Baidu.com (BIDU US & 9888 HK)

Baidu 3Q26 Preview: Cloud Carries the Quarter, Ads and Depreciation Cut Earnings; Trim PT, Stay OW

We maintain Overweight on Baidu but cut our 2026E and 2027E non-GAAP net income by 15% and 42% ahead of 3Q26 results. Two changes drive the cut. Online marketing is weakening further, and we see no reset in AI search monetization before Baidu sets its 2027 plan. The 2026 step up in capex also raises our depreciation assumption, most visibly in 2027E. Neither change touches the reason to own the stock: our case rests on GPU Cloud and Kunlunxin, and we expect 3Q26 to show AI Cloud Infra reaccelerating with better cash conversion. **We trim our Jun-2027 PTs to US$145 for BIDU US and HK$140 for 9888 HK, from US$175 and HK$170, respectively.**

- **Cloud Infra should reaccelerate, and its revenue quality is improving.** We forecast 3Q26 AI Cloud Infra revenue of about RMB8bn, up roughly 90% YoY and 10% QoQ, after 50% YoY growth in 2Q26. We believe more GPU Cloud customers now prepay to secure scarce high-end compute, and that contract terms are stretching from about 12 months toward two to three years. September investor discussions centered on Kunlunxin timing; we think this print shifts the debate toward cloud revenue that arrives as cash before the service is delivered.
- **The cash floor looks sturdier than investors fear.** Investors have asked whether AI capex will consume the net cash that anchors the valuation. We estimate 3Q26 capex fell below RMB8bn from RMB11.4bn in 2Q26, and we expect operating cash flow to stay positive for a fifth consecutive quarter, helped by customer prepayments and by redeploying existing compute to external clients. We see no need for an equity or convertible raise, and we keep our 20% haircut to net cash.
- **Valuation and risks:** The PT cut is modest because the businesses behind the estimate cuts, AI native marketing and legacy search, make up only about 13% of our SOTP; cloud, Kunlunxin and net cash account for over 80%. The nearest risk is our own capex: if 3Q26 AI Cloud Infra capex falls short of RMB7bn, we will judge whether lower spending reflects capital efficiency or weaker demand, with GPU Cloud growth above 100% as the deciding test. Other risks include a deeper ad decline, weaker cloud pricing if compute supply loosens, and further Kunlunxin delays; our valuation assumes no listing date.
- **What we expect in 3Q26:** We expect Baidu General revenue to return to slight YoY growth as AI Cloud Infra offsets the ad decline, while non-GAAP operating profit falls to its 2026 low.
- **Cloud does the work at the top line.** We forecast AI Cloud Infra revenue of about RMB8.0bn, roughly RMB3.7bn more than a year ago, against an online marketing decline of about RMB3.1bn. AI powered businesses should reach about 52% of Baidu General revenue, a new high. We expect Cloud Infra to grow again sequentially in 4Q26.

China

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Baidu.com	9888 HK	21,146	HKD	75.10	OW	n/c	140.00	Jun-27	170.00	n/c
Baidu.com (BIDU)	BIDU US	21,538	USD	77.98	OW	n/c	145.00	Jun-27	175.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 22 Oct 26.

See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: Key forecasts for 3Q26

YE 31 Dec Figures in RMBm except for per share data	3Q26 JPMe	 Consensus	 % delta	3Q25 Actual	2Q26 Actual	YoY %	QoQ %
Net revenues	**30,686**	**30,649**	**0%**	**31,174**	**31,325**	**-2%**	**-2%**
Baidu core	*24,772*			24,659	25,183	0%	-2%
iQiyi	*6,114*			*6,682*	*6,287*	-9%	-3%
Interseg deductions	*(200)*			*(167)*	*(145)*	-20%	-38%
Gross profit	11,904	11,046	8%	12,859	12,227	-7%	-3%
EBIT (GAAP)	717			(15,091)	3,024	*-105%*	-76%
EBIT (non GAAP)	1,606			2,205	3,785	-27%	-58%
Baidu core	1,557			2,225	3,817	-30%	-59%
iQiyi	48			(22)	(30)	-322%	-260%
PBT (GAAP)	1,437			(13,145)	3,208	-111%	-55%
Net income (GAAP)	1,169	2,224	-47%	(11,232)	2,319	-110%	-50%
Net income (Non-GAAP)	**2,058**	**2,693**	**-24%**	**3,770**	**2,573**	**-45%**	**-20%**
EPADS (GAAP)							
Diluted	5.97	8.98	-33%	-33	7	**-118%**	-11%
EPADS (Non GAAP)							
Diluted	**5.97**	**9.75**	**-39%**	**11**	**7**	**-46%**	**-20%**

Source: J.P. Morgan estimates, Bloomberg Finance L.P. (as of Oct 23, 2026).

