UOBKayHian

Company – Results | Greater China

Wednesday, 19 August 2026

Baidu Inc (9888 HK)

2Q26: Earnings Miss; AI Growth Accelerates, But Sustainability Remains To Be Proven

Highlights

- **Baidu's 2Q26 results were below expectations.** Revenue declined 4.2% yoy to Rmb31.3b, slightly below our estimates. Gross margin contracted 4.9ppt yoy to 39%, in line with our estimates but missing consensus expectations. Non-GAAP operating profit fell 14.8% yoy to Rmb3.8b, with non-GAAP operating margin at 12.1%. Meanwhile, non-GAAP net profit declined 46.3% yoy to Rmb2.6b, significantly below our and consensus forecasts.
- Maintain BUY with a slightly lower target price of HK$145.00 (US$148.00).

2Q26 Results

Year to 31 Dec (Rmbm)	2Q25	1Q26	2Q26	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	32,713	32,075	31,325	-2.3%	-4.2%	32,002	-2.1%	31,587	-0.8%
COGS	18,357	19,589	19,098	-2.5%	4.0%	19,446	-1.8%		
Gross profits	14,356	12,486	12,227	-2.1%	-14.8%	12,556	-2.6%	12,899	-5.2%
GPM	43.9%	38.9%	39.0%	0.1 ppts	-4.9 ppts	39.2%	-0.2 ppts	40.8%	-1.8 ppts
Operating expenses	11,199	9,375	9,294	-0.9%	-17.0%	12,166	-23.6%		
Non-GAAP operating income	4,445	3,807	3,785	-0.6%	-14.8%	2,777	36.3%		
Non-GAAP OPM	13.6%	11.9%	12.1%	0.2 ppts	-1.5 ppts	8.7%	3.4 ppts		
Non-GAAP net income	4,795	4,332	2,573	-40.6%	-46.3%	3,203	-19.7%	3,198	-19.5%
Non-GAAP EPS (RMB)	13.58	12.06	7.22	-40.1%	-46.8%	9.22	-21.7%	9.7	-25.9%
Non-GAAP Net Margin	14.7%	13.5%	8.2%	-5.3 ppts	-6.4 ppts	10.0%	-1.8 ppts	10.1%	-1.9 ppts

Source: Baidu Inc, UOB Kay Hian

Analysis

- **Top-line pressure persisted in 2Q26 despite solid AI growth.** Baidu Inc's (Baidu) revenue dipped 4.2% yoy to Rmb31.3b in 2Q26 (1Q26: +4% yoy). Baidu Core AI-powered revenue reached Rmb12.5b in 2Q26, up 25% yoy, accounting for 50% of Baidu's general business revenue vs 52% in 1Q26. Revenue from AI Cloud Infra surged 50% yoy to Rmb7.3b in 2Q26, while revenue from GPU Cloud increased by 283% yoy. AI applications revenue reached Rmb2.5b in 2Q26, up 3% yoy. Total online marketing revenue dropped 19% yoy to Rmb13.1b, while revenue from AI-native marketing services including agents and digital humans reached Rmb2.6b, remaining flat yoy vs 36% yoy in 1Q26.
- **Solid progress in Apollo Go.** Apollo Go continued to expand internationally in 2Q26, commencing open-road testing in London with Uber and Lyft, launching fully driverless commercial operations in Dubai, and obtaining Hong Kong's first permits for fully driverless testing. Apollo Go also conducted open-road testing in Switzerland with PostBus and signed an MoU to explore autonomous ride-hailing services in Kazakhstan. To date, Apollo Go's global footprint has reached 28 cities, and its fleets have accumulated over 350m autonomous kilometers, including over 240m fully driverless autonomous kilometers.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	133,125	129,079	127,696	134,155	145,495
EBITDA	28,114	2,085	18,803	17,990	23,602
Operating profit	21,270	-5,823	9,561	8,286	13,412
Net profit (rep./act.)	24,175	5,457	12,258	14,392	21,483
Net profit (adj.)	27,002	18,941	15,234	18,031	24,446
EPS	965.0	670.1	539.0	637.9	864.9
PE	9.0	13.0	16.1	13.6	10.1
P/B	0.9	0.9	0.9	0.8	0.8
EV/EBITDA	8.9	120.5	13.4	14.0	10.6
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	18.2	4.2	9.6	10.7	14.8
Net debt/(cash) to equity	(9.8)	(6.5)	0.6	2.1	(5.6)
ROE	9.5	2.1	4.6	5.1	7.0
Consensus net profit	-	-	16,144.8	18,947.5	22,669.8
UOBKH/Consensus (x)	-	-	0.94	0.95	1.08

Source: Baidu Inc, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	HK$101.10
Target Price	HK$145.00
Upside	43.4%
Previous TP	HK$186.00

