

Baidu (BIDU US)

2Q22E epidemic headwinds well priced in

1Q22 result was better-than-feared, with topline/bottom line +1% YoY/-10% YoY, 2%/119% above consensus. Margin beat on iQiyi's breakeven and Baidu core's effective cost control. Given epidemic resurgence from Mar, we expect 2Q22E rev -4% YoY. We expect 2Q22E as the trough of ads (-12% YoY, affecting key verticals such as medical service, travel) if COVID-19 is not worsening, and then ads start to normalize once macro shows gradual recovery with lockdown relaxations. Given travel limits, AI cloud growth might see volatility in 2Q22E (+30% YoY, still above industrial growth), but long-term potential remains intact. 2Q22E Baidu core adj. OPM would slightly decrease 1ppt YoY to 16%, in our estimate. We trimmed topline by 3-4% in FY22-24E, but kept earnings barely changed, with SOTP-based TP at US\$203.

- 1Q22 beat.** 1Q22 rev +1% YoY, 2% above consensus. Total online marketing revs -6% YoY to RMB17bn, in which IQ's ad revs -30% YoY (due to challenging macro and fewer variety shows under new strategy). Total Baidu Core rev +4% YoY, in line with guidance. Non-GAAP net profit -10% YoY, 119% above consensus, as iQiyi turned profitable on OP and NP level one quarter ahead of mgmt. expectation, driven by lower content cost and opex.
- Looking beyond 2Q22 amid lockdown disruptions.** Baidu Core ads -6% YoY in 1Q22, 2% above our estimate, mainly on decent growth in Jan & Feb. We expect 2Q22E as the trough of ads (-12% YoY, affecting key verticals such as medical service, travel) if COVID-19 is not worsening, and then ads start to normalize once macro shows gradual recovery with lockdown relaxations. AI Cloud rev +45% YoY in 1Q22 (in line). Given travel limits under epidemic resurgence, AI cloud growth might see volatility in 2Q22E (+30% YoY, still above industrial growth), but long-term potential remains intact, backed by ACE smart transportation expansion. For intelligent driving, Baidu received a nomination letter from Dongfeng Motor in Apr to adopt Apollo Self Driving, after BYD earlier this year. Apollo Go has expanded into ten cities, with 196K rides in 1Q22. Auto orders size grew up to >RMB10bn in 1Q22, vs. RMB8bn in 4Q21. We expect Baidu core OPM down to 16% (-1ppt YoY) for epidemic.
- Maintain BUY.** We trimmed topline by 3-4% in FY22-24E, but kept earnings barely changed, with SOTP-based TP at US\$203 (24x FY23E P/E). Multiple downside risk is limited, and 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)	106,360	123,635	131,891	147,028	164,303
YoY growth (%)	-0.8	16.2	6.7	11.5	11.7
Adj. net income (RMB mn)	21,306	17,972	16,264	19,590	23,172
Adj. EPS (RMB)	61.6	51.7	46.9	56.0	65.6
YoY growth (%)	20.5	-16.1	-9.1	19.3	17.1
Consensus EPS (RMB)	NA	NA	41.1	59.6	72.8
P/E (x)	14.8	17.7	19.4	16.3	13.9
P/S (x)	3.0	2.6	2.4	2.1	1.9
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	42.3	36.4	35.9	35.0	34.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$203.0
(Previous TP)	US\$203.0)
Up/Downside	+49.0%
Current Price	US\$136.2

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	39,991
Avg 3m t/o (US\$ mn)	591.74
52w High/Low (US\$)	209.17/101.62
Issued Shares (mn)	276

Source: Bloomberg

Shareholding Structure

BlackRock Inc	4.4%
Primecap Management	3.5%
Doge & Cox	2.6%

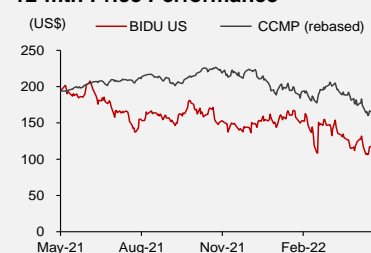
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	1.0%	15.1%
3-mth	-23.4%	-8.4%
6-mth	-23.6%	7.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- Soft ads to linger in 2Q22E for epidemic – 19 Apr 2022
- Eye-catching AI cloud to offset soft ads – 2 Mar 2022
- Ads headwinds to linger in 4Q21E & 1Q22E – 19 Nov 2021

