

December 18, 2023

# Baidu, Inc. (BIDU)

## Investor Call Key Takeaways

- ▶ Last week, we had the opportunity to host BIDU team for a group investor call. Our thesis remains that despite macro uncertainties, BIDU stands to benefit from the GenAI adoptions in China leveraging its established technology infrastructure and commercial products. This could manifest itself in above-GDP growth of advertising as well as reaccelerated growth of AI Cloud in FY24 underpinned by rising demand on GenAI features and tools as enterprises are craving for productivity/efficiency gains amidst an increasingly challenging operating environment. We are also encouraged to hear that Apollo Go is making headways in key regions (i.e., Wuhan) with an increasingly viable roadmap to achieve breakeven. With multiple tech-driven breakthroughs inching towards an inflection point while the stock is interestingly trading at 5.0x forward excl. cash P/E on top of a stable margin outlook, we view risk/reward is highly attractive at this level and recommend investors to leverage the sector weakness to accumulate BIDU shares.
- ▶ **GenAI adoption to drive both ad and cloud growth.** GenAI adoption is taking place and gaining momentum in China. The company emphasized its unwavering commitment to infusing GenAI across every layer of its tech stack and expanding AI utilities across its ecosystem. BIDU is pushing ahead upgrading its ad system with GenAI features and tools and has observed positive feedback from advertisers in light of 1) more efficient ads creation (across text, image, and video) with better targeting capability and ensuing higher conversion potential; and 2) productivity gain by merchants on resource savings aided by automatic content creation. We believe with GenAI adoption, search stands to serve a wider range of information needs and answer new types of questions, which is in turn set to boost user stickiness and engagement. This should consequently open up more commercialization opportunities (i.e., CPC to CPS). The company reiterated these new AI initiatives to contribute RMB100M+ ad revenue in 4Q with a projected rev run rate of RMB1B+ in FY24. Similarly on the AI Cloud side, BIDU noted the early and eager adoptions of enterprises from the online services and TMT verticals with GenAI related revenue already contributing a low single digit cloud revenue in 3Q (an impressive ramp-up considering a late Aug approval). In sum, while the pace of adoption remains fluid, we believe that BIDU is undoubtedly well positioned leveraging its established technology infrastructure and commercial products. We view GenAI a net growth accelerator for BIDU on both ad and cloud.
- ▶ **Apollo Go on path to show commercial viability.** BIDU team was on the ground in Wuhan while hosting our investors. They shared their continued observations on encouraging expansion of Robot Taxi services in Wuhan in respect of coverage areas, scope of use cases (local short haul vs. airport rides), extended operating hours and continued lax of security officer requirement (driverless rides accounting

## Change in Earnings Forecast

Rating:	Buy
Current Price	\$114.12
Price Target	\$210.00
52-Wk Range	\$103.32 - \$160.88
Shares Outstanding (M)	356
Market Cap (M)	\$40,197
Avg Vol	3,298.6
Enterprise Value (M)	\$21,047
Sector Weight	Overweight



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FY Dec		Q1	Q2	Q3	Q4	Total	P/E	EV/Rev
EPS	2022A	\$1.77A	\$2.35A	\$2.36A	\$2.22A	\$8.70A	13.1x	
	2023E	\$2.34A	\$3.11A	\$2.80A	\$2.60E	\$10.85E	10.5x	
	2024E					\$12.22E	9.3x	
Revenue (m)	2022A					\$18,278A		1.2x
	2023E					\$18,856E		1.1x
	2024E					\$20,072E		1.0x

for 40%+ of Wuhan orders as of 3Q). With RT6 vehicles (commercially viable for mass production) slated to roll out in 2H24 on top of improving an operating leveraging thanks to the coverage growth, the company reiterated their confidence to achieve breakeven in Wuhan in a couple of years and their ambitions to replicate the viable model to more cities in China. We are excited about the improving viability of BIDU's autonomous driving endeavors and could not help to underscore that the market has currently baked in a negative valuation on this asset in BIDU stock considering no recognition of asset value + its negative earnings drag to BIDU group profitability.

- ▶ **Our view on BIDU stock.** We understand that macro uncertainties will remain a predominant overhang on China ADRs heading into FY24, but wanted to highlight idiosyncratic drivers that could make BIDU stand out instead of a pure China macro play. We are a firm believer that GenAI adoption is a net growth accelerator for BIDU on both ad and AI Cloud. With high value add features, we anticipate favorable margin mix going forward and are comfortable with our stable margin assumptions in FY24. With the stock trading at 5.0x excl. cash forward P/E on top of a stable margin outlook, we view risk/reward is highly attractive at this level and recommend investors to leverage the sector weakness to accumulate BIDU shares.

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## Equity Research Ratings System

### Firm-Wide Stock Ratings Distribution

As of September 30, 2023

	All Covered Companies		Investment Banking Clients	
<b>Buy</b>	287	72.8%	41	10.4%
<b>Hold</b>	75	19.0%	7	1.8%
<b>Speculative Buy</b>	27	6.9%	16	4.1%
<b>Sell</b>	5	1.3%	0	0%

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**Buy:** Stock is expected to outperform the analyst’s defined Sector/Industry Index\* over the following 6 to 12 months.

**Speculative Buy:** The stock has a market value below \$100M and/or a higher financial risk profile. It is expected to outperform the analyst’s defined sector/industry index over the following 6 to 12 months.

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**Sell:** Stock is expected to underperform the analyst’s defined Sector/Industry Index\* over the following 6 to 12 months.

### Industry Ratings

**Overweight:** Analyst’s defined Sector/Industry Index\* is expected to outperform the S&P 500 over the following 6 to 12 months.

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### Benchmark Disclosures as of December 18, 2023

Company	Disclosure
Baidu, Inc.	

**Investment Risk**

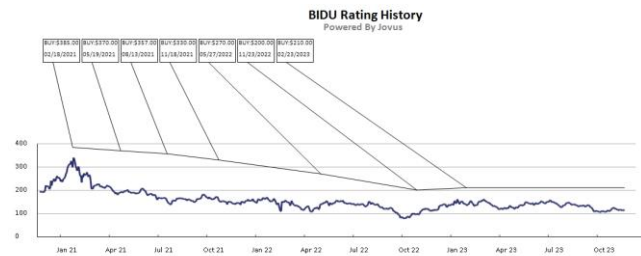
Key risks to valuation include uncertainties with the macro outlook, margin pressure due to investments, further regulatory tightening on online advertising, and increasing competition.

**Valuation Methodology**

We maintain our Buy rating and our PT of \$210. Our PT presents 13x of our FY24 non-GAAP EPS estimates to \$12.22 (plus net cash per share of \$53.85). The multiple reflects BIDU’s mid/long earnings growth outlook.

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