

Baidu (BIDU US)

Prudent ads outlook in 2H21E

Baidu delivered upbeat 2Q21 but soft guidance, with revenue/adj. EPS +20% YoY/+5% YoY, +1%/+18% above consensus. 3Q21E rev guidance missed 3% on prudent ads outlook (for COVID-19 and tightening regulations). Despite AI Cloud's acceleration and ongoing Robotaxi progress, we think conservative ads sentiment and stepping-up investment would temporarily dampen valuation. Multiple downside risk is limited, but there is a lack of catalysts in the near term. We cut its earnings by 6%/9%/9% in FY21/22/23E to reflect slower ads and higher tax rate, and lowered SOTP-based TP to US\$248.

- 2Q21 margin beat, while guidance is soft.** 2Q21 revenue was RMB31.4bn, +20% YoY, 1% above consensus. Non-GAAP EPS grew 5% YoY, 18% above consensus. Margin beat on higher GPM (optimized TAC) and better R&D. Baidu Core Non-GAAP OPM improved to 27% (vs. our estimate of 25%). 3Q21E guidance came in at RMB30.6-33.5bn, +8% to 19% YoY, with midpoint 3% below consensus.
- Cautious in 2H21E ads sentiment.** 2Q21 Baidu Core rev +27% YoY (vs. +34% in 1Q21), 2% above our expectation. Excluding 1Q's rev guidance of +6% to +12% YoY, Baidu Core will grow at +9% to 20% YoY in 3Q21E, midpoint 1% below our estimate. We are conservative on ads outlook in 2H21E, mainly due to 1) travel vertical headwinds for COVID-19; and 2) soft ads budget under tightening regulation (entertainment, education, game are TOP3 verticals, based on App Growing). Non-ads momentum continued, as AI Cloud rev accelerated to +71% YoY, largely above industrial growth. However, rev mix shift to non-ads biz would weigh on near-term margin.
- Ongoing auto progress with Robotaxi gradual approach.** Mgmt targets Robotaxi to cover >30 cities in 2-3 years, with lower cost (than human-driven vehicles) by 2025. Robotaxi saw 60% cost decline (per mile) from fourth generation to fifth generation, and this trend tends to continue, per mgmt. We are positive on Robotaxi's gradual approach in suitable scenarios, but the stepping-up investment wave and rising competition would still dampen its auto valuation.
- Maintain BUY.** To reflect margin dilution from non-ads biz, we trimmed its earnings by 6%/9%/9% in FY21/22/23E, and lowered SOTP-based TP to US\$248 from US\$335.8.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	107,413	107,074	124,487	142,273	163,320
YoY growth (%)	5.0	(0.3)	16.3	14.3	14.8
Adj. net income (RMB mn)	21,375	22,020	20,664	24,779	29,201
Adj. EPS (RMB)	61.3	63.9	59.8	71.5	84.0
YoY growth (%)	(7.6)	4.3	-6.4	19.6	17.5
Consensus EPS	NA	NA	63.4	71.5	86.3
P/E (x)	16.8	16.1	17.3	14.4	12.3
P/B (x)	21.0	18.8	16.9	15.3	13.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.1	12.6	10.0	10.8	11.3
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price US\$248.0
 (Previous TP US\$335.8)
Up/Downside +55.0%
Current Price US\$160.5

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	58,886
Avg 3 mths t/o (US\$ mn)	927.38
52w High/Low (US\$)	354.8/ 115.6
Total Issued Shares (mn)	284