Table 2: Baidu SOTP table

US$, mn	Valuation basis	Valuation multiple	Shareholding %	Valuation
AI cloud infra (ex Kunlun chip sales)	EV/sales	2.5x 2027E AI cloud infra revenue	100%	14,658
Kunlun	EV/sales	15x 2027E Kunlun chip revenue	67% (50% HoCo discount)	11897
AI Applications	P/E	8x 2027E AI application profit	100%	520
AI native marketing services	P/E	5x 2027E AI marketing profit	100%	1,987
Legacy Business	P/E	3x 2027E traditional search profit	100%	4,700
IQ			45%	389
TCOM			7%	1,666
Net cash				13,830
Total valuation (US$, nm)				63,830
# of FD ADS (mn)				346
Value per share (US$)				**145**

Source: J.P. Morgan estimates. (as of Oct 23, 2026)

Earnings hit their trough. We forecast group non-GAAP operating profit of about RMB1.6bn, down 27% YoY and less than half the RMB3.8bn of 2Q26, for a Baidu General margin of about 6%. Three pressures land together: the ad decline removes high margin revenue, depreciation rises on 2Q26's RMB11.4bn of capex, and model training spend on data, talent and compute steps up. We expect margins to recover in 4Q26, though not to 2Q26 levels while ads stay weak.

Below the line is cleaner but smaller. We expect a smaller FX hit than the RMB1.2bn loss in 2Q26, but interest income keeps drifting lower (RMB1.7bn in 2Q26 versus RMB1.9bn in 3Q25) as cash moves into compute. After a 31% tax rate in 2Q26, we assume 20% for 3Q26 and forecast non-GAAP net income of about RMB2.0bn, down 47% YoY.

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Four debates into the print:

September investor discussions on Baidu centered on Kunlunxin timing and the cash floor, while the sector debate centered on whether cloud compute earns its cost. The 3Q26 print supplies evidence on all four debates below.

Does cloud growth earn a return, or just consume capex?

Investors across China's cloud providers want proof in utilization, pricing and cash recovery, not revenue alone. We think Baidu holds three advantages. It can redeploy compute bought earlier at lower prices, some of it previously used internally, so new revenue does not need matching new capex. Demand for high end GPU cloud in China is growing faster than supply, which favors the few providers with top tier capacity on both price and payment terms. And customers increasingly prepay and sign two-to-three-year terms, which narrows the gap between spending and cash.

The risks are real. Longer contracts can lock in prices below future spot, rising storage costs squeeze margins unless passed through, and visibility falls as terms lengthen; we expect Baidu to turn down long contracts at thin margins. We also do not reinstate the segment growth premium over peers that we retired in August: growth of about 90% YoY partly reflects a soft base, as Cloud Infra fell to RMB4.2bn in 3Q25 from RMB4.9bn in 2Q25. Sequential growth of about 10% is the cleaner signal.

What the print can show: GPU Cloud growth, Cloud Infra QoQ growth, and the change in customer deposits and deferred revenue on the balance sheet.

Does the cash floor survive the buildout?

Net cash supplies 28% of our SOTP, so the question we heard in September matters: will capex consume it? 2Q26 sharpened the concern, with capex of RMB11.4bn against operating cash flow of RMB3.4bn and gross borrowings up about RMB14bn in 1H26. We think 3Q26 eases it. We estimate capex below RMB8bn, and we expect operating cash flow, positive in each of the four quarters since 3Q25, to stay positive.

Prepayments now fund part of new procurement and onshore bank credit remains cheap, so we see no need for a placement or convertible. We keep our 20% haircut to net cash rather than widen it.

What the print can show: operating cash flow, capex, gross debt, buyback pace, and any update on the year-end dividend.

When does AI search start to monetize?

Part of the ad decline is Baidu's own choice. AI generated answers now fill much of the search page (about 70% of mobile result pages carried AI content by October 2025), which displaces ad slots and adds compute cost, while Baidu holds back

monetization to protect user experience. We doubt the current trade of more resources and IT cost for little new revenue can last, but we see no reset before Baidu sets its 2027 plan.

We therefore model continued declines through 4Q26 and treat earlier monetization as upside that our estimates exclude.

What the print can show: the online marketing trend into 4Q26, AI native marketing QoQ, and any signal on 2027 monetization.

Is Kunlunxin still a catalyst?

