

Baidu, Inc.

July 22, 2015

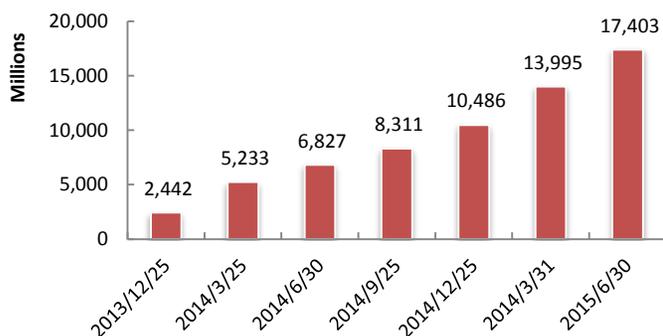
Search Business in Mobile Drives Growth; Investing in Nuomi May Lead to the Change in Financial Reporting; Maintain BUY Rating

BIDU will report 2Q15 results on Monday, July 27th after the close of the market followed by an 8pm EST conference call. We are expecting the company to report at least in line 2Q15 results, driven by its core search business, particularly strong mobile search. We believe its strength in mobile search can continue. For other businesses such as Nuomi, we believe its newly committed investment is likely to result in the rapid growth in GMVs as well as registered mobile users. As such, we maintain our Buy rating on the stock. In addition, we believe it makes sense for BIDU to provide a separate P&L for its search and other businesses that are in the stage of heavy investing including iQiyi and Nuomi. If the company does so, BIDU can benefit from a potentially new valuation method such as sum-of-the-parts.

- Mobile search grew significantly** – According to our proprietary data, the cumulative downloads of BIDU's mobile products increased to 17.4B in 2Q15 from 14.0B in 1Q15 (*Figure 1*), which was primarily driven by search apps at 976.4M, map/navigation apps at 631.1M, security apps at 519.6M and video apps at 423.2M vs. newly added downloads of 306M for search, 700M for map/navigation, 133M for security and 482M for video. We believe the newly added app downloads have a direct correlation with the active users of the associated apps and mobile search via search and map/navigation apps can be quite strong in 2Q15. In addition, its mobile app store also showed strong growth. Based on our data, as of 2Q15, the cumulative number of downloads for BIDU was approximately 107.3B, up from 95.1B in 1Q15 (*Figure 2*) with 12B newly added downloads.
- Please see page 2 for valuation and risks.**

For the full version of the note, please contact TH Capital.

Figure 1: Cumulative downloads of Baidu's major mobile apps, 12/25/2013 – 6/30/2015



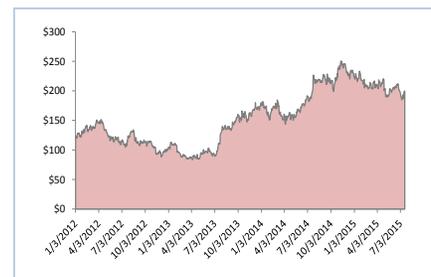
Source: T. H. DATA (www.thdata.com)

BIDU: Buy
Price: \$202.40
Target Price: \$239.00

52 Week Range:	\$251.99 - \$178.81
Market Cap:	\$71.1B
Avg. Daily Vol. (100 day):	3,334,680
3-Yr. Est. EPS CAGR:	28%
Net cash per share:	~\$15.00

FY (Dec)	2014A	2015E	2016E
Q1	\$1,528A	\$2,053A	\$2,953E
Q2	\$1,932A	\$2,674E	\$3,631E
Q3	\$2,203A	\$2,998E	\$3,993E
Q4	<u>\$2,265A</u>	<u>\$3,109E</u>	<u>\$4,134E</u>
Revenue*	\$7,906A	\$10,834E	\$14,711E
Q1	\$1.16A	\$1.09A	\$1.68E
Q2	\$1.63A	\$2.15E	\$2.77E
Q3	\$1.79A	\$2.15E	\$2.91E
Q4	<u>\$1.45A</u>	<u>\$2.04E</u>	<u>\$2.95E</u>
GAAP EPS	\$6.01A	\$7.44E	\$10.31E
P/E	33.7x	27.2x	19.6x

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



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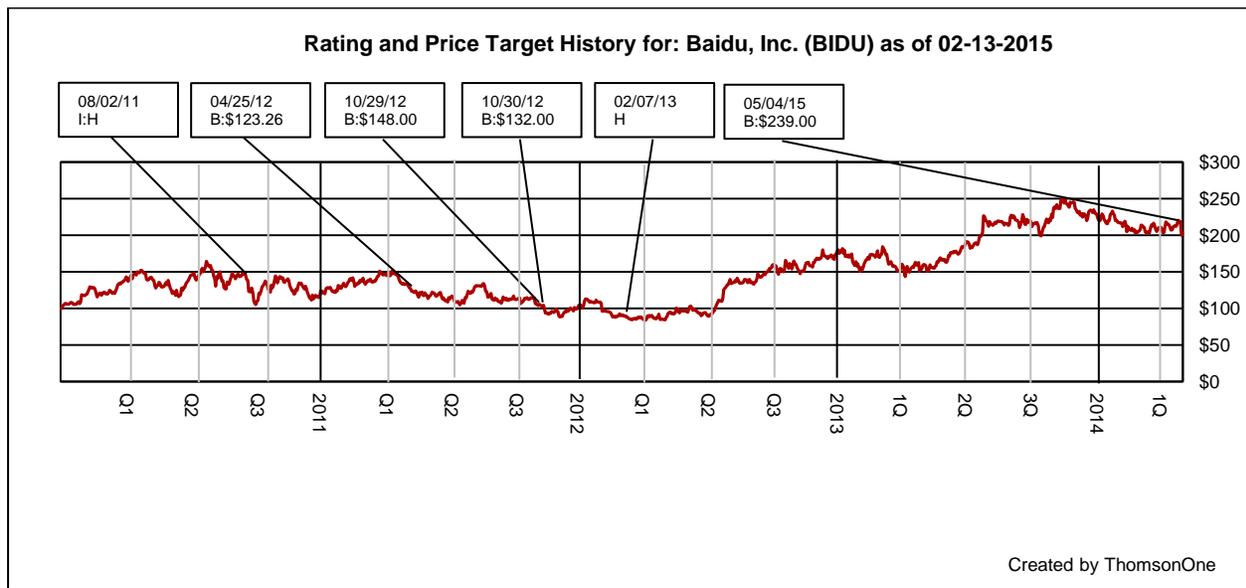
- **Maintain BUY** – We maintain our Buy rating and price target of \$239, which is based on a 22X PE multiple to our 2016 non-GAAP EPS estimate of \$10.87. The 22X PE multiple, we believe, can be supported by the average growth rate of its earnings in three years from 2014 – 2016 at 27.2%. We believe such multiple can be conservative compared with its historical 12-months forward PE at 26X. The stock is currently trading at an 18.6X PE multiple to our 2016 non-GAAP EPS estimate of \$10.87.
- **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 to 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 2Q15 results on Monday, July 27th after the close of the market with an 8pm EST conference call, which can be accessed by dialing (845) 675-0437 with the passcode 79830113.

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