Stock Data

Sector	Consumer Services
Bloomberg ticker	9888 HK
Shares issued (m)	2,189.5
Market cap (US$m)	274,334.1
Market cap (US$m)	34,972.4
3-mth avg daily t'over (US$m)	165.0

Price Performance (%)

52-week high/low HK$161.2/HK$84.55

1mth	3mth	6mth	1yr	YTD
(5.1)	(24.9)	(25.6)	16.1	(23.1)

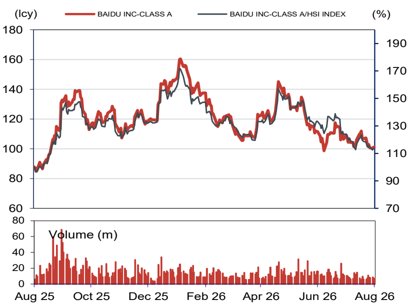
Major Shareholders (%)

Brown Brothers Harriman & Co	5.04
BlackRock Inc	4.64
Vanguard Group Inc	4.43

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	98.08
FY26 Net Debt/Share (Rmb$)	0.58

Price Chart



Source: Bloomberg

Company Description

Baidu Inc is a leading internet company that offers algorithmic search, enterprise search, news, voice assistance, online storage and navigation services.

- **Margin overview.** Gross margin declined 4.9ppt yoy to 39.0% in 2Q26, mainly due to higher AI Cloud-related costs. Non-GAAP operating margin fell 1.5ppt yoy to 12.1%, but remained 3.4ppt above our estimates, supported by more disciplined R&D spending, with R&D expenses down 10% yoy on lower personnel-related expenses. The key earnings miss came below the operating line, primarily reflecting a Rmb1.16b net foreign exchange loss, which weighed on non-GAAP net profit.
- **GPU cloud growth supports near-term AI Cloud momentum, though the quality of growth remains a key focus.** GPU cloud revenue grew 283% yoy in 2Q26, supported by Baidu's sizeable GPU capacity accumulated for internal AI development. While we think the external compute monetisation can improve utilisation, revenue and margins in the near term, we believe the key is whether growth reflects sustainable external demand or stronger internal AI usage. Greater reliance on GPU rental would potentially signal weaker internal compute demand amid slower model progress; the preferred long-term path remains proprietary models and AI applications driving sustained compute usage and monetisation.
- **Dual-primary listing could broaden the investor base.** Baidu has applied to convert its Hong Kong listing to dual-primary status, with an EGM scheduled for 26 Aug 26. The conversion is expected to take effect within 2026, subject to shareholder and HKEX approvals. Baidu is also preparing for potential Southbound Stock Connect inclusion, which could broaden mainland investor participation and improve share liquidity over time.
- **Share repurchase programme.** Baidu returned about US$87m to shareholders in 2Q26 through share repurchases, compared with US$172m in 1Q26, bringing cumulative repurchases since the beginning of 1Q26 to US$259m.

Valuation/Recommendation

- **Maintain BUY with a slightly lower target price of HK$145.00 (US$148.00).** Our target price implies 24x 2026F PE. The company is currently trading at 17x 2026F PE, slightly above its historical mean of 14.6x.

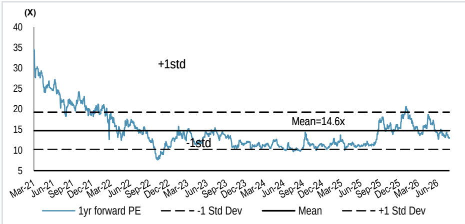
Earnings Revision/Risk

- We trim our 2026F revenue forecast by 2.2%, implying a 1% yoy decline, and cut our 2026F non-GAAP net profit estimate by 11.6%, mainly reflecting continued weakness in the legacy business, slower-than-expected AI application monetisation and a more cautious view on the quality of AI Cloud growth.
- **Risks:** a) Weaker advertising business due to the soft macro environment and fierce competition in China's advertising industry, and b) uncertainties over the autonomous driving segment.

Share Price Catalyst

- a) Market share expansion in the AI Cloud segment and autonomous driving segment, b) higher monetisation rates across all business units, and c) increase in synergies between Baidu's core business and new initiatives.

