

Baidu (BIDU US)

Eye-catching AI cloud to offset soft ads

Baidu delivered better-than-feared 4Q21 results, with rev/adj. EPS +9%/41% YoY, 3%/39% above consensus. AI Cloud performed well (+69% YoY), offsetting soft ads (online marketing revs +0% YoY). We keep positive on its AI cloud potential (forecasting +50% YoY in FY22E), backed by ACE smart transportation expansion. Mgmt guided ads to reach the bottom in 1Q22E if epidemic is not worsening, and some verticals already showed recovery signals (e.g. healthcare). We expect ads +1% YoY in FY22E, in which 2H22E would see ads positive growth. We barely changed our earnings, and keep the SOTP-based TP at US\$218.8.

- 4Q21 beat.** 4Q21 rev was RMB33bn, up 9.3% YoY, 3% above consensus, approaching the high-end guidance (RMB31bn-RMB34bn). Total online marketing revs +0% YoY to RMB20.7bn, of which IQ's ad revs -10% YoY to RMB1.7bn (due to premium content delay). Baidu Core revs +12% YoY to RMB26.0bn, within the guidance of +5-16% YoY. Non-GAAP net profit -41% YoY to RMB4.08bn, as lower SG&A expense partially offset by higher COGS and R&D expense.
- AI cloud momentum to continue, offsetting soft ads.** AI Cloud rev +69% YoY in 4Q21 (vs. +73% in 3Q21), still largely above industry growth. We expect its AI cloud rev +50% YoY in FY22E, backed by ACE smart transportation expansion. AI cloud would help multiple sectors (e.g. transportation, energy) to improve efficiency, with better margin outlook with standardization of service offerings. Given soft macro and tightening regulations, Baidu Core ads would see short-term pressure in 1H22E (forecasting -5% YoY), but partly anticipated by the market (low expectation). Mgmt guided 1Q22E as the trough of ads, and ads starts to normalize once macro sees gradual recovery.
- Apollo making progress.** Apollo Go has expanded into eight cities (targeting 65 cities in 2025), and started to charge fee from Nov 2021 in BJ. Rides of Apollo Go almost doubled sequentially. Market is yet valuing auto part, but we expect further monetization and progress ahead would help it unlock auto potential.
- Maintain BUY.** We barely changed our earnings, and keep the SOTP-based TP at US\$218.8. Multiple downside risk is limited, and we suggest to look into 2H22E ads recovery and LT AI cloud contribution.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	107,074	124,493	136,891	151,370	170,501
YoY growth (%)	(0.3)	16.3	10.0	10.6	12.6
Adj. net income (RMB mn)	22,020	18,830	16,714	20,503	23,997
Adj. EPS (RMB)	63.9	55.5	49.1	60.1	70.1
YoY growth (%)	22.6	(13.2)	(11.5)	22.3	16.7
Consensus EPS	NA	NA	48.1	63.5	85.3
P/E (x)	16.0	18.4	20.8	17.0	14.6
P/B (x)	1.5	1.4	1.3	1.2	1.1
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	12.2	9.3	7.8	8.8	9.4
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$218.8
(Previous TP)	US\$218.8)
Up/Downside	+35.2%
Current Price	US\$161.8

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	53,7291
Avg 3m t/o (US\$ mn)	511.82
52w High/Low (US\$)	311.18/132.14
Issued Shares (mn)	278

Source: Bloomberg

Shareholding Structure

BlackRock Inc	43.3%
Vanguard Group	3.6%
Primecap Management	3.4%

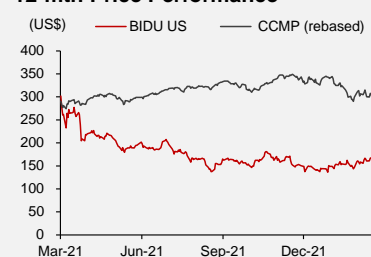
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.5%	3.9%
3-mth	0.0%	13.2%
6-mth	-0.1%	10.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Ads headwinds to linger in 4Q21E & 1Q22E – 19 Nov 2021
- China Internet: Embracing a new normal of regulation – 8 Nov 2021
- Prudent ads outlook in 2H21E – 13 Aug 2021

