

Baidu, Inc.

April 28, 2015

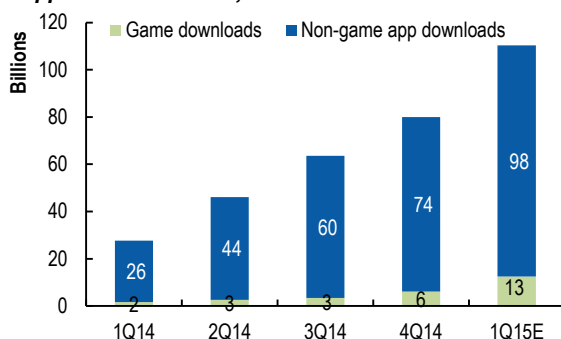
Mobile Drives 1Q15 Topline, Margin May Be Under Pressure from O2O Investment and Seasonality; Maintain Hold Rating

BIDU will report 1Q15 results on Wednesday, April 29th after the close of the market followed by an 8pm EST conference call. We are expecting BIDU to report 1Q revenue in line with the Street on strong mobile performance, and 2Q15 guidance to be at least in line with consensus. However, 2015 will be another investment year focused on rolling out new initiatives such as O2O, LBS, group-buy and food delivery, and continuing to promote its video business. While we believe these initiatives may help position Baidu for long term growth, margins may be pressured. As such, we maintain our Hold rating.

- Expect 1Q15 revenue to be better than consensus, but margin to be below** – We expect BIDU's 1Q15 revenue to come in towards the high-end of its guidance range of \$2.04B - \$2.11B, better than consensus at \$2.08B and our estimate at \$2.07B. We believe mobile can be a main driver. According to our proprietary data, BIDU's mobile app store including 91 Wireless as well as its major mobile apps continues to be strong. As of 1Q15, the cumulative number of downloads for BIDU was approximately 110.3B, up from 80.0B in 4Q14, or 37.9% Q/Q growth (Figure 1), while the average cumulative downloads of BIDU's mobile products increased 47.5% Q/Q to 15.5B in 1Q15 from 10.5B in 4Q14 (Figure 2). However, we believe that margins may be pressured in 1Q15 as BIDU has previously indicated that it will continue to invest aggressively in O2O, LBS and other major initiatives including video. We do not expect the company's net margin to be 18.5%, as indicated by consensus. We have modeled 15.5% net margin for 1Q15.

1Q15	Guidance	Consensus	TH Capital
Revenue	\$2.04B - \$2.11B	\$2.08B	\$2.07B
GAAP EPS		1.04	\$1.05

Figure 1: Mobile app store downloads, 1Q14 – 1Q15E



Source: T. H. DATA (www.thdata.com)

BIDU: HOLD

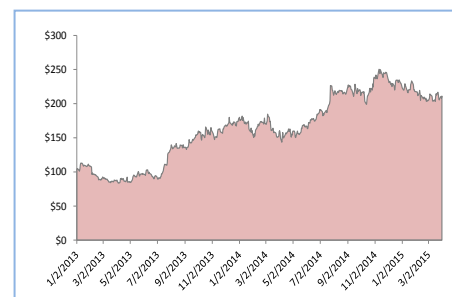
Price: \$219.00 (Intraday)

Target Price: N/A

52 Week Range:	\$251.99 - \$148.44
Market Cap:	\$76.88B
Avg. Daily Vol. (100 day):	3,142,060
3-Yr. Est. EPS CAGR:	22%
Net cash per share:	~\$14.80

FY (Dec)	2014A	2015E	2016E
Q1	\$1,528A	\$2,071E	\$3,062E
Q2	\$1,932A	\$2,684E	\$3,614E
Q3	\$2,203A	\$3,016E	\$3,916E
Q4	<u>\$2,265A</u>	<u>\$3,161E</u>	<u>\$4,045E</u>
Revenue*	\$7,906A	\$10,931E	\$14,636E
Q1	\$1.16A	\$1.05E	\$1.49E
Q2	\$1.63A	\$1.81E	\$2.23E
Q3	\$1.79A	\$2.11E	\$2.51E
Q4	<u>\$1.45A</u>	<u>\$2.02E</u>	<u>\$2.51E</u>
GAAP EPS	\$6.01A	\$6.99E	\$8.74E
P/E	36.4x	31.3x	25.1x

* Indicates total revenue including sales tax; Quarters may not add due to currency conversion All figures in millions unless otherwise noted