Kunlunxin filed confidentially for a Hong Kong listing in January 2026, but no public timetable exists, and investor patience wore thin over the summer. We value Kunlunxin at about US$34 per ADS (15x 2026E chip revenue on a 67% stake, after a 50% holdco discount) and assume no listing date and no distribution to Baidu shareholders. A listing would crystallize value, but the parent case does not depend on its timing.

Separately, Baidu's Hong Kong dual primary listing took effect on September 1, and its shares joined both Southbound Stock Connect programs in early September. That settles one structural question for the parent and adds a new marginal buyer.

What would move us*:* a public prospectus or listing hearing, or a defined mechanism for Baidu holders to share in Kunlunxin value.

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Overweight

9888.HK,9888 HK

Price (22 Oct 26): HK$75.10

▼ **Price Target (Jun-27): HK$140.00**
Prior (Jun-27): HK$170.00

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	41.61	35.24	-15.3%
Adj. EPS - 27E (Rmb)	75.35	43.42	-42.4%

Quarterly Forecasts (FYE Dec)

Adj. EPS (Rmb)

	2025A	2026E	2027E
Q1	18.74	12.54A	9.46
Q2	14.05	7.47A	11.20
Q3	11.12	5.97	9.41
Q4	11.33	9.24	13.35
FY	55.29	35.24	43.42

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	11	17	14	16	11
Growth	72	57	81	13	6
Momentum	86	39	84	18	93
Quality	75	69	66	74	57
Low Vol	68	70	64	89	53
ESGQ	9	18	11	91	-

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Baidu Inc *(Overweight; Price Target: HK$140.00)*

Investment Thesis

Maintain OW. The reasons to own the stock are concentrated in its rapidly scaling GPU Cloud and Kunlunxin, with limited value implied for ERNIE applications, Apollo Go and legacy search. Our PT reflects valuations for AI-native Marketing and Cloud and a haircut to net cash as the buildout absorbs more capital

Valuation

Our Jun-27 PT of HK$140 is based on our US$145 price target (SOTP-based), using a ratio of 8 ordinary shares per ADS and a USD/HKD exchange rate of 7.77.

SOTP valuation

US$, mn	Valuation basis	Valuation multiple	Shareholding %	Valuation
AI cloud infra (ex Kunlun chip sales)	EV/sales	2.5x 2027E AI cloud infra revenue	100%	14,658
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Source: J.P. Morgan estimates, Bloomberg Finance L.P. (data as of Oct 23, 2026).

Risks to Rating and Price Target

Downside risks include: 1) slower-than-expected Baidu core advertising growth due to weak advertiser demand and competition; 2) stronger-than-expected competition in China's autonomous driving market; and 3) stronger-than-expected competition in China's cloud market. Potential upside catalysts include an earlier-than-expected recovery in sector sentiment and a stronger-than-expected recovery of ad revenue.

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Price Performance



— 9888.HK Price (HK$) — HSI (rebased)

	YTD	1m	3m	12m
Abs	-42.9%	-16.1%	-28.1%	-34.8%
Rel	-32.4%	-7.5%	-20.2%	-23.7%

Company Data

Shares O/S (mn)	2,210
52-week range (HK$)	161.20-74.85
Market cap ($ mn)	21,146
Exchange rate	7.85
Free float (%)	94.2%
3M ADV (mn)	13.00
3M ADV ($ mn)	152.6
Volatility (90 Day)	45
Index	HSI
BBG ANR (Buy | Hold | Sell)	32|2|0

Key Metrics (FYE Dec)

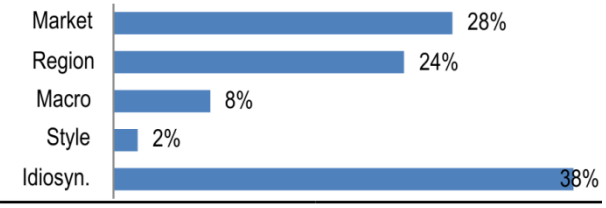
Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	129,079	127,437	146,644	174,963
Adj. EBIT	(2,218)	12,270	14,058	23,673
Adj. EBITDA	12,220	26,288	30,628	40,295
Adj. net income	18,941	12,145	14,954	23,294
Adj. EPS	55.29	35.24	43.42	67.64
BBG EPS	6.50	4.81	5.89	6.94
Cashflow from operations	(3,013)	26,406	41,241	42,391
FCFF	(20,194)	(6,984)	13,687	13,383
Margins and Growth				
Revenue Growth Y/Y (%)	(3.0%)	(1.3%)	15.1%	19.3%
EBIT margin	(1.7%)	9.6%	9.6%	13.5%
EBIT Growth Y/Y (%)	(108.5%)	(653.2%)	14.6%	68.4%
EBITDA margin	9.5%	20.6%	20.9%	23.0%
EBITDA Growth Y/Y (%)	(70.0%)	115.1%	16.5%	31.6%
Net margin	14.7%	9.5%	10.2%	13.3%
Adj. EPS growth	(28.4%)	(36.3%)	23.2%	55.8%
Ratios				
Adj. tax rate	12.2%	16.4%	13.8%	15.4%
Interest cover	NM	NM	NM	NM
Net debt/Equity	0.1	0.1	0.1	0.0
Net debt/EBITDA	3.3	1.6	0.9	0.2
ROE	6.6%	4.1%	4.9%	7.3%
Valuation				
FCFF yield	(92.3%)	(31.7%)	62.2%	60.8%
Dividend yield	-	-	-	-
EV/Revenue	1.4	1.4	1.1	0.9
EV/EBITDA	14.9	7.0	5.5	3.8
Adj. P/E	1.2	1.8	1.5	0.9

