Baidu Inc (9888 HK)

2Q26 Results Preview: AI Cloud Growth Offset by Advertising Weakness; Strategic Catalysts In Focus

Highlights

- Baidu is expected to report 2Q26 results in mid- to late-August. We expect Baidu Core revenue to decline 1% yoy, with a 44% AI Cloud growth offset by a 16% advertising decline, while core operating profit should decline 21% yoy. Key events to look out for include higher 2H26 AI investment, the Apple partnership, Kunlunxin spin-off, and a dual-primary listing.
- Maintain BUY with a higher target price of HK$186.00 (US$190.00).

Analysis

- **AI Cloud to sustain solid growth and margin improvement.** We expect AI Cloud revenue to grow 44% yoy in 2Q26, supported by a 60% increase in AI Cloud Infrastructure revenue. Within the segment, GPU Cloud is expected to maintain triple-digit yoy growth, driven by strong demand across industries and Baidu's full-stack capabilities spanning chips, cloud infrastructure and foundation models. Profitability should continue to improve sequentially, supported by a higher revenue contribution from higher-margin GPU Cloud services and improving profitability in legacy project-based businesses.
- **Core profitability to stabilise, but higher AI investment may constrain 2H26 recovery**. Baidu Core operating profit is expected to decline by 21% yoy in 2Q26, with higher contribution from the lower-margin cloud business. In addition, the planned ramp-up in model training, GPU procurement and computing resources are likely to place greater pressure on earnings in 2H26. We expect Baidu Core operating profit to decline 3% yoy in 2026, supported by improving cloud margins and continued cost discipline.
- **Advertising weakness to persist amid structural pressure on traditional search.** Advertising revenue is expected to decline 16% yoy in 2Q26, reflecting changing user behaviour following the broader adoption of AI tools, limited monetisation progress from Baidu's AI-search transition and a challenging macro environment. However, advertising is expected to account for less than 50% of Baidu Core revenue in 2026, with its impact on overall revenue growth gradually moderating as the contribution from AI Cloud increases.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	133,125	129,079	130,563	139,482	151,779
EBITDA	28,114	2,085	17,638	18,564	25,621
Operating profit	21,270	-5,823	9,050	9,546	16,153
Net profit (rep./act.)	24,175	5,457	14,042	15,984	24,510
Net profit (adj.)	27,002	18,941	17,234	19,919	27,911
EPS	965.0	663.5	597.7	684.0	948.9
PE	9.5	13.8	15.3	13.4	9.7
P/B	1.0	1.0	1.0	0.9	0.8
EV/EBITDA	8.4	113.4	13.4	12.7	9.2
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	18.2	4.2	10.8	11.5	16.1
Net debt/(cash) to equity	(9.8)	(6.5)	(9.9)	(22.4)	(30.7)
ROE	9.5	2.1	5.2	5.7	8.0
Consensus net profit	-	-	16,714.8	19,657.2	23,241.1
UOBKH/Consensus (x)	-	-	1.03	1.01	1.20

Source: Baidu, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	HK$106.20
Target Price	HK$186.00
Upside	75.1%
Previous TP:	HK$178.00

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Stock Data

GICS Sector	Consumer Services
Bloomberg ticker	9888 HK
Shares issued (m)	2,198.0
Market cap (US$m)	289,078.7
Market cap (US$m)	36,867.6
3-mth avg daily t'over (US$m)	201.9

Price Performance (%)

52-week high/low: HK$161.2/HK$84.20

1mth	3mth	6mth	1yr	YTD
(2.3)	(12.3)	(28.6)	20.8	(19.2)

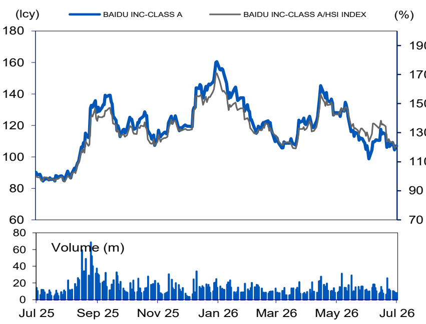
Major Shareholders

	%
Brown Brothers Harriman & Co	5.02
Vanguard Group Inc	4.58
BlackRock Inc	4.36

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	95.13
FY26 Net Cash/ Share (Rmb)	9.39

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.