Figure 1: 1Q22 financial review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Net revenue	22,545	26,034	28,232	30,263	28,134	15,453	31,921	33,088	28,411	-14.1%	1.0%	27,859	2%	28,178	1%
Gross profit	7,858	12,900	15,417	15,741	13,132	15,453	15,795	15,799	12,865	-18.6%	-2.0%	12,514	3%	12,642	2%
Operating profit	(437)	3,644	6,156	4,977	2,789	3,463	2,308	1,958	2,601	32.8%	-6.7%	1,095	138%	(511)	-609%
Adj. net profit	3,082	5,082	6,988	6,868	4,297	5,359	5,090	4,084	3,879	-5.0%	-9.7%	1,767	119%	1,664	133%
Adj. EPS (Rmb)	8.84	14.73	20.35	20.08	12.38	15.41	14.66	11.60	11.22	-3.3%	-9.4%	5.17	117%	4.72	138%
Margin (%)															
Gross margin	34.9%	49.6%	54.6%	52.0%	46.7%	-2.9%	49.5%	47.7%	45.3%			45.0%		44.9%	
Operating margin	-5.6%	28.2%	39.9%	31.6%	21.2%	22.4%	14.6%	12.4%	20.2%			8.8%		-1.8%	
Adj. net margin	39.2%	39.4%	45.3%	43.6%	32.7%	34.7%	32.2%	25.8%	30.2%			14.1%		5.9%	
Growth (%)															
Revenue (YoY)	-67.4%	-51.0%	-45.1%	-45.5%	67.1%	19.8%	2.5%	0.4%	-2.0%			-1.0%		0.2%	
Revenue (QoQ)	-72.8%	64.2%	19.5%	2.1%	-16.6%	17.7%	2.2%	0.0%	-18.6%			-15.8%		-14.8%	
Operating profit	-53.3%	1463.9%	161.4%	6.9%	-738.2%	-5.0%	-62.5%	-60.7%	-6.7%			-60.7%		-118.3%	
Adj. net profit	218.7%	39.8%	59.3%	-25.3%	39.4%	5.5%	-27.2%	-40.5%	-9.7%			143.1%		-61.3%	

Source: Company data, CMBIGM estimates, Bloomberg

Figure 2: 1Q22 revenue breakdown

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY
Total revenue	22,545	26,034	28,232	15,741	28,134	15,453	31,921	33,088	28,411	-14%	1%
Online marketing services	14,243	17,688	20,201	20,708	18,094	20,828	21,050	20,723	16,929	-18%	-6%
Other services	8,302	8,346	8,031	9,555	10,040	10,522	10,871	12,365	11,482	-7%	14%

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	128,119	144,052	161,211	130,977	149,049	166,818	-2.2%	-3.4%	-3.4%
Gross profit	62,147	71,120	81,136	62,504	72,850	83,020	-0.6%	-2.4%	-2.3%
Operating profit	17,290	21,500	25,850	11,814	18,033	25,311	46.3%	19.2%	2.1%
Adj. net profit	16,264	19,590	23,172	14,772	20,708	25,470	10.1%	-5.4%	-9.0%
EPS (RMB)	46.95	55.99	65.57	41.08	59.56	72.80	14.3%	-6.0%	-9.9%
Gross margin	48.5%	49.4%	50.3%	48.1%	49.4%	51.4%	+0.4ppts	-0.0ppts	-1.1ppts
Operating margin	13.5%	14.9%	16.0%	11.6%	14.7%	18.8%	+1.9ppts	+0.2ppts	-2.8ppts
Net margin	12.7%	13.6%	14.4%	12.5%	15.1%	14.6%	+0.2ppts	-1.5ppts	-0.2ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	128,119	144,052	161,211	133,379	148,730	167,629	-3.9%	-3.1%	-3.8%
Gross profit	62,147	71,120	81,136	65,734	73,781	84,605	-5.5%	-3.6%	-4.1%
Operating profit	17,290	21,500	25,850	17,026	23,276	27,993	1.5%	-7.6%	-7.7%
Adj. net profit	16,264	19,590	23,172	15,925	19,652	23,263	2.1%	-0.3%	-0.4%
EPS (RMB)	46.95	55.99	65.57	45.08	55.08	65	4.1%	1.7%	1.6%
Gross margin	48.5%	49.4%	50.3%	49.3%	49.6%	50.5%	-0.8ppts	-0.2ppts	-0.2ppts
Operating margin	13.5%	14.9%	16.0%	12.8%	15.6%	16.7%	+0.7ppts	-0.7ppts	-0.7ppts
Net margin	12.7%	13.6%	14.4%	11.9%	13.2%	13.9%	+0.8ppts	+0.4ppts	+0.5ppts

