

## Baidu, Inc.

July 26, 2016

### Expect 2Q16 Results To Be In Line With Preannounced Guidance; 3Q16 Consensus Can Be Conservative; Maintain BUY

BIDU will report 2Q16 results on Thursday, July 28 after the close of the market followed by an 8pm EST conference call. We are expecting the company to report 2Q revenue in line with its preannounced guidance of 9% - 10% Y/Y growth. 2Q16 is a bad quarter for BIDU, as 1) the death of a young cancer patient triggered the government to review BIDU's medical and healthcare sector; and 2) the search business is now classified as advertising, in which two-thirds of BIDU's revenue will incur another 3% tax as cost, which will impact the gross margin by 2%. After all these negatives, we believe that at least in the midterm, the negatives and uncertainties are in the stock and BIDU will still be a dominant vendor in online search before mobile search replaces PC. Therefore, we maintain our BUY rating. However, we suspend our price target as BIDU is fairly valued today and we will revisit our PT after earnings.

- Expect 2Q16 in line with preannouncement; downward adjustment to 2016 revenue and margins** – We expect BIDU to report 2Q16 revenue in line with its revised guidance range of RMB18,100M – RMB18,200M (\$2,807M - \$2,823M) or 9% - 10% Y/Y growth and consensus at revenue of RMB18,200.4M. The main reason behind the revised guidance is due to an incident in which a young cancer patient died after following medical advice that he found by searching BIDU. This incident triggered a regulatory review of all medical and healthcare advertising on BIDU's platform, and it also led to the termination of BIDU's business with military related hospitals. Therefore, the company's revenue is impacted. Another issue is the new tax rule, which adds ~3% as business tax to two-thirds of BIDU's revenues. Therefore, we are making downward adjustments to our 2Q16 and full year 2016 revenue estimates to \$2,710M and \$11,188M, respectively, and our GAAP EPS to \$1.06 and \$4.37, respectively.

2Q16	Guidance	Consensus	TH Capital
Revenue	RMB18,100M - RMB18,200M	RMB18,200.4M	RMB15,839.23M
GAAP EPS		RMB5.52	RMB5.52

- Expect 3Q16 guidance to be better than consensus** – While the healthcare incident is negative to BIDU's revenue, consensus at revenue of \$3,003.6M or 4% Y/Y growth in USD terms (8% in RMB terms) in 3Q16 could be too conservative. We believe the regulatory review and loss of business are over and BIDU's business is back to a new normal. In addition, the upcoming Olympics, which will take place in 3Q16, is likely to be a positive boost to BIDU. Therefore, we believe there could be upside to 3Q16 estimates.
- Maintain BUY** but we will revisit our price target after earnings – We maintain our Buy rating based on the midterm outlook. But we suspend our current price target of \$187.00 as it indicates 29.3X our 2017E non-GAAP EPS of \$6.39, which we believe is high compared with its EPS growth. We will revisit our price target after earnings.
- Risks** – 1) Advertising for fake goods such as fraudulent education certificates, fraudulent receipts, etc. can be a time bomb for the company; 2) Rapid mobile

**BIDU: Buy**

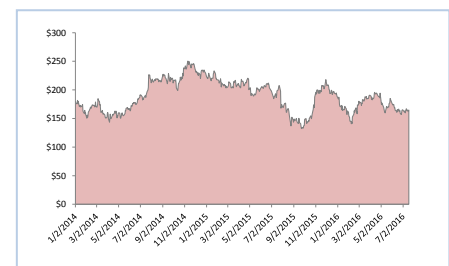
**Price: \$160.25**

**Target Price: N/A (was \$187.00)**

<b>52 Week Range:</b>	<b>\$217.97 - \$100.00</b>
<b>Market Cap:</b>	<b>\$55.49B</b>
<b>Avg. Daily Vol. (100 day):</b>	<b>3,892,941</b>
<b>Net cash per share:</b>	<b>\$16.20</b>

