

## Baidu, Inc.

April 24, 2018

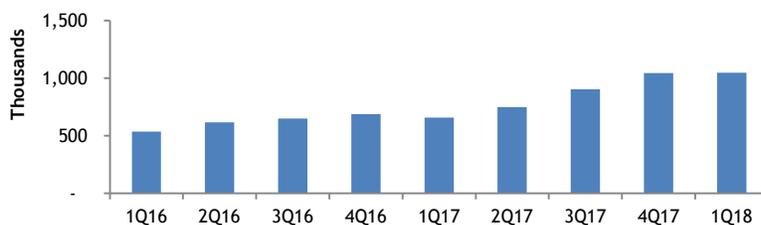
### Expect Better 1Q18 Results; And Continuing Momentum in 2Q18; Maintain BUY Rating with AI As A Free Option

BIDU will report 1Q18 results on Thursday, April 26th after the market closes followed by a 10:15pm EST conference call. Based on our proprietary data, we believe BIDU is likely to report 1Q18 revenue at least in line with consensus. While search growth is not as high as it was in the past, the company is aggressively pursuing news feed and AI, which we believe are the new engines to propel BIDU's near-term and long-term growth. As for AI, while we haven't seen any meaningful actual results, we do believe the company is working on it aggressively and making progress. Therefore, we believe the current valuation does not give any meaningful consideration to AI. As such, we maintain our BUY rating as we believe AI is coming and BIDU is in a leading position.

- **BIDU's focus on unmanned driving is a trend in China** – China has a big automobile market, which actually contributed in some degree to the nation's pollution. In addition, the Chinese government has made it very clear that they want the nation to develop manufacturing industries equipped with high tech. We believe automobile is one of these industries. Therefore, unmanned car is BIDU's next growth driver, which is in line with China's priority.
- **Expect 1Q18 revenue to be better than consensus** - Based on our proprietary data and calculations, BIDU's net revenue is likely to be RMB20.711B, higher than consensus at RMB20.236B. Our proprietary data shows that the average monthly uses of Baidu increased 59.3% Y/Y to 10.47B, and average monthly time-spend on Baidu increased 21.6% Y/Y to 90.4B minutes in 1Q18 (Figure 1 & 2). For the month of March, total monthly uses of Baidu were 10,750M, an increase of 52.0% Y/Y from 7,073M in March 2017. Total monthly time-spend on Baidu increased 12.9% Y/Y to 91.4B minutes in March 2018. In terms of iQiyi (IQ, \$18.84 - Intraday, Not Rated), video views also grew significantly in 1Q18 as average monthly uses increased 41.9% Y/Y to 20,790M, and average monthly time-spend increased 23.1% Y/Y to 390.3B minutes (Figure 3 & 4). For the month of March, total monthly uses of iQiyi at 21,604M increased 35.6% Y/Y from 15,933M in March 2017. Total monthly time-spend on iQiyi increased 13.5% Y/Y to 388.5B minutes in March 2018.

- Please see page 2 for a discussion of valuation and risks.

Figure 1: Search: Number of Monthly Uses, 1Q16 – 1Q18E



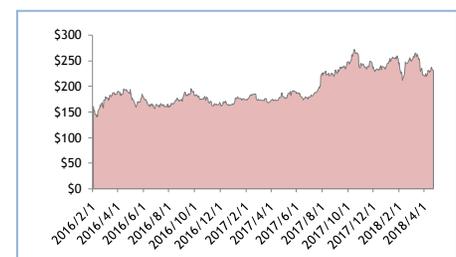
Source: iResearch and T.H. Data (www.thdata.com)

**BIDU: Buy**  
**Price: \$235.82 (Intraday)**  
**Target Price: \$290.00**

**52 Week Range:** \$173.52 - \$274.97  
**Market Cap:** \$82.1B  
**Avg. Daily Vol. (100 day):** 2,980,725  
**Net cash per share:** \$27.85