- **Kunlunxin's proposed IPO could unlock material value for Baidu.** Kunlunxin is reportedly considering a Hong Kong IPO at a potential valuation of up to US$50b, following its confidential listing application in Jan 26. A successful spin-off could establish a standalone valuation for Baidu's AI-chip assets, broaden Kunlunxin's access to capital and support further external customer expansion. Based on market estimates, Kunlunxin generated Rmb1.5–2.0b in revenue in 2025, with revenue expected to more than double in 2026 as shipments of the Kunlun Core P800 ramp up and domestic AI infrastructure investment accelerates. Beyond Baidu, Kunlunxin is expanding across hyperscalers, telecoms, financial institutions and foundation model companies.
- **Baidu's Apple partnership could enhance AI credibility, distribution and monetisation.** As Apple's AI search partner in China, Baidu gains third-party validation of its technical, security and compliance capabilities, strengthening its appeal to enterprise and OEM customers. Integration across Apple's installed base could also provide a system-level search entry point via Siri and visual search, helping mitigate traffic shifts to ByteDance, WeChat and Xiaohongshu while reinforcing Baidu's position in Chinese-language search.
- **Dual-primary listing conversion could broaden Baidu's mainland investor base and improve Southbound accessibility.** Baidu has received board approval to convert its Hong Kong listing from a secondary to a primary listing, with completion expected within 2026. Upon completion, Baidu will maintain dual-primary listings in Hong Kong and on Nasdaq, while its Hong Kong shares could become eligible for Southbound Stock Connect subject to the relevant review. This inclusion would allow mainland investors to gain direct exposure to Baidu through the Stock Connect programme, potentially improving trading liquidity, broadening the shareholder base and strengthening market recognition of the value of Baidu's AI businesses.

Valuation/Recommendation

- **Maintain BUY with a slightly higher target price of HK$186.00 (US$190.00).** Our target price implies 23x 2027F PE. The company is currently trading at 13.4x 2026F PE, slightly below its historical mean of 14.6x.

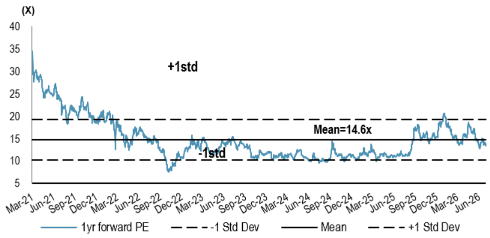
Earnings Revision/Risk

- We trim our 2Q26/2026 revenue forecasts by 2.1%/1.8% respectively due to persistent weakness in the advertising business. We also cut our 2Q26/2026 non-GAAP net profit estimates by 4.2%/6.2% respectively on the back of higher AI-related spending.
- **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 and autonomous driving segments, b) higher monetisation rates across all business units, c) increased synergies between Baidu's core businesses and new initiatives, and d) a potential dual-primary listing in Hong Kong.

12-Month Forward PE Band



Source: Bloomberg UOB Kay Hian

SOTP-Based Valuation

Segment (US$mn)	Rev 27F	NOPAT 27F	P/E (x) 2027F	EV/S (x) 2027F	Valuation (Rmb m)	Valuation (US$ m)	Baidu's stake (%)	To Baidu	$/share
Core, Advertising	4,907	1,570	3	1	32,506	4,711	100.0	4,711	13
AI powered ads	1,994			3	41,282	5,983	100.0	5,983	16
AI Cloud (ex ADE)	7,685			5	265,135	38,425	100.0	38,425	106
Kunlun Chip	1,304			30	270,000	39,130	59.0	23,087	63
iQiyi, long form video	3,309			1	24,226	3,511	56.2	1,973	5
Apollo (Robotaxi)	1,014			5	5,072	735	100.0	735	2
Xiaodu	1,034			2	5,520	800	60.0	480	1
Subtotal								75,394	207
Investments									
Trip.com Group					185,010	26,813	11.5	3,083	8
Kuaishou					1,656,778	240,113	3.1	7,443	20
Net cash								14,630	40
NAV	22,213	3,622		3.7				98,244	270
less holdco discount							20%	(19,649)	(54)
Total, in US$mn	22,213			3.0				78,595	216
Total, in HK$mn								542,309	186