FY (Dec)	2015A	2016E	2017E
Q1	\$2,053A	\$2,454A	\$2,957E
Q2	\$2,673A	\$2,710E	\$3,509E
Q3	\$2,892A	\$2,987E	\$3,807E
Q4	<u>\$2,4887A</u>	<u>\$3,124E</u>	<u>\$3,980E</u>
Revenue*	\$10,248A	\$11,188E	\$14,253E
Previous Rev.	N/A	\$12,600E	\$15,557E
Q1	\$1.09A	\$0.83A	\$0.86E
Q2	\$1.64A	\$1.06E	\$1.32E
Q3	\$1.25A	\$1.15E	\$1.59E
Q4	<u>\$10.95A</u>	<u>\$1.35E</u>	<u>\$1.90E</u>
GAAP EPS	\$14.69A	\$4.37E	\$5.67E
Previous EPS	N/A	\$6.10E	\$7.74E
P/E	10.9x	36.7x	28.3x

\* 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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search adoption may hurt BIDU's revenue as there are less search advertising places on mobile than PC; 3) Possibilities of failure in O2O business; 4) PC monetization declines faster than expected; and 5) Macroeconomic slowdown in China.

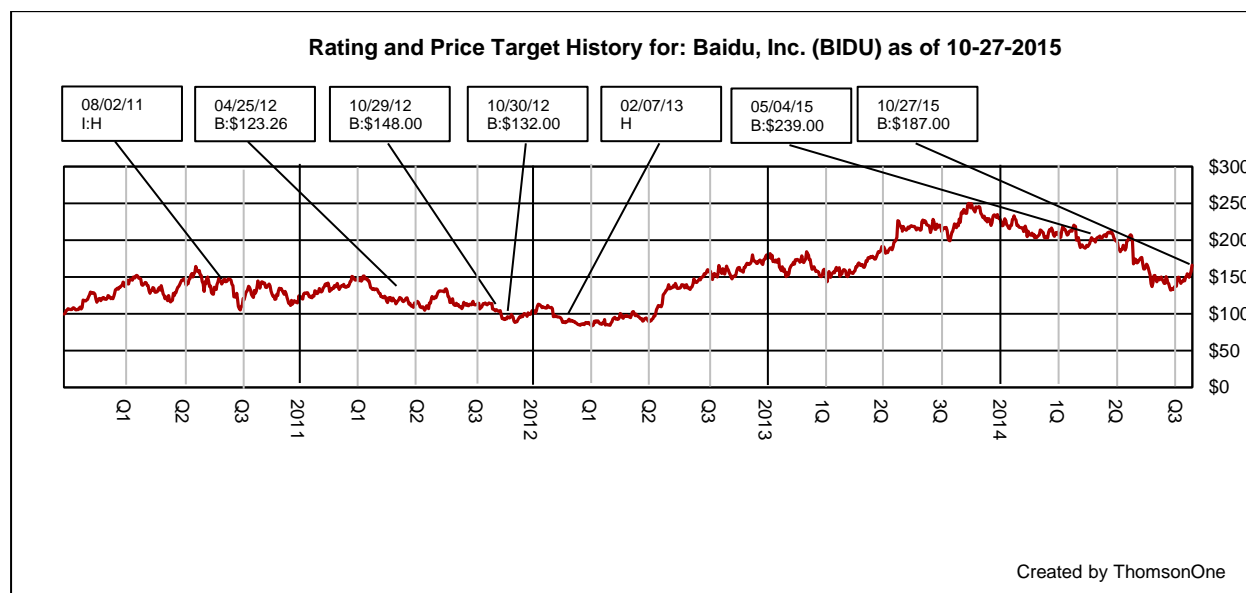
- **Dial-in information** – BIDU will report 2Q16 results on Thursday, July 28 after the close of the market with an 8pm EST conference call, which can be accessed by dialing (845) 675-0437 with the passcode 6419408.

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