

COMPANY UPDATE

**Baidu Inc (9888 HK)**

Key Highlights From Baidu Cloud Intelligence Conference 2024

**Baidu Cloud Intelligence Conference 2024 was held on 25-26 September in Beijing. Baidu upgraded its two key AI infrastructures, Qianfan Large Model Platform 3.0 and AI Computing Platform 4.0, focusing on computing power, LLM, and AI applications. Meanwhile, the company also enhanced three major AI-native applications including intelligent customer service Keyue, digital human Xiling and code assistant Baidu Comate. Maintain HOLD with a slightly higher target price of HK\$90.00 (US\$100.00).**

WHAT'S NEW

- **Release of Qianfan Large Language Model (LLM) 3.0.** During the conference, Baidu Inc (Baidu) announced the upgrade of the Qianfan LLM 3.0, which includes comprehensive enhancements for enterprise-grade retrieval-augmented generation (RAG) and agent development. In addition, Baidu launched a low-code AI application development platform AI Speed Build (AI 速搭), allowing enterprise-level application development through natural language conversation and enabling the creation of applications with a single sentence. Qianfan LLM now processes more than 700m daily calls to its Ernie bot. It has fine-tuned 30,000 LLMs for users and developed over 700,000 enterprise-level applications. Over the past year, the price of Ernie bot dropped by over 90%, with core models becoming fully free, minimising the cost of innovation for enterprises.
- **Upgrades of Baidu AI Cloud Infrastructure**, featuring millions of AI agents, are expected to emerge in the future. Robin Li sees AI agents as the most promising direction for AI application development. He stated: "AI agents are such as websites in the PC era or accounts in the era of social media. Their most notable feature is a low barrier to entry but a high potential ceiling, capable of creating very sophisticated and powerful applications. Moving forward, there will be millions of AI agents, forming a vast product ecosystem."
- **Poised for better AI Cloud revenue growth and ad monetisation visibility.** GenAI related revenue accounts for 9% of total AI cloud revenue currently, and management targets to continue to increase the ratio. In view of the incremental contribution from GenAI on the back of advanced infrastructure, we expect 3Q24 AI Cloud revenue growth to accelerate sequentially to 14% from -2% yoy in 3Q23. We forecast 2024/25 AI Cloud revenue to grow 14%/11% yoy to Rmb21.4b/Rmb23.7b, respectively. This is anchored by resilient revenue growth momentum from graphics processing unit (GPU) cloud services and cross-selling of central processing unit (CPU) cloud services. As of Aug 24, search products that have been transformed by GenAI rose to 18% from 11% in May. In terms of ad revenue, Baidu is focusing on GenAI integration into its search products. Moving forward, Baidu's ad monetisation will not only increase the number of ads but will adopt new models, such as recommending products or services through multi-round interactions.

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

HOLD

(Maintained)

Share Price	HK\$95.75
Target Price	HK\$90.00
Upside	-5.3%
(Previous TP)	HK\$85.00

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):	259,581.2
Market cap (US\$m):	32,955.5
3-mth avg daily t'over (US\$m):	98.6

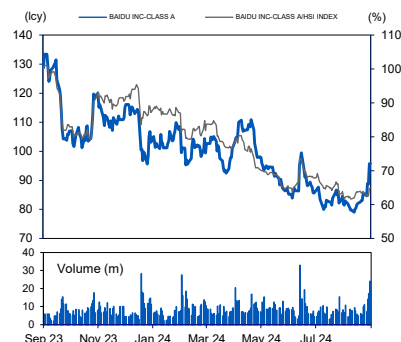
Price Performance (%)

52-week high/low	HK\$144.20/HK\$80.00				
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
(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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### STOCK IMPACT