Source: Baidu Inc, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	129,079.0	130,562.5	139,481.5	151,779.4
EBITDA	2,085.0	17,637.7	18,563.8	25,620.9
Deprec. & amort.	7,908.0	8,588.0	9,017.4	9,468.3
EBIT	(5,823.0)	9,049.7	9,546.4	16,152.6
Total other non-operating income	2,857.1	(2,230.2)	(2,738.5)	(3,330.5)
Associate contributions	3,995.9	672.2	447.4	483.8
Net interest income/(expense)	5,818.0	9,167.4	9,791.7	12,976.5
Pre-tax profit	6,848.0	16,659.2	17,047.0	26,282.5
Tax	(1,259.0)	(3,316.0)	(3,347.6)	(4,626.8)
Minorities	(132.0)	698.5	2,285.1	2,854.3
Net profit	5,457.0	14,041.7	15,984.5	24,510.0
Net profit (adj.)	18,941.0	17,233.8	19,919.1	27,910.7

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	26,281.0	26,848.0	10,997.6	1,758.3
Other LT assets	270,906.0	267,429.0	270,917.6	275,935.4
Cash/ST investment	24,831.0	30,532.0	68,290.0	102,371.5
Other current assets	127,139.0	124,757.0	124,760.1	128,329.2
Total assets	449,157.0	449,566.0	474,965.4	508,394.4
ST debt	7,626.0	3,979.0	3,016.0	3,016.0
Other current liabilities	78,702.0	79,870.0	74,133.6	75,841.1
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	73,103.0	73,369.0	73,369.0	73,369.0
Shareholders' equity	266,330.0	268,886.0	291,976.7	323,698.1
Minority interest	13,166.0	13,422.0	13,422.0	13,422.0
Total liabilities & equity	449,157.0	449,566.0	465,957.3	499,386.3

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(3,013.0)	32,210.5	36,509.2	45,249.9
Profit fo the year	6,848.0	16,659.2	17,047.0	26,282.5
Tax	(1,259.0)	(3,316.0)	(3,347.6)	(4,626.8)
Deprec. & amort.	7,908.0	8,588.0	9,017.4	9,468.3
Associates	(3,995.9)	(672.2)	(447.4)	(483.8)
Working capital changes	(42,048.0)	(11,680.0)	(10,366.5)	(13,389.3)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	29,533.9	22,631.6	24,606.4	27,999.2
Investing	(25,136.0)	(12,482.7)	(11,353.1)	(11,261.4)
Capex (growth)	(12,073.0)	(7,811.9)	(7,655.7)	(7,502.5)
Investment	0.0	0.0	0.0	0.0
Others	(13,063.0)	(4,670.8)	(3,697.4)	(3,758.9)
Financing	17,142.0	(555.0)	(870.0)	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)	(648.0)	(963.0)	0.0
Net cash inflow (outflow)	(11,007.0)	19,172.8	24,286.2	34,081.5
Beginning cash & cash equivalent	36,589.0	24,831.0	44,003.8	68,290.0
Changes due to forex impact	(751.0)	0.0	0.0	0.0
Ending cash & cash equivalent	24,831.0	44,003.8	68,290.0	102,371.5

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	1.6	13.5	13.3	16.9
Pre-tax margin	5.3	12.8	12.2	17.3
Net margin	4.2	10.8	11.5	16.1
ROA	1.2	3.1	3.5	5.0
ROE	2.1	5.2	5.7	8.0
Growth				
Turnover	(3.0)	1.1	6.8	8.8
EBITDA	(92.6)	745.9	5.3	38.0
Pre-tax profit	(75.7)	143.3	2.3	54.2
Net profit	(77.4)	157.3	13.8	53.3
Net profit (adj.)	(29.9)	(9.0)	15.6	40.1
EPS	(31.2)	(9.9)	14.4	38.7
Leverage				
Debt to total capital	2.7	1.4	1.0	0.9
Debt to equity	2.9	1.5	1.0	0.9
Net debt/(cash) to equity	(6.5)	(9.9)	(22.4)	(30.7)