Tian X. Hou

+86 (10) 8567-0989

thou@thcapital-china.com

Gina Chen

(646) 389-8528

gchen@thcapital-china.com

- **Maintain Hold** – We do believe there is a risk to the current earnings expectation, and we may get clearer visibility post 1Q15 earnings. Therefore, we maintain our HOLD rating on BIDU. The stock is currently trading at a 25.1X PE multiple to our 2016 EPS estimate of \$8.74.
- **Risks** – 1) Mobile search revenue may not ramp up as rapidly as the company expected; 2) Over monetization in major sectors such as medical and healthcare may cause decline in revenue; 3) Tencent's monetization of WeChat may cause pressure of BIDU's customer development or ARPU; 4) Potential government policy toward healthcare and medical online advertising could have a negative impact on BIDU; and 5) Macroeconomic slowdown in China.
- **Dial-in information** – BIDU will report 1Q15 results on Wednesday, April 29th after the close of the market with an 8pm EST conference call, which can be accessed by dialing (845) 675-0437 with the passcode 24188456.

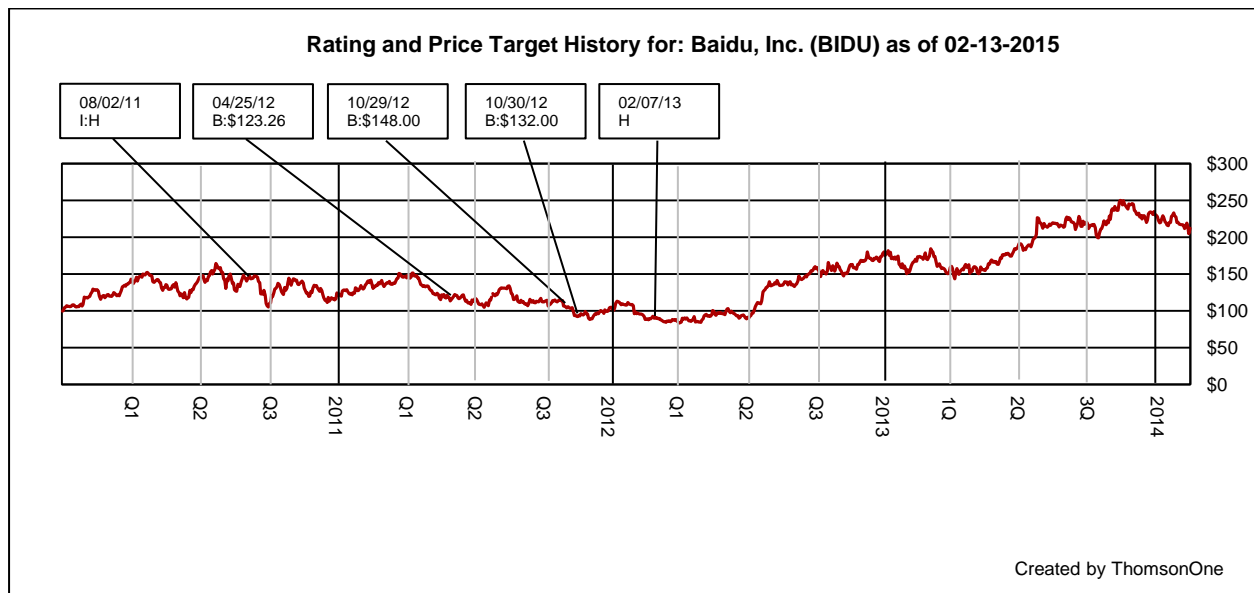
For the full note, please contact TH Capital.

Important Disclosures

RESEARCH ANALYST CERTIFICATION

I, Tian X. Hou, am the Primary Analyst responsible for this research report accurately reflect my personal views about any and all of the subject securities or issuers as of the date of the report. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views I expressed in this research report.

This report constitutes a compendium report (covers six or more subject companies). As such, T.H. Capital, LLC chooses to provide specific disclosures for the subject companies by reference. To access current disclosures for the subject companies, clients may e-mail a request to gchen@thcapital-china.com or may write or call T.H. Capital, LLC at 646-389-5868.



DEFINITION OF STOCK RATINGS

T. H. Capital Research's ratings are defined as follows:

BUY – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

HOLD – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

T. H. Capital's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

DISCLOSURE OF DISTRIBUTION OF RATINGS

T. H. Capital, LLC must disclose in each research report the percentage of all securities rated by the member to which the member would assign a “buy”, “hold” or “sell” rating. All required disclosures, including price charts, designating ratings and price targets on all T. H. Capital rated stocks are available upon request by contacting gchen@thcapital-china.com.