Summary Investment Thesis and Valuation

Maintain OW. The reasons to own the stock are concentrated in its rapidly scaling GPU Cloud and Kunlunxin, with limited value implied for ERNIE applications, Apollo Go and legacy search. Our PT reflects valuations for AI-native Marketing and Cloud and a haircut to net cash as the buildout absorbs more capital.

Our Jun-27 PT of HK$140 is based on our US$145 price target (SOTP-based), using a ratio of 8 ordinary shares per ADS and a USD/HKD exchange rate of 7.77.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.54	0.53
Region: China	0.65	0.58
Macro:		
Emerging Central Bank Rate	-0.35	-0.39
US 10 Year Yield	0.37	0.27
Emerging Economies CPI(YoY)	0.38	0.25
Quant Styles:		
Momentum	-0.46	-0.22
Size	-0.31	-0.15
Value	0.22	0.11

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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Baidu.com: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E
Revenue	**133,125**	**129,079**	**127,437**	**146,644**
COGS	(66,102)	(72,436)	(77,287)	(89,659)
Gross profit	**67,023**	**56,643**	**50,150**	**56,985**
SG&A	(22,193)	(24,662)	(21,166)	(26,306)
Adj. EBITDA	**40,682**	**12,220**	**26,288**	**30,628**
D&A	(14,628)	(14,438)	(14,018)	(16,571)
Adj. EBIT	**26,054**	**(2,218)**	**12,270**	**14,058**
Net Interest	5,138	5,818	3,687	2,976
Adj. PBT	**33,406**	**10,321**	**14,537**	**17,405**
Tax	(4,447)	(1,259)	(2,380)	(2,409)
Minority Interest	(415)	132	119	(42)
Adj. Net Income	**27,002**	**18,941**	**12,145**	**14,954**
Reported EPS	67.93	16.31	26.37	28.21
Adj. EPS	**77.20**	**55.29**	**35.24**	**43.42**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	350	343	345	344

Balance Sheet	FY24A	FY25A	FY26E	FY27E
Cash and cash equivalents	24,832	24,606	22,855	39,106
Accounts receivable	10,104	12,972	9,810	16,406
Inventories	-	-	-	-
Other current assets	133,913	114,392	114,392	114,392
Current assets	**168,849**	**151,970**	**147,057**	**169,904**
PP&E	30,102	26,281	42,569	50,988
LT investments	140,256	168,780	169,673	169,673
Other non current assets	88,573	102,126	102,126	102,126
Total assets	**427,780**	**449,157**	**461,425**	**492,691**
Short term borrowings	10,669	7,626	7,626	7,626
Payables	41,443	38,891	53,176	53,628
Other short term liabilities	28,841	39,811	26,436	47,576
Current liabilities	**80,953**	**86,328**	**87,238**	**108,830**
Long-term debt	36,347	57,733	57,733	57,733
Other long term liabilities	26,868	15,370	15,370	15,370
Total liabilities	**144,168**	**159,431**	**160,341**	**181,933**
Shareholders' equity	283,612	289,726	301,084	310,758
Minority interests	-	-	-	-
Total liabilities & equity	**427,780**	**449,157**	**461,425**	**492,691**
BVPS	**813.22**	**850.18**	**886.43**	**915.33**
y/y Growth	*8.7%*	*4.5%*	*4.3%*	*3.3%*
Net debt/(cash)	22,184	40,753	42,504	26,253

