# Baidu Inc (9888 HK)

3Q26: Earnings Beat; AI Cloud Growth Cushions Ad Weakness

## Highlights

- 3Q26 earnings beat on below-the-line items. Revenue fell 1.2% yoy, broadly in line, as a 94% growth in AI cloud infra cushioned a 22% decline in online marketing. Non-GAAP operating margin missed by 1.2ppt, while net profit beat by 16.0% on other income and a lower minority-interest charge. Qianfan MaaS revenue from external token usage rose more than tenfold yoy, while higher capex widened the free cash outflow to Rmb4.6b.
- Maintain BUY with a slightly lower target price of HK$100.00 (US$103.00).

## 3Q26 Results

| Year to 31 Dec (Rmbm) | 3Q25 | 2Q26 | 3Q26 | QoQ | YoY | UOBKH | Var | Cons | Var |
|---|---|---|---|---|---|---|---|---|---|
| Total Net revenue | 31,174 | 31,325 | 30,807 | -1.7% | -1.2% | 31,228 | -1.3% | 30,814 | 0.0% |
| COGS | 18,315 | 19,098 | 19,892 | 4.2% | 8.6% | 19,314 | 3.0% | | |
| Gross profits | 12,859 | 12,227 | 10,915 | -10.7% | -15.1% | 11,914 | -8.4% | 11,916 | -8.4% |
| GPM | 41.2% | 39.0% | 35.4% | -3.6 ppts | -5.8 ppts | 38.2% | 2.7 ppts | 38.7% | 3.2 ppts |
| Operating expenses | 11,873 | 9,294 | 10,403 | 11.9% | -12.4% | 10,679 | -2.6% | | |
| Non-GAAP operating income | 2,205 | 3,785 | 1,712 | -54.8% | -22.4% | 2,096 | -18.3% | | |
| Non-GAAP OPM | 7.1% | 12.1% | 5.6% | -6.5 ppts | -1.5 ppts | 6.7% | -1.2 ppts | | |
| Non-GAAP net income | 3,770 | 2,573 | 2,395 | -6.9% | -36.5% | 2,065 | 16.0% | 2,101 | 14.0% |
| Non-GAAP EPS (RMB) | 11.12 | 7.22 | 6.78 | -6.1% | -39.0% | 6.03 | 12.5% | 6.0 | 12.6% |
| Non-GAAP Net Margin | 12.1% | 8.2% | 7.8% | -0.4 ppts | -4.3 ppts | 6.6% | -1.2 ppts | 6.8% | -1.0 ppts |

*Source: Baidu Inc, UOB Kay Hian*

## Analysis

- **3Q26 AI infra revenue beat.** Baidu Inc's (Baidu) revenue fell 1.2% yoy to Rmb30.8b in 3Q26, narrowing from a 4.2% yoy decline in 2Q26. Baidu Core AI-powered revenue grew 37% yoy to Rmb13.2b, accounting for 53% of Baidu General Business revenue, up from 50% in 2Q26. AI cloud infra revenue surged 94% yoy to Rmb8.2b, with GPU cloud revenue up 191% yoy, while AI applications revenue was flat yoy at Rmb2.6b. AI cloud infra profit and margin improved both yoy and qoq, while longer contracts and more prepayments shortened compute payback periods.
- **Qianfan MaaS monetisation gained traction.** Revenue from external customers' token usage rose more than tenfold yoy in 3Q26, while AI applications revenue was broadly flat yoy. Yijing's digital human production costs fell around 80% from 4Q25.
- **Broad-based advertising remains weak** Total online marketing revenue fell 22% yoy to Rmb11.9b. AI-native marketing revenue declined 15% yoy to Rmb2.4b after being flat yoy in 2Q26, reflecting a challenging macro environment, evolving competition and Baidu's decision to prioritise user experience over near-term monetisation during its AI search transition.
- **Apollo Go scaled up in key markets**. Fully driverless rides in Shenzhen rose around 170% qoq in 3Q26, while its Dubai fleet doubled. Apollo Go continued to carry out tests in London and Hong Kong, with its global footprint reaching 30 cities as of Oct 26.