FY (Dec)	2017A	2018E	2019E
Q1	16,891A	20,168E	25,437E
Q2	20,874A	24,014E	30,006E
Q3	23,489A	26,513E	32,909E
Q4	<u>23,556A</u>	<u>27,011E</u>	<u>32,178E</u>
Net Revenue	84,810A	97,706E	120,530E
Q1	4.63A	8.05E	11.26E
Q2	11.31A	12.18E	16.33E
Q3	24.05A	13.42E	18.53E
Q4	<u>12.38A</u>	<u>12.93E</u>	<u>18.50E</u>
GAAP EPS	52.36A	46.57E	64.62E
P/E	29.3x	32.9x	23.7x

All figures in RMB millions unless otherwise noted



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- **2Q18 guidance is likely to be in line with consensus** - For 2Q18, we expect BIDU to guide revenue in line with consensus at RMB24,049.7M (18.8% Q/Q growth).
- **Valuation** – BIDU’s business is on the right track: the marketing business was growing nicely driven by news feed; the IPO of iQiyi provided enough capital for it to be bigger and better; and BIDU’s development of unmanned car is at a point where we can see actual goods soon. In addition, its DoerOS has formed a partnership with Xiaomi and Huawei and many hardware vendors. We apply a 24.2X PE multiple to our 2019E non-GAAP EPS estimate of \$11.96 and come out with price target of \$290.00.
- **Risks** – 1) The growth of news feed business starts to slow down; 2) Possibilities of failure in AI initiatives; 3) Losing its edge in mobile search or news feed if WeChat’s Mini program takes off; 4) PC monetization declines faster than expected; and 5) Macroeconomic slowdown in China.
- **Dial-in information** - BIDU will report 1Q18 results on Thursday, April 26th after the market closes followed by a 10:15pm EST conference call, which can be accessed by dialing 845-675-0437 with the passcode 3162748.

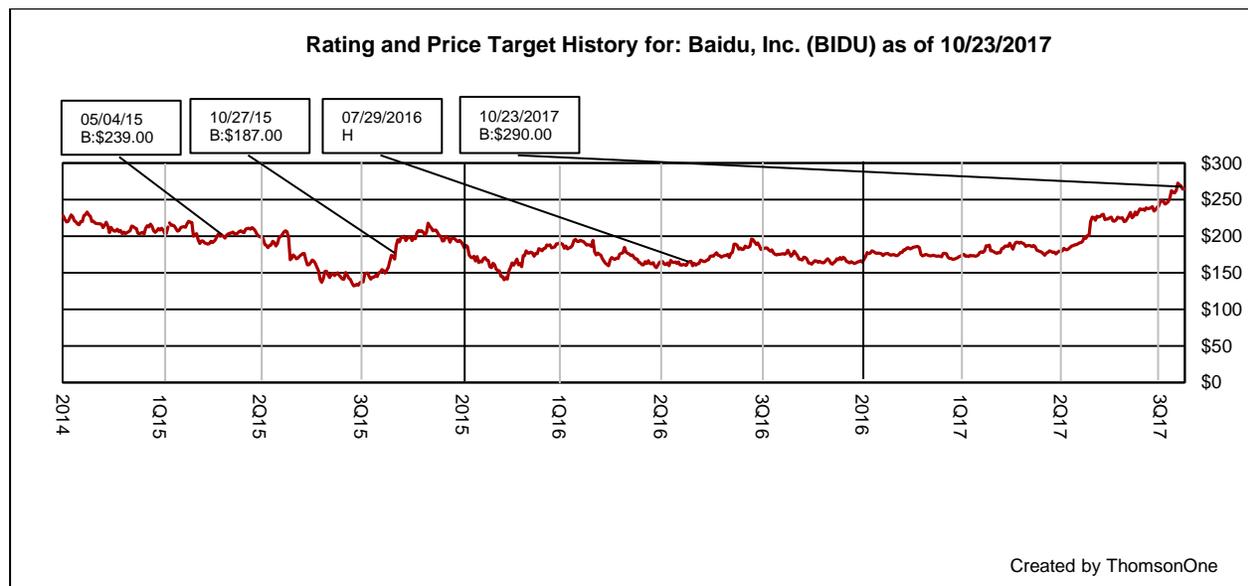
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