Source: Bloomberg

Shareholding Structure

BlackRock	4.61%
Vanguard	3.47%
PRIMECAP Management	3.33%

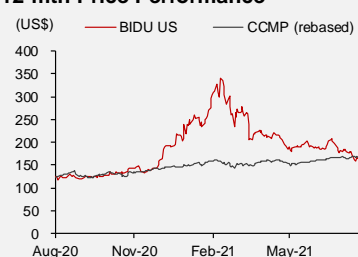
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.2%	-9.2%
3-mth	-13.1%	-19.5%
6-mth	-43.6%	-46.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 2Q21 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Net revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	11.4%	20.4%	30,924	1%
Revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	11.4%	20.4%	30,924	1%
Operating profit	(936)	233	2355	4,655	(437)	3,644	6,156	4,977	2,789	3,463	24.2%	-5.0%	4,274	-19%
Adj. net profit	967	3,635	4,387	9,193	3,082	5,082	6,988	6,868	4,297	5,359	24.7%	5.5%	4,591	17%
Adj. EPS (Rmb)	2.77	10.11	12.61	26.54	8.84	14.73	20.35	20.08	12.38	15.41	24.5%	4.6%	13.08	18%
Margin (%)														
Gross margin	38.5%	38.8%	41.7%	46.3%	34.9%	49.6%	54.6%	52.0%	46.7%	49.3%			46.9%	
Operating margin	-3.9%	0.9%	8.4%	16.1%	-1.9%	14.0%	21.8%	16.4%	9.9%	11.0%			13.8%	
Adj. net margin	4.0%	13.8%	15.6%	31.8%	13.7%	19.5%	24.8%	22.7%	15.3%	17.1%			14.8%	
Growth (%)														
Revenue (YoY)	15.4%	1.4%	24.9%	6.2%	-6.5%	-1.1%	0.5%	4.8%	24.8%	20.4%			18.8%	
Revenue (QoQ)	-11.3%	9.1%	6.7%	2.9%	-21.9%	15.5%	8.4%	7.2%	-7.0%	11.4%			9.9%	
Operating profit	-120.5%	-95.7%	-46.8%	318.6%	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%			17.3%	
Adj. net profit	-78.9%	-51.1%	-35.0%	95.5%	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%			-9.7%	

Source: Company data, Bloomberg

Figure 2: 2Q21 revenue breakdown

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Total revenue	24,123	26,326	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	11%	20%
Online marketing services	17,657	19,327	20,434	20,765	14,243	17,688	20,201	20,708	18,094	20,828	15%	18%
Other services	6,466	7,089	7,646	8,119	8,302	8,346	8,031	9,555	10,040	10,522	5%	26%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	124,487	142,273	163,320	128,124	147,498	168,652	-2.8%	-3.5%	-3.2%
Gross Profit	59,359	71,457	84,623	60,660	72,419	85,043	-2.1%	-1.3%	-0.5%
Operating Profit	12,054	15,970	20,111	16,724	22,102	28,692	-27.9%	-27.7%	-29.9%
Adj. net profit	20,664	24,779	29,201	21,806	25,428	31,705	-5.2%	-2.6%	-7.9%
EPS (RMB)	59.81	71.51	84.01	63.39	71.50	86.26	-5.7%	0.0%	-2.6%
Gross Margin	47.7%	50.2%	51.8%	47.3%	49.1%	50.4%	+0.3ppts	+1.1ppts	+1.4ppts
Operating Margin	9.7%	11.2%	12.3%	13.1%	15.0%	17.0%	-3.4ppts	-3.8ppts	-4.7ppts
Net Margin	16.6%	17.4%	17.9%	17.0%	17.2%	18.8%	-0.4ppts	+0.2ppts	-0.9ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	124,487	142,273	163,320	125,804	145,013	166,170	-1.0%	-1.9%	-1.7%
Gross Profit	59,359	71,457	84,623	59,987	72,833	86,099	-1.0%	-1.9%	-1.7%
Operating Profit	12,054	15,970	20,111	12,181	16,278	20,462	-1.0%	-1.9%	-1.7%
Adj. net profit	20,664	24,779	29,201	21,896	27,144	31,959	-5.6%	-8.7%	-8.6%
EPS (RMB)	59.81	71.51	84.01	63.57	78.80	92.78	-5.9%	-9.3%	-9.4%
Gross Margin	47.7%	50.2%	51.8%	47.7%	50.2%	51.8%	0.0ppts	0.0ppts	0.0ppts
Operating Margin	9.7%	11.2%	12.3%	9.7%	11.2%	12.3%	0.0ppts	0.0ppts	0.0ppts
Net Margin	16.6%	17.4%	17.9%	17.4%	18.7%	19.2%	-0.8ppts	-1.3ppts	-1.4ppts

Source: Company data, CMBIS estimates

Figure 5: SOTP valuation

US\$bn	Valuation		Methodology	Multiple Applied/Implied		Metrics		Shareholding %
	US\$bn	Per share(US\$)		FY21E	FY22E	FY21E	FY22E	
Core search + news feed	40.4	116.9	EV/EBIT	11.4	10.0	3.5	4.0	100%
Cloud	11.1	32.2	EV/Sales	6.7	5.0	1.7	2.2	100%
Apollo	9.1	26.4	EV/Sales	7.0	5.0	1.3	1.8	100%
iQiyi	4.2	12.2	Mkt cap					57%
Ctrip	1.8	5.3	Mkt cap					12%
Net (Debt)/Cash	19.1	55.4	Cash forecasted on Balance sheet					
Equity Value	86	248.3						