- Baidu unveils Baige AI computing platform 4.0.** The upgraded Baige 4.0 (百舸) platform addresses the full journey of AI model deployment, offering comprehensive AI infrastructure that delivers increased capacity, speed, stability, and cost-efficiency across four key areas: cluster creation, experimental development, model training, and inference. To address the issue of insufficient computational resources, Baige 4.0 has significantly enhanced its multi-core mixed training capability. It now achieves 95% efficiency in multi-core mixed training on large-scale clusters, positioning itself at the forefront of the industry. For cluster deployment, Baige 4.0 now enables second-level tool deployment, reducing the preparation time for large-scale clusters from several weeks to just one hour.
- Upgrades to three major AI-native applications** include: a) AI-native customer service application, Keyue (客悦) built on the Ernie bot. It has made significant advancements in understanding sophisticated user intents and multimodal communication, making customer service smarter and more human-like. To date, Keyue has helped enterprise clients serve over 150m users, facilitating over 500m interactions; b) the newly-upgraded Xiling (曦灵) Digital Human 4.0 can now quickly generate 3D digital human images and videos with different looks and industry-specific features based on text descriptions. During the conference, Xiling announced a significant price drop for hyper-realistic 3D digital humans, reducing the price from tens of thousands of RMB to Rmb199; and c) the fully upgraded AI code efficiency tool, Baidu Comate (文心快码) can focus on the entire development process lifecycle, while enhancing both efficiency and quality from project initiation to final delivery. Baidu Comate has served over 10,000 enterprise clients, helping millions of Chinese developers improve their coding efficiency.

### EARNINGS REVISION/RISK

- We leave our forecasts largely unchanged.
- Risks:** a) Weaker advertising business due to the slower-than-expected macro economy recovery and fierce competition, b) uncertainties facing the advertising segment and Robotaxi launch, c) shrinking government budget, and d) the US' ban on the supply of high-end chips to Chinese tech giants.

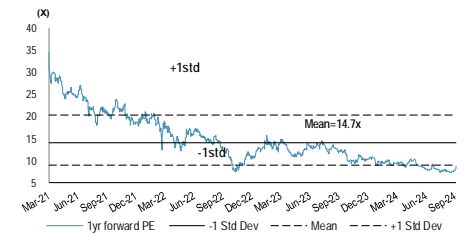
### VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of HK\$90.00 (US\$100.00) based on 8x 2025F PE** on the back of increased PE multiples for the internet sector. The company is currently trading at 8.2x 2025F PE, below its historical mean of 14.7x. We are cautious about the declining ad revenue growth and concerned about the uncertain monetisation capabilities of its autonomous driving business. However, this is offset by its advanced infrastructure, the ongoing revenue boost from GPU cloud services, and the cross-selling of CPU cloud services.

### SHARE PRICE CATALYST

- a) Market share expansion in the AI Cloud and autonomous driving segments, b) higher monetisation rates across all business units, and c) synergies between Baidu's core business and new initiatives.

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, 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
<b>Pre-tax profit</b>	<b>25,198</b>	<b>29,600</b>	<b>33,294</b>	<b>35,057</b>
Tax	(3,649)	(4,886)	(6,058)	(4,540)
Minorities	1,234	1,146	970	1,751
<b>Net profit</b>	<b>21,549</b>	<b>24,713</b>	<b>27,235</b>	<b>30,517</b>
Net profit (adj.)	28,747	28,602	31,957	36,398

### CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>36,615</b>	<b>40,106</b>	<b>44,101</b>	<b>53,883</b>
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
<b>Investing</b>	<b>(50,397)</b>	<b>(18,796)</b>	<b>(24,139)</b>	<b>(31,331)</b>
Capex (growth)	(11,190)	(15,112)	(20,408)	(27,560)
Others	(39,207)	(3,684)	(3,731)	(3,770)
<b>Financing</b>	<b>(14,162)</b>	<b>(7,138)</b>	<b>103</b>	<b>103</b>
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)
<b>Net cash inflow (outflow)</b>	<b>(27,944)</b>	<b>14,171</b>	<b>20,065</b>	<b>22,561</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>65,236</b>	<b>37,574</b>	<b>51,745</b>	<b>71,810</b>
Changes due to forex impact	282	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>36,734</b>	<b>51,745</b>	<b>71,810</b>	<b>95,460</b>

### 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
<b>Total assets</b>	<b>406,759</b>	<b>427,892</b>	<b>459,690</b>	<b>501,696</b>
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
<b>Total liabilities &amp; equity</b>	<b>406,759</b>	<b>427,892</b>	<b>459,690</b>	<b>501,696</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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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