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E
Cash flow from operating activities	**21,234**	**(3,013)**	**26,406**	**41,241**
o/w Depreciation & amortization	14,628	14,438	14,018	16,571
o/w Changes in working capital	(27,468)	(25,847)	4,072	14,996
Cash flow from investing activities	**(8,555)**	**(25,136)**	**(30,306)**	**(24,990)**
o/w Capital expenditure	(8,134)	(12,073)	(30,306)	(24,990)
as % of sales	*6.1%*	*9.4%*	*23.8%*	*17.0%*
Cash flow from financing activities	**(13,759)**	**17,142**	**0**	**0**
o/w Dividends paid	0	0	0	0
o/w Shares issued/(repurchased)	0	0	0	0
o/w Net debt issued/(repaid)	415	14,899	0	0
Net change in cash	**(399)**	**(226)**	**(1,751)**	**16,251**
Adj. Free cash flow to firm	**8,646**	**(20,194)**	**(6,984)**	**13,687**
y/y Growth	*(59.2%)*	*(333.6%)*	*(65.4%)*	*(296.0%)*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E
Gross margin	50.3%	43.9%	39.4%	38.9%
EBITDA margin	30.6%	9.5%	20.6%	20.9%
EBIT margin	19.6%	(1.7%)	9.6%	9.6%
Net profit margin	20.3%	14.7%	9.5%	10.2%
ROE	9.9%	6.6%	4.1%	4.9%
ROA	6.5%	4.3%	2.7%	3.1%
ROCE	7.0%	(0.6%)	2.8%	3.3%
SG&A/Sales	16.7%	19.1%	16.6%	17.9%
Net debt/Equity	0.1	0.1	0.1	0.1
Net debt/EBITDA	0.5	3.3	1.6	0.9
Sales/Assets (x)	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.5	1.5	1.6
Interest cover (x)	NM	NM	NM	NM
Operating leverage	695.7%	3570.4%	51350.2%	96.6%
Tax rate	13.3%	12.2%	16.4%	13.8%
Revenue y/y Growth	(1.1%)	(3.0%)	(1.3%)	15.1%
EBITDA y/y Growth	(5.6%)	(70.0%)	115.1%	16.5%
EPS y/y Growth	(4.8%)	(28.4%)	(36.3%)	23.2%

Valuation	FY24A	FY25A	FY26E	FY27E
P/E (x)	0.8	1.2	1.8	1.5
P/BV (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	4.0	14.9	7.0	5.5
Dividend Yield	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Baidu.com (BIDU)

Overweight

BIDU,BIDU US
Price (22 Oct 26): $77.98

▼ **Price Target (Jun-27): $145.00**
Prior (Jun-27): $175.00

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Key Changes (FYE Dec)

	Prev	Cur	Δ
Adj. EPS - 26E (Rmb)	41.61	35.24	-15.3%
Adj. EPS - 27E (Rmb)	75.35	43.42	-42.4%

Quarterly Forecasts (FYE Dec)

Adj. EPS (Rmb)	2025A	2026E	2027E
Q1	18.74	12.54A	9.46
Q2	14.05	7.47A	11.20
Q3	11.12	5.97	9.41
Q4	11.33	9.24	13.35
FY	55.29	35.24	43.42

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	14	22	18	19	18
Growth	77	74	81	7	17
Momentum	87	61	79	25	76
Quality	81	84	64	51	46
Low Vol	72	74	65	86	72

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

Baidu 3Q26 Preview: Cloud Carries the Quarter, Ads and Depreciation Cut Earnings; Trim PT, Stay OW

We maintain Overweight on Baidu but cut our 2026E and 2027E non-GAAP net income by 15% and 42% ahead of 3Q26 results. Two changes drive the cut. Online marketing is weakening further, and we see no reset in AI search monetization before Baidu sets its 2027 plan. The 2026 step up in capex also raises our depreciation assumption, most visibly in 2027E. Neither change touches the reason to own the stock: our case rests on GPU Cloud and Kunlunxin, and we expect 3Q26 to show AI Cloud Infra reaccelerating with better cash conversion. We trim our Jun-2027 PT for BIDU US to US$145 from US$175.

Investment Thesis, Valuation and Risks

Baidu.com *(Overweight; Price Target: $145.00)*

Investment Thesis

Maintain OW. The reasons to own the stock are concentrated in its rapidly scaling GPU Cloud and Kunlunxin, with limited value implied for ERNIE applications, Apollo Go and legacy search. Our PT reflects valuations for AI-native Marketing and Cloud and a haircut to net cash as the buildout absorbs more capital.

Valuation

Our PT is based on the sum-of-the-parts valuation below, rounded to the nearest five.