## Key Financials

| Year to 31 Dec (Rmbm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 2024 | 2025 | 2026F | 2027F | 2028F |
| EBITDA | 133,125 | 129,079 | 127,317 | 134,257 | 146,661 |
| Operating profit | 28,114 | 2,085 | 19,005 | 22,245 | 18,050 |
| Net profit (rep./act.) | 21,270 | -5,823 | 8,931 | 11,121 | 6,370 |
| Net profit (adj.) | 24,175 | 5,457 | 9,575 | 14,244 | 15,789 |
| EPS | 27,002 | 18,941 | 12,487 | 15,999 | 19,119 |
| PE | 965.0 | 670.1 | 441.8 | 563.2 | 669.7 |
| P/B | 6.6 | 9.5 | 14.5 | 11.4 | 9.5 |
| EV/EBITDA | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 |
| Dividend yield | 6.8 | 91.2 | 10.0 | 8.5 | 10.5 |
| Net margin | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/(cash) to equity | 18.2 | 4.2 | 7.5 | 10.6 | 10.8 |
| ROE | 9.5 | 2.1 | 3.6 | 5.2 | 5.5 |
| Consensus net profit | - | - | 12,284.8 | 15,483.9 | 18,228.9 |
| UOBKH/Consensus (x) | - | - | 1.02 | 1.03 | 1.05 |

*Source: Baidu Inc, Bloomberg, UOB Kay Hian*

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**BUY (Maintained)**

| | |
|---|---|
| Share Price | HK$75.25 |
| Target Price | HK$100.00 |
| Upside | 32.9% |
| Previous TP | HK$136.00 |

## Stock Data

| | |
|---|---|
| **Sector** | Communication Services |
| **Bloomberg ticker** | 9888 HK |
| **Shares issued (m)** | 2,209.5 |
| **Market cap (US$m)** | 205,700.5 |
| **Market cap (US$m)** | 26,215.2 |
| **3-mth avg daily t'over (US$m)** | 156.4 |

## Price Performance (%)

| **52-week high/low** | | | | HK$161.2/HK$73.5 |
|---|---|---|---|---|
| **1mth** | **3mth** | **6mth** | **1yr** | **YTD** |
| (5.3) | (25.3) | (44.6) | (35.7) | (42.8) |

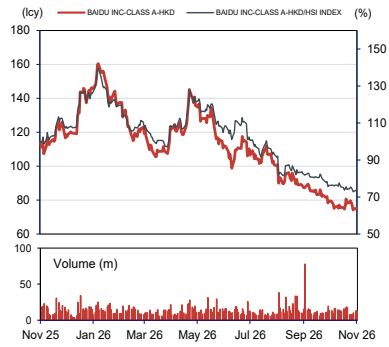
## Major Shareholders (%)

| | |
|---|---|
| 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



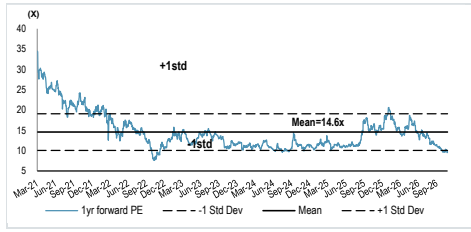

*Source: Bloomberg*

## 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 fell 5.8ppt yoy to 35.4% in 3Q26 as higher cloud and traffic acquisition costs outweighed lower content costs. Lower SG&A (-17.0% yoy) and R&D (-6.8% yoy) cushioned the decline in non-GAAP operating margin, which fell 1.5ppt yoy to 5.6%, 1.2ppt below our estimate. Below the operating line, a Rmb1.1b gain in others, net (mainly fair value gains on trading debt investments) and a lower minority-interest charge outweighed a Rmb1.07b net forex loss, lifting non-GAAP net profit to Rmb2.4b, 16.0% above our estimate.
- **Elevated capex continued to pressure free cash flow in 3Q26.** Operating cash flow rose 121% yoy to Rmb2.8b, while capex increased 116% yoy to Rmb7.3b. The free cash outflow widened yoy to Rmb4.6b but narrowed qoq as capex fell 35% qoq. Cash and investments totalled Rmb276.6b at end-September. Management reiterated its focus on disciplined capital allocation and returns on AI investment.
- **Kunlunxin's chip roadmap supports longer-term cloud margin upside.** Kunlunxin's Hong Kong listing process is ongoing following a confidential application earlier in 2026. Baidu expects the M100, designed for large-scale inference, to be ready for volume production by end-26 and plans to introduce the M300 for ultra-large multimodal models in 2027. Management sees scope for lower cloud costs and higher margins as the deployment of Kunlunxin scales up.