12-Month Forward PE Band



Source: Bloomberg

SOTP-Based Valuation

Segment (US$m)	Rev 27F	NOPAT 27F	P/E (x) 2027F	EV/S (x) 2027F	Valuation (Rmb mn)	Valuation (US$ mn)	Baidu's stake (%)	To Baidu	$/share
Core, Advertising	4,878	1,561	3	1	32,313	4,683	100.0	4,683	13
AI powered ads	1,841			2	25,404	3,682	100.0	3,682	10
AI Cloud	7,076			5	244,106	35,378	100.0	35,378	100
Kunlun Chip	1,324			27	243,000	35,735	59.0	21,084	60
iQiyi, long form video	3,339			1	24,226	3,511	56.2	1,973	6
Apollo (Robotaxi)	985			5	4,927	714	100.0	714	2
Xiaodu	1,034			2	5,520	800	60.0	480	1
Subtotal								67,993	192
Investments									
Net cash								10,142	29
NAV	22,213	3,622		3.3				86,356	244
less holdco discount							25%	(25,907)	(73)
Total, in US$mn	22,213			2.3				60,449	171
Total, in HK$mn								411,054	145

Source: Baidu Inc, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	129,079.0	127,695.6	134,155.0	145,495.4
EBITDA	2,085.0	18,803.1	17,990.0	23,601.7
Deprec. & amort.	7,908.0	9,242.0	9,704.1	10,189.3
EBIT	(5,823.0)	9,561.1	8,285.9	13,412.3
Total other non-operating income	2,857.1	(3,168.1)	(2,829.4)	(3,422.3)
Associate contributions	3,995.9	1,082.0	447.4	483.8
Net interest income/(expense)	5,818.0	7,651.2	9,823.2	13,008.1
Pre-tax profit	6,848.0	15,126.2	15,727.1	23,481.9
Tax	(1,259.0)	(3,254.8)	(3,620.3)	(4,852.8)
Minorities	(132.0)	386.5	2,285.1	2,854.3
Net profit	5,457.0	12,257.9	14,391.9	21,483.4
Net profit (adj.)	18,941.0	15,234.0	18,030.8	24,446.2

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	26,281.0	28,484.0	22,521.9	19,402.8
Other LT assets	270,906.0	234,084.0	237,666.8	242,667.1
Cash/ST investment	24,831.0	24,694.0	(3,093.0)	21,153.0
Other current assets	127,139.0	182,670.0	182,655.7	186,345.5
Total assets	449,157.0	469,932.0	439,751.3	469,568.4
ST debt	7,626.0	26,311.0	3,016.0	3,016.0
Other current liabilities	78,702.0	62,805.0	60,779.5	62,375.4
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	73,103.0	85,719.0	85,719.0	85,719.0
Shareholders' equity	266,330.0	271,752.0	292,924.1	321,145.3
Minority interest	13,166.0	13,685.0	13,685.0	13,685.0
Total liabilities & equity	449,157.0	469,932.0	465,783.7	495,600.7

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(3,013.0)	28,496.4	34,860.3	44,661.7
Profit fo the year	6,848.0	15,126.2	15,727.1	23,481.9
Tax	(1,259.0)	(3,254.8)	(3,620.3)	(4,852.8)
Deprec. & amort.	7,908.0	9,242.0	9,704.1	10,189.3
Associates	(3,995.9)	(1,082.0)	(447.4)	(483.8)
Working capital changes	(42,048.0)	(14,718.0)	(11,165.1)	(13,621.7)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	29,533.9	23,183.0	24,661.9	29,948.9
Investing	(25,136.0)	(71,807.5)	(18,263.2)	(20,508.7)
Capex (growth)	(12,073.0)	(12,689.0)	(14,592.4)	(16,781.3)
Investment	0.0	0.0	0.0	0.0
Others	(13,063.0)	(59,118.5)	(3,670.8)	(3,727.5)
Financing	17,142.0	21,992.0	(23,202.0)	93.0
Dividend payments	(5,443.0)	93.0	93.0	93.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	23,350.0	0.0	0.0	0.0
Others/interest paid	(765.0)	21,899.0	(23,295.0)	0.0
Net cash inflow (outflow)	(11,007.0)	(21,319.2)	(6,604.9)	24,246.0
Beginning cash & cash equivalent	36,589.0	24,831.0	3,511.8	(3,093.0)
Changes due to forex impact	(751.0)	0.0	0.0	0.0
Ending cash & cash equivalent	24,831.0	3,511.8	(3,093.0)	21,153.0

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	1.6	14.7	13.4	16.2
Pre-tax margin	5.3	11.8	11.7	16.1
Net margin	4.2	9.6	10.7	14.8
ROA	1.2	2.7	3.2	4.7
ROE	2.1	4.6	5.1	7.0
Growth				
Turnover	(3.0)	(1.1)	5.1	8.5
EBITDA	(92.6)	801.8	(4.3)	31.2
Pre-tax profit	(75.7)	120.9	4.0	49.3
Net profit	(77.4)	124.6	17.4	49.3
Net profit (adj.)	(29.9)	(19.6)	18.4	35.6
EPS	(30.6)	(19.6)	18.4	35.6
Leverage				
Debt to total capital	2.7	8.4	1.0	0.9
Debt to equity	2.9	9.7	1.0	0.9
Net debt/(cash) to equity	(6.5)	0.6	2.1	(5.6)