Below is the distribution of T. H. Capital’s research recommendations as of March 13, 2015:

Distribution of Ratings, Firm wide T. H. Capital, LLC		
Rating	Count	Percent
BUY (B)	6	30%
SELL (S)	0	0%
HOLD (H)	14	70%

INVESTMENT RECOMMENDATION RELATED RISK FACTORS

Investment risks associated with the recommendations and views herein include, but are not limited to, a company's failure to achieve T. H. Capital's earnings and revenue estimates; unforeseen global and domestic macroeconomic and/or industry events that affect demand for a company's products or services; changes in investor sentiment regarding the specific company or industry; intense and rapidly changing competitive pressures; the continuing development of industry standards; the company's ability to recruit and retain competent personnel; and adverse market conditions

This report reflects the results of our research as of the date of this report. Our research results are subject to change at any time as new or additional data and information is received and analyzed. T. H. Capital undertakes no duty to update this report, or to provide supplemental information to any client receiving this report, absent a specific arrangement to the contrary between TH Capital and individual clients, which arrangement may specify different frequency and depth of analysis and update commitments based on levels of service and fees selected by clients. Any opinions, forecasts or estimates in this report may present a possible outcome on the basis of assumptions set out herein and represent only one possible outcome and are the independent view of the author(s) of this report only. These opinions, forecasts or estimates are subject to risks, uncertainties and assumptions and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates.

T.H. CAPITAL, LLC DISCLOSURE LEGEND:

1. T. H. Capital, LLC is an independent research firm registered in China. It provides independent equity research services to institutional clients only. T. H. Capital, LLC is not a registered investment adviser, securities broker-dealer or a member of any association for other research providers.
2. T. H. Capital's compliance policy prohibits its research analysts from owning any positions in stocks under coverage.
3. T. H. Capital, LLC or its affiliates beneficially own 1% or more of the common stock of the subject company as calculated with Section 13(d) of the Securities Exchange Act of 1934.
4. The subject company is, or during the past 12 months was, a client of T. H. Capital, LLC, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services. The analyst or employees of T. H. Capital, LLC with the ability to influence the substance of this report knows the foregoing facts.
5. An affiliate of T. H. Capital, LLC received compensation from the subject company for products or services other than investment banking services during the past 12 months. The analyst or employees of T. H. Capital, LLC with the ability to influence the substance of this report know or have reason to know the foregoing facts.
6. As of the date of publication of this Report, neither T. H. Capital nor any of their affiliates have an actual or material conflict of interest with either the research in this Report or the Analyst.

GENERAL INFORMATION

This report is for the institutional clients and prospective clients of T. H. Capital, LLC, each of whom assume all risk and liability with regard to any use or application of the data included herein. Other than disclosures relating to T. H. Capital, this research report is based on current information that T. H. Capital considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. T. H. Capital seeks to update our research reports as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. Reproduction or editing by any means, in whole or in part, or any unauthorized use, disclosure or redistribution of the contents without the express written permission of T. H. Capital, LLC is strictly prohibited.

This research report is intended for informational purposes only. Under no circumstances is this report to be considered as an offer to sell or solicitation of an offer to buy any securities of any company. Users assume the entire cost and risk of any investment decision they choose to make, T. H. Capital, LLC shall not be liable for any loss or damages resulting from the use of the information contained in the report, or for error of transmission of information, or for any third party claims of any nature.

T. H. Capital provides the information and data contained herein on an "as is", "as available" basis, without representations or warranties of any kind whatsoever, expressed or implied. The information in this report may be incomplete and may not contain material information relating to the subject matter of the report. T. H. Capital has no authority whatsoever to give any information or make any representation or warranty on behalf of the company or companies that are the subject of this report, any of its shareholders or any other person in connection therewith and this report has not been authorized or approved by said company or companies. Nothing herein shall constitute a waiver or limitation of any person's rights under relevant federal or state securities laws.

It should be noted that all proprietary analyses provided by T. H. Capital in this report are derived from T. H. Capital's analytic expertise, market knowledge, and use of the data it collects. Some of the information in this report may have been obtained from confidential and proprietary sources.

This research report is not an offer to sell, or the solicitation to buy, any security in any jurisdiction where such an offer or solicitation would be illegal or unlawful. It does not constitute a personal recommendation, nor does it take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

All material contained in this report is the property of T. H. Capital unless otherwise indicated. All trademarks, service marks, logos and trade names used in this report are proprietary to T. H. Capital or other respective owners. This report is proprietary, confidential and provided for the exclusive use of the recipient. Any unauthorized use of the content of this report, including disclosure of confidential information contained within, is strictly prohibited.

In no event shall T. H. Capital or its officers, directors, affiliates, shareholders or employees be liable for any damages including special, incidental, or consequential damages that are directly or indirectly related to this report, including, without limitation, lost revenue or anticipated profits or lost business, and in no event shall the total liability of T. H. Capital for any and all losses and causes of action [whether in contract or in tort, including negligence or otherwise] arising from this report exceed in the aggregate the subscription fees paid to T. H. Capital by the applicable client for this report.