Figure 1: 4Q21 financial review

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus	Diff %
Net revenue	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	3.7%	9.3%	32,228	3%
Revenue	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	3.7%	9.3%	32,228	3%
Operating profit	2355	4,655	(437)	3,644	6,156	4,977	2,789	3,463	2,308	1,958	-15.2%	-60.7%	2,943	-33%
Adj. net profit	4,387	9,193	3,082	5,082	6,988	6,868	4,297	5,359	5,090	4,084	-19.8%	-40.5%	2,943	39%
Adj. EPS (Rmb)	12.61	26.54	8.84	14.73	20.35	20.08	12.38	15.41	14.66	11.60	-20.9%	-42.2%	9.25	25%
Margin (%)														
Gross margin	41.7%	46.3%	34.9%	49.6%	54.6%	52.0%	46.7%	49.3%	49.5%	51.3%			47.6%	
Operating margin	8.4%	16.1%	-1.9%	14.0%	21.8%	16.4%	9.9%	11.0%	7.2%	5.9%			9.1%	
Adj. net margin	15.6%	31.8%	13.7%	19.5%	24.8%	22.7%	15.3%	17.1%	15.9%	12.3%			9.1%	
Growth (%)														
Revenue (YoY)	24.9%	6.2%	-6.5%	-1.1%	0.5%	4.8%	24.8%	20.4%	13.1%	9.3%			-2.6%	
Revenue (QoQ)	6.7%	2.9%	-21.9%	15.5%	8.4%	7.2%	-7.0%	11.4%	1.8%	3.7%			-2.6%	
Operating profit	-46.8%	318.6%	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%	-62.5%	-60.7%			50.3%	
Adj. net profit	-35.0%	95.5%	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%	-27.2%	-40.5%			38.8%	

Source: Company data, Bloomberg

Figure 2: 4Q21 revenue breakdown

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Total revenue	28,080	28,884	22,545	26,034	28,232	30,263	28,134	31,350	31,921	33,088	4%	9%
Online marketing	20,434	20,765	14,243	17,688	20,201	20,708	18,094	20,828	21,050	20,723	-2%	0%
Other services	7,646	8,119	8,302	8,346	8,031	9,555	10,040	10,522	10,871	12,365	14%	29%

Source: Company data

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	136,891	151,370	170,501	135,144	152,817	172,822	1.3%	-0.9%	-1.3%
Gross Profit	65,853	73,621	82,925	65,055	75,497	88,817	1.2%	-2.5%	-6.6%
Operating Profit	12,466	16,403	19,328	15,690	22,492	32,542	-20.6%	-27.1%	-40.6%
Adj. net profit	16,714	20,503	23,997	16,878	23,119	25,165	-1.0%	-11.3%	-4.6%
EPS (RMB)	49.12	60.07	70.10	48.15	63.45	85.33	2.0%	-5.3%	-17.8%
Gross Margin	48.1%	48.6%	48.6%	48.1%	49.4%	51.4%	-0.0ppts	-0.8ppts	-2.8ppts
Operating Margin	9.1%	10.8%	11.3%	11.6%	14.7%	18.8%	-2.5ppts	-3.9ppts	-7.5ppts
Net Margin	12.2%	13.5%	14.1%	12.5%	15.1%	14.6%	-0.3ppts	-1.6ppts	-0.5ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	136,891	151,370	170,501	136,891	151,370	NA	0.0%	0.0%	NA
Gross Profit	65,853	73,621	82,925	65,853	73,621	NA	0.0%	0.0%	NA
Operating Profit	12,466	16,403	19,328	12,466	16,403	NA	0.0%	0.0%	NA
Adj. net profit	16,714	20,503	23,997	16,714	20,503	NA	0.0%	0.0%	NA
EPS (RMB)	49.12	60.07	70.10	49.12	60.07	NA	0.0%	0.0%	NA
Gross Margin	48.1%	48.6%	48.6%	48.1%	48.6%	NA	0.0ppts	0.0ppts	NA
Operating Margin	9.1%	10.8%	11.3%	9.1%	10.8%	NA	0.0ppts	0.0ppts	NA
Net Margin	12.2%	13.5%	14.1%	12.2%	13.5%	NA	0.0ppts	0.0ppts	NA

