

## Baidu, Inc.

February 23, 2016

### Expect 4Q15 Results To Be At Least In Line; 2016 Full Year Consensus Is Low; Maintain BUY Rating

BIDU will report 4Q15 results on Thursday, February 25 after the close of the market followed by an 8pm EST conference call. We do not have anything special to say about BIDU's 4Q15, and we are expecting 4Q15 results to be at least in line but highly likely to be better than consensus expectation. However, we do believe the current consensus for 2016 revenue growth at 24.5% Y/Y is too low as BIDU's subsidiaries including Nuomi and food delivery are likely to drive higher growth. This high growth can be the result of BIDU's strong intention to list these subsidiaries in the local market. In order to have a better valuation, BIDU is pushing for more market share gains. We maintain our Buy rating.

- Local capital market may provide capital support for its new initiatives, which can be good for BIDU's topline and bottom line** - Many US listed ADRs announced their privatization in 2015 to take advantage of two things from the local market: 1) lack of IT/internet stocks; and 2) high valuation (even at today's level, the average PE for local market is more than 50X). While we don't expect BIDU to go private, we do believe BIDU is highly likely to carve out or privatize these subsidiaries and list them in the local market. With the capital from local market, BIDU can continue to support the growth of these subsidiaries, which are strategically important for BIDU to compete in the mobile stage. As such, aiming at higher valuations, we believe BIDU is going to push for more market share gain for these subsidiaries via rapid growth, which is positive to BIDU's topline. In the case of carving out or privatizing these subsidiaries, it can be positive for BIDU's bottom line results as all these subsidiaries are losing money. On Feb. 12, Baidu announced that it received a non-binding offer from Mr. Robin Li, CEO of Baidu and Mr. Yu Gong, CEO of Qiyi.com to acquire all 80.5% of Qiyi's total outstanding shares beneficially owned by Baidu based on an enterprise value of \$2.8B for 100% of Qiyi. The stock price was up on the news as Qiyi has been a drag on Baidu's bottom line. Therefore, while BIDU is in the process of dealing with each of these subsidiaries, we are about to see better topline and bottom line growth.

**BIDU: Buy**

**Price: \$168.67**

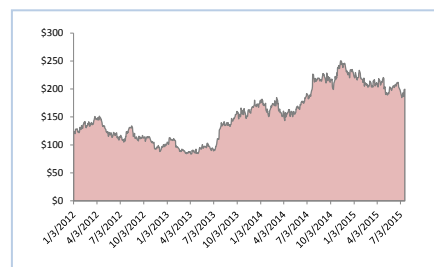
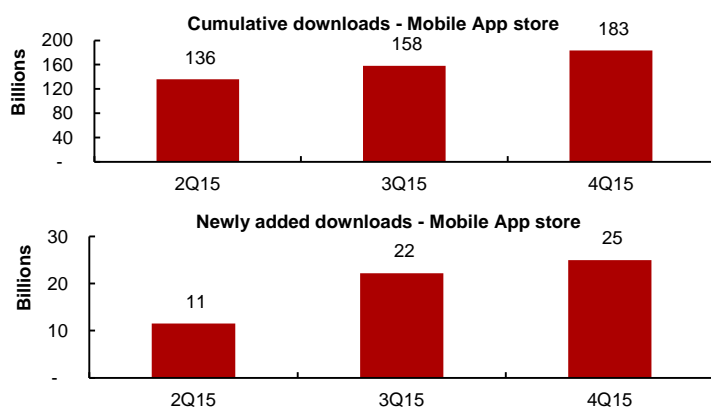
**Target Price: \$187.00**

<b>52 Week Range:</b>	<b>\$223.95 - \$100.00</b>
<b>Market Cap:</b>	<b>\$58.3B</b>
<b>Avg. Daily Vol. (100 day):</b>	<b>3,968,220</b>
<b>Net cash per share:</b>	<b>\$15.48</b>