SOTP valuation

US$, mn	Valuation basis	Valuation multiple	Shareholding %	Valuation
AI cloud infra (ex Kunlun chip sales)	EV/sales	2.5x 2027E AI cloud infra revenue	100%	14,658
Kunlun	EV/sales	15x 2027E Kunlun chip revenue	67% (50% HoCo discount)	11897
AI Applications	P/E	8x 2027E AI application profit	100%	520
AI native marketing services	P/E	5x 2027E AI marketing profit	100%	1,987
Legacy Business	P/E	3x 2027E traditional search profit	100%	4,700
IQ			45%	389
TCOM			7%	1,666
Net cash				13,830
Total valuation (US$, nm)				63,830
# of FD ADS (mn)				346
Value per share (US$)				**145**

Source: J.P. Morgan estimates, Bloomberg Finance L.P. (data as of Oct 23, 2026).

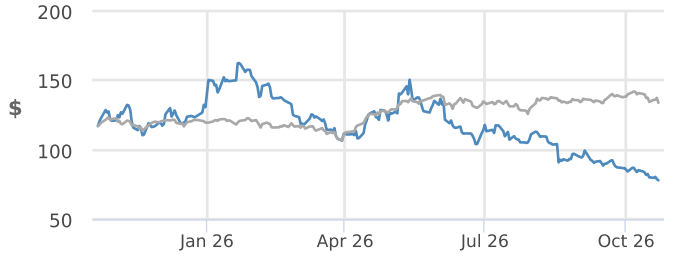
Risks to Rating and Price Target

Downside risks include: 1) slower-than-expected Baidu core advertising growth due to weak advertiser demand and competition; 2) stronger-than-expected competition in China's autonomous driving market; and 3) stronger-than-expected competition in China's cloud market. Potential upside catalysts include an earlier-than-expected recovery in sector sentiment and a stronger-than-expected recovery of ad revenue.

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Price Performance



	YTD	1m	3m	12m
Abs	-40.3%	-15.6%	-27.5%	-33.4%
Rel	-52.2%	-11.1%	-28.7%	-47.7%

Company Data

Shares O/S (mn)	276
52-week range ($)	165.30-76.73
Market cap ($ mn)	21,538
Exchange rate	1.00
Free float (%)	-
3M ADV (mn)	2.56
3M ADV ($ mn)	240.2
Volatility (90 Day)	42
Index	NASDAQ COMPOSITE
BBG ANR (Buy | Hold | Sell)	32|6|1

Key Metrics (FYE Dec)

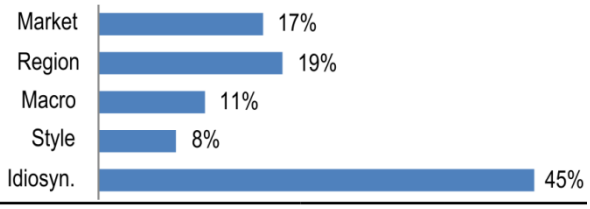
Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	129,079	127,437	146,644	174,963
Adj. EBIT	(2,218)	12,270	14,058	23,673
Adj. EBITDA	12,220	26,288	30,628	40,295
Adj. net income	18,941	12,145	14,954	23,294
Adj. EPS	55.29	35.24	43.42	67.64
BBG EPS	51.98	38.32	46.73	55.34
Cashflow from operations	(3,013)	26,406	41,241	42,391
FCFF	(20,194)	(6,984)	13,687	13,383
Margins and Growth				
Revenue Growth Y/Y (%)	(3.0%)	(1.3%)	15.1%	19.3%
EBIT margin	(1.7%)	9.6%	9.6%	13.5%
EBIT Growth Y/Y (%)	(108.5%)	(653.2%)	14.6%	68.4%
EBITDA margin	9.5%	20.6%	20.9%	23.0%
EBITDA Growth Y/Y (%)	(70.0%)	115.1%	16.5%	31.6%
Net margin	14.7%	9.5%	10.2%	13.3%
Adj. EPS growth	(28.4%)	(36.3%)	23.2%	55.8%
Ratios				
Adj. tax rate	12.2%	16.4%	13.8%	15.4%
Interest cover	NM	NM	NM	NM
Net debt/Equity	0.1	0.1	0.1	0.0
Net debt/EBITDA	3.3	1.6	0.9	0.2
ROE	6.6%	4.1%	4.9%	7.3%
Valuation				
FCFF yield	(11.3%)	(3.9%)	7.6%	7.5%
Dividend yield	-	-	-	-
EV/Revenue	1.4	1.5	1.2	0.9
EV/EBITDA	15.2	7.1	5.6	3.9
Adj. P/E	9.4	14.8	12.0	7.7