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net Revenue	107,413	107,074	124,487	142,273	163,320
Online marketing	78,093	72,840	89,714	102,274	116,592
Other services	29,320	34,234	34,773	40,000	46,728
COSG	(62,850)	(55,158)	(65,128)	(70,816)	(78,697)
Gross profit	44,563	51,916	59,359	71,457	84,623
R&D	(18,346)	(19,513)	(26,142)	(31,300)	(36,747)
S&GA	(19,910)	(18,063)	(21,163)	(24,186)	(27,764)
Operating profit	6,307	14,340	12,054	15,970	20,111
Interest income	6,060	5,358	6,229	7,119	8,173
Interest exp.	(2,960)	(3,103)	(3,382)	(3,382)	(3,382)
Exchange loss	(33)	(660)	0	0	0
Loss from E.M.I	(1,254)	(2,248)	0	0	0
Other income	(8,460)	9,403	9,403	9,403	9,403
Pre-tax profit	(340)	23,090	24,304	29,111	34,305
Tax	(1,948)	(4,064)	(5,347)	(6,987)	(8,233)
MI	4,345	3,446	1,327	1,549	1,825
Net profit	2,057	22,472	20,284	23,673	27,897
Adjustment	19,318	(452)	379	1,106	1,304
Non GAAP Net profit	21,375	22,020	20,664	24,779	29,201

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	135,754	149,366	165,393	174,462	184,992
Fixed asset	18,311	17,508	25,220	29,912	35,619
Long term investment	69,410	76,233	76,233	76,233	76,233
Intangible assets	26,137	30,705	39,019	43,397	48,220
Others	14,564	15,116	15,116	15,116	15,116
Current assets	165,562	183,342	191,140	207,155	226,797
Cash	34,439	36,540	45,223	60,126	78,452
Account receivable	7,416	8,668	7,783	8,895	10,211
Associates	1,594	726	726	726	726
Others	123,707	138,134	138,134	138,133	138,133
Current liabilities	57,380	68,385	60,803	63,763	67,864
Borrowings	3,355	10,443	10,443	10,443	10,443
Payables	43,763	49,342	46,512	49,472	53,573
Associates	2,231	1,324	1,324	1,324	1,324
Others	8,031	7,276	2,524	2,523	2,523
Non-current liabilities	71,121	72,480	65,265	65,265	65,265
Long term liabilities	45,894	48,408	48,408	48,408	48,408
Deferred taxation	3,273	3,067	3,067	3,067	3,067
Others	21,954	21,005	13,790	13,790	13,790
MI	9,216	9,147	4,718	3,169	1,344
S/H equity	163,599	182,696	206,355	230,028	257,926
Total Equity	172,815	191,843	211,073	233,198	259,270

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(2,288)	19,026	18,957	22,124	26,072
D&A	19,879	15,090	19,258	23,751	28,854
Change in WC	(1,270)	1,034	(1,944)	1,848	2,785
Others	5,626	(10,950)	0	0	0
Operating CF	21,948	24,200	36,271	47,723	57,710
Capex	(18,993)	(22,792)	(27,350)	(32,820)	(39,384)
Associates	0	0	0	0	0
Others	3,506	(4,760)	0	0	0
Investing CF	(15,488)	(27,552)	(27,350)	(32,820)	(39,384)
Chg in capital	(353)	0	0	0	0
Change of Debts	(4,072)	9,602	0	0	0
Others	3,770	(3,937)	0	0	0
Financing CF	(655)	5,665	0	0	0
Change in cash	5,805	2,313	8,921	14,903	18,326
Cash (beg of yr)	27,638	33,443	35,544	44,465	59,368
FX	0	(212)	0	0	0
Cash (end of yr)	33,443	35,782	44,465	59,368	77,694
Pledge cash	996	758	758	758	758
Cash at balance sheet	34,439	36,540	45,223	60,126	78,452

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Online marketing	72.7	68.0	72.1	71.9	71.4
Other services	27.3	32.0	27.9	28.1	28.6
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	41.5	48.5	47.7	50.2	51.8
Pre-tax margin	-0.3	21.6	19.5	20.5	21.0
Net margin	-2.1	17.8	15.2	15.6	16.0
Tax rate	-573.5	17.6	22.0	24.0	24.0
Balance sheet ratios					
Current ratio (x)	2.9	2.7	3.1	3.2	3.3
Debtors turnover	22.8	22.8	22.8	22.8	22.8
Creditors turnover	189.9	189.9	189.9	189.9	189.9
Inventory turnover	0.0	0.0	0.0	0.0	0.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	13.1	12.6	10.0	10.8	11.3
ROA	5.7	5.9	5.4	6.1	6.6
Per share					
EPADS (RMB)	61	64	60	72	84
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	492	548	611	673	746

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