



T. H. Data Flash - Baidu, Inc. - November & Preliminary 4Q17

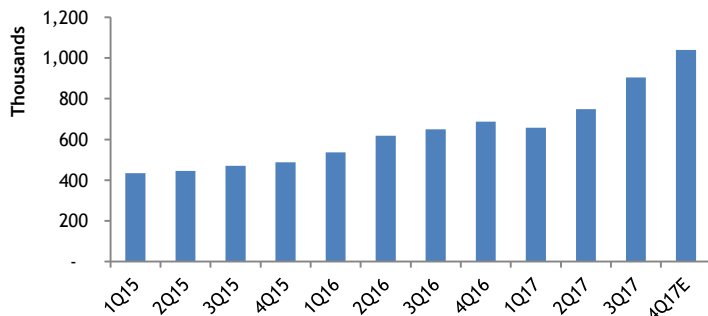
January 10, 2018

Baidu Usage Increased Significantly Due to News Feed; Making Progress in AI; Maintain Buy Rating

BIDU's aggressive development in news feed and AI not only generated an additional source of revenue, but at the same time increased the total usage of Baidu search and mobile APP. In addition, the views and paying users increased for iQiyi, while BIDU decreased its investment in Nuomi. The company is also making significant progress in AI by forming partnerships with Xiaomi and Huawei, two major mobile handset vendors. Based on our data and calculations, we believe BIDU is likely to deliver 4Q17 top line at RMB23.353B, slightly higher than consensus at RMB23.157B, and the margin can be better.

- News feed drives increased usage of Baidu** – Ever since BIDU started its news feed business, the total usage of Baidu search and mobile Baidu has increased. In 4Q17, the average monthly uses of Baidu at 10.4B increased 51.1% Y/Y from 6.9B in 4Q16, and average monthly time-spend on Baidu increased 11.5% Y/Y to 88.2B minutes in 4Q17E (Figure 1 & 2). iOS mobile downloads of Baidu ranked 1.1 in the tool category in 4Q17E and 1.0 in November 2017.
- iQiyi video views grew significantly Y/Y** - In 4Q17E, average monthly uses of iQiyi at 19,292M increased 36.8% Y/Y from 14,101M in 4Q16, and average monthly time-spend on iQiyi increased 17.2% Y/Y to 388.2B minutes in 4Q17E (Figure 3 & 4). In 4Q17E, average daily number of actively viewed titles at 17,249 increased 23.3% Y/Y from 13,990 in 4Q16, driven by variety shows which increased 114.6% Y/Y (Figure 5). iQiyi ranked 2.2 in entertainment and Baidu map ranked 2.0 in navigation category in November 2017.
- Decrease in investment in Nuomi** - Nuomi GMV at RMB4,071M decreased 49.5% Y/Y and 19.6% Q/Q in 4Q17E (Figure 6); tier-3 cities decreased more, with Orders at 23.7M decreased 52.2% Y/Y and 9.6% Q/Q in 4Q17E (Figure 7). SKU at 2.4M decreased 31.0% Y/Y and 7.1% Q/Q in 4Q17E.
- Please see page 2 for a discussion of valuation and risks.**

Figure 1: Search: Number of Monthly Uses, 1Q15 – 4Q17E



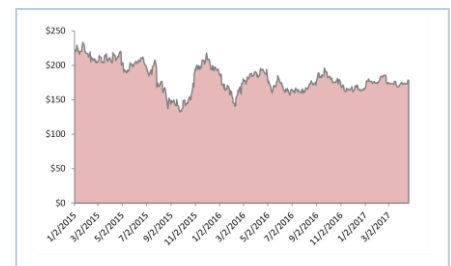
Source: iResearch and T.H. Data (www.thdata.com)