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Revenue	106,360	123,635	131,891	147,028	164,303
Online marketing	74,288	80,450	81,376	84,479	86,513
Other services	32,072	43,185	50,515	62,549	77,790
COSG	(55,158)	(64,314)	(65,972)	(72,931)	(80,075)
Gross profit	51,202	59,321	65,919	74,097	84,228
R&D	(19,513)	(24,938)	(27,905)	(31,528)	(35,379)
S&GA	(18,063)	(23,747)	(24,671)	(26,483)	(29,198)
Operating profit	13,626	9,660	9,055	14,196	17,983
Interest income	5,358	5,551	5,821	6,205	6,880
Interest exp.	(3,103)	(3,421)	(3,002)	(3,002)	(3,002)
Exchange loss	(660)	100	(11)	0	0
Loss from E.M.I	(2,248)	(932)	(1,170)	(968)	(943)
Other income	9,403	(1,038)	(3,286)	0	0
Pre-tax profit	22,376	9,920	7,407	13,112	17,567
Tax	(4,064)	(3,187)	(3,647)	(6,264)	(7,769)
MI	3,446	2,635	1,020	501	(31)
Net profit	18,312	6,733	3,796	10,416	13,571
Adjustment	2,994	11,239	12,468	9,175	9,601
Non GAAP Net profit	21,306	17,972	16,264	19,590	23,172

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	149,366	166,719	163,943	170,868	176,864
Fixed asset	17,508	23,027	23,320	24,929	26,460
Long term investment	76,233	67,332	72,332	76,332	79,332
Intangible assets	30,705	31,552	30,545	30,893	31,255
Others	15,116	32,743	25,681	26,648	27,751
Current assets	183,342	213,315	216,811	230,414	247,206
Cash	36,540	47,671	46,061	55,915	68,582
Account receivable	8,668	9,981	11,361	12,666	14,272
Associates	726	1,368	1,368	1,368	1,368
Others	138,134	155,663	159,389	161,833	164,352
Current liabilities	68,385	74,488	60,973	64,991	66,489
Borrowings	3,016	4,168	3,016	3,016	3,016
Payables	41,468	41,384	41,467	43,995	44,867
Associates	1,324	1,764	1,764	1,764	1,764
Others	22,577	27,172	14,726	16,217	16,842
Non-current liabilities	72,480	81,594	81,594	81,594	81,594
Long term liabilities	48,408	43,120	43,120	43,120	43,120
Deferred taxation	3,067	3,286	3,286	3,286	3,286
Others	21,005	35,188	35,188	35,188	35,188
MI	6,045	5,345	5,345	5,345	5,345
S/H equity	185,798	218,607	231,037	250,929	275,003
Total Equity	191,843	223,952	236,382	256,274	280,348

Source: Company data, CMBIGM estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	18,312	6,733	3,796	10,416	13,571
D&A	22,714	23,317	30,428	30,428	32,336
Change in WC	(18,207)	(15,712)	(25,263)	(20,030)	(22,352)
Others	667	5,784	8,406	9,248	10,275
Operating CF	23,486	20,122	17,367	30,062	33,831
Capex	(5,084)	(12,202)	(11,103)	(12,769)	(14,684)
Associates	0	0	0	0	0
Others	(22,468)	(19,242)	(6,292)	(4,537)	(3,601)
Investing CF	(27,552)	(31,444)	(17,396)	(17,306)	(18,285)
Chg in capital	(3,013)	228	228	228	228
Change of Debts	9,602	0	0	0	0
Others	(924)	23,168	(1,152)	0	0
Financing CF	5,665	23,396	(924)	228	228
Change in cash	1,599	12,074	(953)	12,984	15,774
Cash (beg of yr)	34,439	35,826	46,957	46,004	58,989
FX	(212)	(943)	0	0	0
Cash (end of yr)	35,826	46,957	46,004	58,989	74,763
Pledge cash	758	0	0	0	0
Cash at balance sheet	18,312	6,733	3,796	10,416	13,571

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Online marketing	69.8	65.1	61.7	57.5	52.7
Other services	30.2	34.9	38.3	42.5	47.3
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross margin	48.1	48.0	49.5	49.9	50.7
Pre-tax margin	21.0	8.0	5.5	8.8	10.5
Net margin	18.2	32.1	59.4	47.8	44.2
Tax rate	17.2	5.4	2.9	7.1	8.3
Balance sheet ratios					
Current ratio (x)	2.7	2.9	3.6	3.5	3.7
Debtors turnover	29.7	30.0	31.0	31.0	31.0
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	11.5	8.2	7.0	7.8	8.4
ROA	6.4	4.7	4.3	4.9	5.4
Per share					
EPADS (RMB)	62	52	47	56	66
DPS (RMB)	0	0	0	0	0
BVPADS (RMB)	6,942	8,048	8,529	9,155	9,916

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