Summary Investment Thesis and Valuation

Maintain OW. The reasons to own the stock are concentrated in its rapidly scaling GPU Cloud and Kunlunxin, with limited value implied for ERNIE applications, Apollo Go and legacy search. Our PT reflects valuations for AI-native Marketing and Cloud and a haircut to net cash as the buildout absorbs more capital

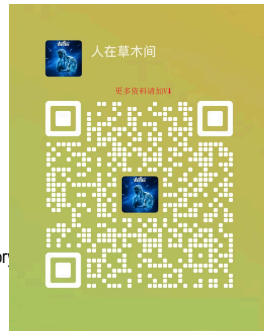
Our Jun-27 PT of US$145 is based on a sum-of-the-parts valuation, rounded to the nearest five.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.41	0.41
Region: China	0.53	0.48
Macro:		
Emerging Central Bank Rate	-0.33	-0.41
Emerging Economies CPI(YoY)	0.34	0.22
US 10 Year Yield	0.26	0.20
Quant Styles:		
Momentum	-0.47	-0.24
Size	-0.28	-0.11
Value	0.14	0.07

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price histor



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Baidu.com (BIDU): Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E
Revenue	**133,125**	**129,079**	**127,437**	**146,644**
COGS	(66,102)	(72,436)	(77,287)	(89,659)
Gross profit	**67,023**	**56,643**	**50,150**	**56,985**
SG&A	(22,193)	(24,662)	(21,166)	(26,306)
Adj. EBITDA	**40,682**	**12,220**	**26,288**	**30,628**
D&A	(14,628)	(14,438)	(14,018)	(16,571)
Adj. EBIT	**26,054**	**(2,218)**	**12,270**	**14,058**
Net Interest	5,138	5,818	3,687	2,976
Adj. PBT	**33,406**	**10,321**	**14,537**	**17,405**
Tax	(4,447)	(1,259)	(2,380)	(2,409)
Minority Interest	(415)	132	119	(42)
Adj. Net Income	**27,002**	**18,941**	**12,145**	**14,954**
Reported EPS	67.93	16.31	26.37	28.21
Adj. EPS	**77.20**	**55.29**	**35.24**	**43.42**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	350	343	345	344

Balance Sheet	FY24A	FY25A	FY26E	FY27E
Cash and cash equivalents	24,832	24,606	22,855	39,106
Accounts receivable	10,104	12,972	9,810	16,406
Inventories	-	-	-	-
Other current assets	133,913	114,392	114,392	114,392
Current assets	**168,849**	**151,970**	**147,057**	**169,904**
PP&E	30,102	26,281	42,569	50,988
LT investments	140,256	168,780	169,673	169,673
Other non current assets	88,573	102,126	102,126	102,126
Total assets	**427,780**	**449,157**	**461,425**	**492,691**
Short term borrowings	10,669	7,626	7,626	7,626
Payables	41,443	38,891	53,176	53,628
Other short term liabilities	28,841	39,811	26,436	47,576
Current liabilities	**80,953**	**86,328**	**87,238**	**108,830**
Long-term debt	36,347	57,733	57,733	57,733
Other long term liabilities	26,868	15,370	15,370	15,370
Total liabilities	**144,168**	**159,431**	**160,341**	**181,933**
Shareholders' equity	283,612	289,726	301,084	310,758
Minority interests	-	-	-	-
Total liabilities & equity	**427,780**	**449,157**	**461,425**	**492,691**
BVPS	**813.22**	**850.18**	**886.43**	**915.33**
y/y Growth	*8.7%*	*4.5%*	*4.3%*	*3.3%*
Net debt/(cash)	22,184	40,753	42,504	26,253