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Revenue	107,074	124,493	136,891	151,370	170,501
Online marketing	72,840	80,695	96,891	104,642	113,014
Other services	34,234	43,798	40,000	46,728	57,487
COSG	(55,158)	(64,314)	(71,037)	(77,750)	(87,576)
Gross profit	51,916	60,179	65,853	73,621	82,925
R&D	(19,513)	(24,938)	(28,063)	(30,728)	(34,612)
S&GA	(18,063)	(24,723)	(25,325)	(26,490)	(28,985)
Operating profit	14,340	10,518	12,466	16,403	19,328
Interest income	5,358	5,551	6,850	7,575	8,532
Interest exp.	(3,103)	(3,421)	(3,382)	(3,382)	(3,382)
Exchange loss	(660)	100	0	0	0
Loss from E.M.I	(2,248)	(932)	0	0	0
Other income	9,403	(1,038)	(1,038)	(1,038)	(1,038)
Pre-tax profit	23,090	10,778	14,896	19,558	23,440
Tax	(4,064)	(3,187)	(3,277)	(4,303)	(5,157)
MI	2,795	10,272	4,514	4,485	4,799
Net profit	22,020	18,830	16,714	20,503	23,997
Adjustment	0	152	581	763	914
Non GAAP Net profit	22,020	18,830	16,714	20,503	23,997

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	19,026	7,591	11,619	15,255	18,283
D&A	15,090	19,258	23,751	28,854	34,813
Change in WC	1,034	(2,369)	2,723	2,587	3,916
Others	(10,950)	0	0	0	0
Operating CF	24,200	24,481	38,093	46,696	57,013
Capex	(22,792)	(27,350)	(32,820)	(39,384)	(47,261)
Associates	0	0	0	0	0
Others	(4,760)	0	0	0	0
Investing CF	(27,552)	(27,350)	(32,820)	(39,384)	(47,261)
Chg in capital	0	0	0	0	0
Change of Debts	9,602	0	0	0	0
Others	(3,937)	0	0	0	0
Financing CF	5,665	0	0	0	0
Change in cash	2,313	(2,870)	5,273	7,312	9,752
Cash (beg of yr)	33,443	35,544	32,674	37,947	45,259
FX	(212)	0	0	0	0
Cash (end of yr)	35,782	32,674	37,947	45,259	55,011
Pledge cash	758	758	758	758	758
Cash at balance sheet	36,540	33,432	38,705	46,017	55,769

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	149,366	165,393	174,462	184,992	197,440
Fixed asset	17,508	25,220	29,912	35,619	42,528
Long term investment	76,233	76,233	76,233	76,233	76,233
Intangible assets	30,705	39,019	43,397	48,220	53,759
Others	15,116	15,116	15,116	15,116	15,116
Current assets	183,342	179,349	185,398	193,614	204,563
Cash	36,540	33,432	38,705	46,017	55,769
Account receivable	8,668	7,783	8,558	9,464	10,660
Associates	726	726	726	726	726
Others	138,134	138,134	138,134	138,134	138,134
Current liabilities	68,385	60,380	63,878	67,370	72,483
Borrowings	10,443	10,443	10,443	10,443	10,443
Payables	49,342	46,089	49,587	53,079	58,192
Associates	1,324	1,324	1,324	1,324	1,324
Others	7,276	2,524	2,524	2,524	2,524
Non-current liabilities	72,480	65,265	65,265	65,265	65,265
Long term liabilities	48,408	48,408	48,408	48,408	48,408
Deferred taxation	3,067	3,067	3,067	3,067	3,067
Others	21,005	13,790	13,790	13,790	13,790
MI	9,147	(4,227)	(8,741)	(13,226)	(18,025)
S/H equity	182,696	204,449	221,163	241,666	265,663
Total Equity	191,843	200,222	212,422	228,440	247,637

Source: Company data, CMBIGM estimates

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	68.0	64.8	70.8	69.1	66.3
Other services	32.0	35.2	29.2	30.9	33.7
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.5	48.3	48.1	48.6	48.6
Pre-tax margin	21.6	8.7	10.9	12.9	13.7
Net margin	17.8	6.1	8.5	10.1	10.7
Tax rate	17.6	29.6	22.0	22.0	22.0
Balance sheet ratios					
Current ratio (x)	2.7	3.0	2.9	2.9	2.8
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	12.2	9.3	7.8	8.8	9.4
ROA	5.8	2.5	3.4	4.2	4.8
Per share					
EPADS (RMB)	64	56	49	60	70
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	6,848	7,377	7,803	8,367	9,043

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