)	39.0	(0.5)	11.7	13.9
EPS	38.7	0.9	5.0	11.7
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	(10.9)	(17.7)	(22.3)	(26.6)

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