BIDU: Buy
Price: \$254.73
Target Price: \$290.00

52 Week Range: \$166.00 - \$274.97
Market Cap: \$88.5B
Avg. Daily Vol. (100 day): 2,562,246
Net cash per share: \$39.11

FY (Dec)	2016A	2017E	2018E
Q1	15,821A	16,891A	20,951E
Q2	18,263A	20,874A	25,160E
Q3	18,253A	23,489A	28,056E
Q4	<u>18,212A</u>	<u>23,291E</u>	<u>28,688E</u>
Revenue*	70,549A	84,544E	102,855E
Q1	5.38A	4.63A	8.61E
Q2	6.57A	11.31A	13.77E
Q3	8.51A	24.05A	14.70E
Q4	<u>11.40A</u>	<u>10.80E</u>	<u>14.35E</u>
GAAP EPS	31.86A	50.78E	51.42E
P/E	55.5x	33.4x	33.0x

*Indicates total revenue including sales tax. All figures in RMB millions unless otherwise noted



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- **Valuation** - BIDU is at a turning point in its business. BIDU has established its new strategy – all in AI, which we believe has played into BIDU’s strength and the company has all it needs to become a leader in AI applications in China. While we haven’t seen meaningful monetization from AI initiatives (besides in finance), BIDU has already started its initiatives, including unmanned driving, and DoerOS partnership with Xiaomi and Huawei. We apply a 26.9X PE multiple to our 2019E non-GAAP EPS estimate of \$10.77 and come out with price target of \$290.00.
- **Risks** – 1) Mobile search revenue may not ramp up as rapidly as the company expected; 2) Possibilities of failure in O2O business; 3) Losing its edge in mobile search if WeChat’s search takes off; 4) PC monetization declines faster than expected; and 5) Macroeconomic slowdown in China; 6) AI market fails to take off.

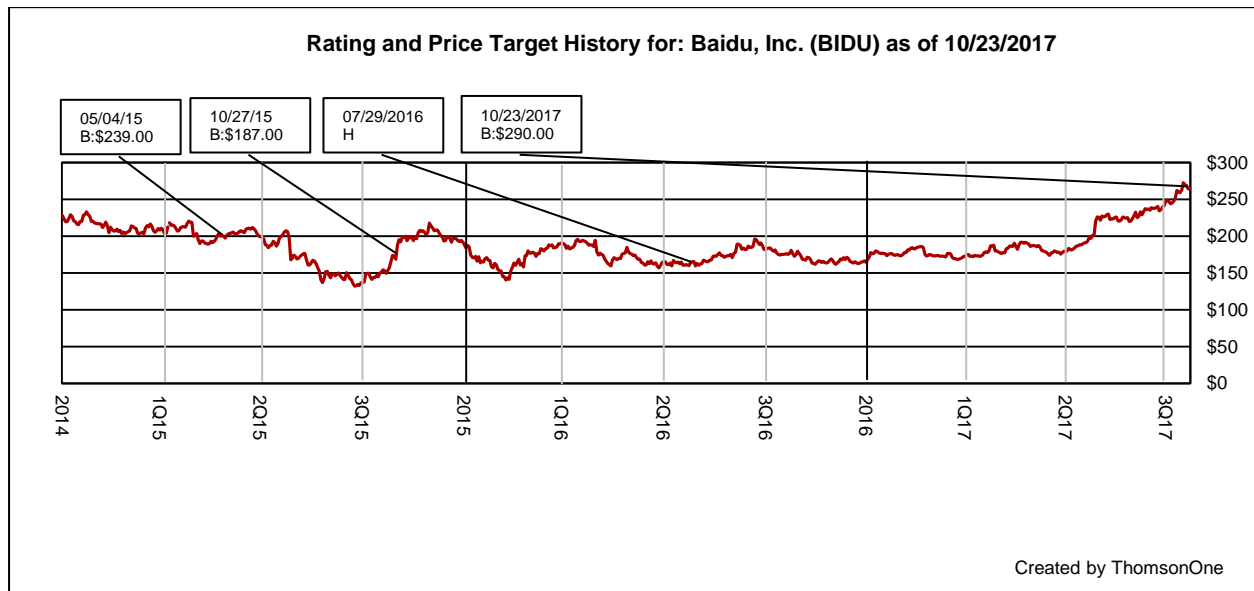
For the full version of this report, please contact TH Capital.

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