FY (Dec)	2014A	2015E	2016E
Q1	\$1,528A	\$2,053A	\$2,507E
Q2	\$1,932A	\$2,673A	\$3,122E
Q3	\$2,203A	\$2,892A	\$3,413E
Q4	<u>\$2,265A</u>	<u>\$2,822E</u>	<u>\$3,559E</u>
Revenue*	\$7,906A	\$10,079E	\$12,600E
Previous Rev.	N/A	\$10,476E	\$13,908E
Q1	\$1.16A	\$1.09A	\$0.84E
Q2	\$1.63A	\$1.64A	\$1.50E
Q3	\$1.79A	\$1.25A	\$1.84E
Q4	<u>\$1.45A</u>	<u>\$1.00E</u>	<u>\$1.91E</u>
GAAP EPS	\$6.01A	\$4.79E	\$6.10E
Previous EPS	N/A	\$4.74E	\$7.49E
P/E	28.1x	35.2x	27.7x

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

**Figure 1: Cumulative Downloads and Newly Added Downloads, 2Q15 – 4Q15**



Source: T. H. Data ([www.thdata.com](http://www.thdata.com))

- Please see page 2 for valuation and risks.**

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- **Maintain BUY** – We maintain our Buy rating and our price target of \$187.00. Our price target of \$187.00 is based on a 21X PE multiple to our new 2017 non-GAAP EPS estimate of \$8.70. We believe such multiple is reasonable compared with its historical 12-month forward PE at 26X. The stock is currently trading at a 24X PE multiple to our 2016 non-GAAP EPS estimate of \$6.92.
- **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.
- **Dial-in information** – BIDU will report 4Q15 results on Thursday, February 25 after the close of the market with an 8pm EST conference call, which can be accessed by dialing (845) 675-0437 with the passcode 33561999.

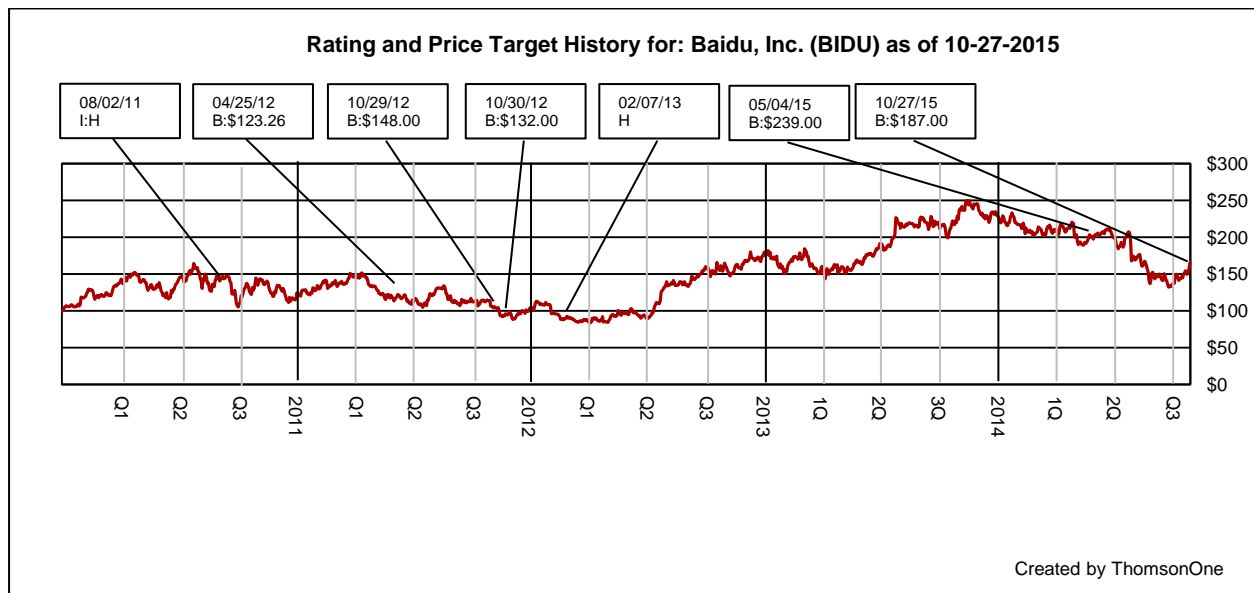
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