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E
Cash flow from operating activities	**21,234**	**(3,013)**	**26,406**	**41,241**
o/w Depreciation & amortization	14,628	14,438	14,018	16,571
o/w Changes in working capital	(27,468)	(25,847)	4,072	14,996
Cash flow from investing activities	**(8,555)**	**(25,136)**	**(30,306)**	**(24,990)**
o/w Capital expenditure	(8,134)	(12,073)	(30,306)	(24,990)
as % of sales	*6.1%*	*9.4%*	*23.8%*	*17.0%*
Cash flow from financing activities	**(13,759)**	**17,142**	**0**	**0**
o/w Dividends paid	0	0	0	0
o/w Shares issued/(repurchased)	0	0	0	0
o/w Net debt issued/(repaid)	415	14,899	0	0
Net change in cash	**(399)**	**(226)**	**(1,751)**	**16,251**
Adj. Free cash flow to firm	**8,646**	**(20,194)**	**(6,984)**	**13,687**
y/y Growth	*(59.2%)*	*(333.6%)*	*(65.4%)*	*(296.0%)*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E
Gross margin	50.3%	43.9%	39.4%	38.9%
EBITDA margin	30.6%	9.5%	20.6%	20.9%
EBIT margin	19.6%	(1.7%)	9.6%	9.6%
Net profit margin	20.3%	14.7%	9.5%	10.2%
ROE	9.9%	6.6%	4.1%	4.9%
ROA	6.5%	4.3%	2.7%	3.1%
ROCE	7.0%	(0.6%)	2.8%	3.3%
SG&A/Sales	16.7%	19.1%	16.6%	17.9%
Net debt/Equity	0.1	0.1	0.1	0.1
Net debt/EBITDA	0.5	3.3	1.6	0.9
Sales/Assets (x)	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.5	1.5	1.6
Interest cover (x)	NM	NM	NM	NM
Operating leverage	695.7%	3570.4%	51350.2%	96.6%
Tax rate	13.3%	12.2%	16.4%	13.8%
Revenue y/y Growth	(1.1%)	(3.0%)	(1.3%)	15.1%
EBITDA y/y Growth	(5.6%)	(70.0%)	115.1%	16.5%
EPS y/y Growth	(4.8%)	(28.4%)	(36.3%)	23.2%

Valuation	FY24A	FY25A	FY26E	FY27E
P/E (x)	6.7	9.4	14.8	12.0
P/BV (x)	0.6	0.6	0.6	0.6
EV/EBITDA (x)	4.1	15.2	7.1	5.6
Dividend Yield	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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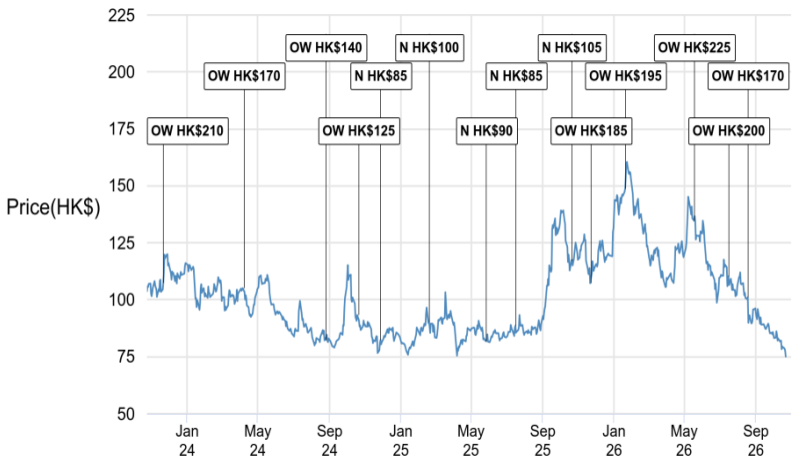
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Baidu.com (9888.HK, 9888 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
22-Nov-23	OW	107.40	210
08-Apr-24	OW	105.10	170
26-Aug-24	OW	82.20	140
21-Oct-24	OW	93.30	125
28-Nov-24	N	82.35	85
19-Feb-25	N	90.20	100
28-May-25	N	81.85	90
17-Jul-25	N	88.55	85
21-Oct-25	N	117.10	105
23-Nov-25	OW	107.30	185
21-Jan-26	OW	148.80	195
19-May-26	OW	134.70	225
17-Jul-26	OW	110.30	200
19-Aug-26	OW	101.10	170

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 11, 2021. All share prices are as of market close on the previous business day.

Baidu.com (BIDU) (BIDU, BIDU US) Price Chart



Date	Rating	Price ($)	Price Target ($)
22-Nov-23	OW	113.42	215
08-Apr-24	OW	106.49	175
26-Aug-24	OW	85.70	145
21-Oct-24	OW	94.39	130
28-Nov-24	N	84.82	87
19-Feb-25	N	90.16	100
28-May-25	N	83.92	90
17-Jul-25	N	86.32	85
21-Oct-25	N	122.12	110
23-Nov-25	OW	110.95	188
21-Jan-26	OW	150.02	200
19-May-26	OW	137.71	230
17-Jul-26	OW	112.82	205
19-Aug-26	OW	90.87	175

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 02, 2007. All share prices are as of market close on the previous business day.

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J.P. Morgan Global Equity Research Coverage*	53%	35%	12%
IB clients**	83%	81%	72%
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IB clients**	95%	93%	88%

*Please note that the percentages may not add to 100% because of rounding.
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