## 12-Month Forward PE Band




*Source: Bloomberg*

## Valuation/Recommendation

- Maintain BUY with a slightly lower target price of HK$100.00 (US$103.00), as we lower AI valuation due to computing power uncertainties. Our target price implies 15x 2027F PE. The company is currently trading at 11.4x 2027F PE, slightly below its historical mean of 14.6x.

## Earnings Revision/Risk

- We keep our 2026 revenue forecast unchanged, which implies a 1% yoy decline, and raise our 2026 non-GAAP net profit estimate by 4.1% to reflect improving enterprise AI monetisation prospects.
- **Risks:** a) Weaker advertising business due to the soft macro environment, b) uncertainties over the autonomous driving segment, and c) weaker-than-expected AI monetisation.

## Share Price Catalyst

- a) Market share expansion in the AI Cloud segment and autonomous driving segment, b) successful Kunlun Chip IPO, and c) increase in synergies between Baidu's core business and new initiatives.

## 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 | $/share |
|---|---|---|---|---|---|---|---|---|---|
| Core, Advertising | 6,626 | 2,120 | 3 | 1 | 43,255 | 6,361 | 100.0 | 6,361 | 18 |
| AI Cloud (ex ADE) | 7,467 | | | 3 | 152,337 | 22,402 | 100.0 | 22,402 | 63 |
| Kunlun Chip | 1,339 | | | 10 | 90,000 | 13,393 | 59.0 | 7,902 | 22 |
| iQiyi, long form video | 3,379 | | | 1 | 23,875 | 3,511 | 56.2 | 1,973 | 6 |
| Apollo (Robotaxi) | 931 | | | 3 | 2,794 | 411 | 100.0 | 411 | 1 |
| Xiaodu | 1,049 | | | 2 | 5,440 | 800 | 60.0 | 480 | 1 |
| Subtotal | | | | | | | | 39,529 | 111 |
| Investments | | | | | | | | | |
| Trip.com Group | | | | | 182,328 | 26,813 | 11.5 | 3,083 | 9 |
| Kuaishou | | | | | 948,495 | 139,485 | 3.1 | 4,324 | 12 |
| Net cash | | | | | | | | 14,798 | 42 |
| NAV | 22,213 | 3,622 | | 2.3 | | | | 60,372 | 170 |
| less holdco discount | | | | | | | 30% | (18,112) | (51) |
| Total, in US$mn | 22,213 | | | 1.6 | | | | 42,260 | 119 |
| Total, in HK$mn | | | | | | | | 283,989 | 100 |

*Source: Baidu Inc, UOB Kay Hian*

## Profit & Loss

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Net turnover** | 129,079.0 | 127,317.5 | 134,256.6 | 146,661.2 |
| EBITDA | 2,085.0 | 19,004.8 | 22,244.5 | 18,050.2 |
| Deprec. & amort. | 7,908.0 | 10,074.0 | 11,124.0 | 11,680.2 |
| EBIT | (5,823.0) | 8,930.8 | 11,120.5 | 6,370.0 |
| Total other non-operating income | 2,857.1 | (2,628.9) | (858.0) | (2,249.2) |
| Associate contributions | 3,995.9 | 1,236.8 | (22.4) | 45.9 |
| Net interest income/(expense) | 5,818.0 | 4,658.0 | 6,038.2 | 12,991.7 |
| **Pre-tax profit** | 6,848.0 | 12,196.6 | 16,278.3 | 17,158.4 |
| Tax | (1,259.0) | (2,696.8) | (3,503.7) | (4,223.5) |
| Minorities | (132.0) | 75.3 | 1,469.2 | 2,854.3 |
| **Net profit** | 5,457.0 | 9,575.1 | 14,243.8 | 15,789.2 |
| Net profit (adj.) | 18,941.0 | 12,487.3 | 15,999.0 | 19,119.1 |

## Balance Sheet

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 26,281.0 | 28,484.0 | 31,035.0 | 105,622.9 |
| Other LT assets | 270,906.0 | 234,084.0 | 212,249.0 | 217,219.5 |
| Cash/ST investment | 24,831.0 | 24,694.0 | 31,212.0 | (64,621.3) |
| Other current assets | 127,139.0 | 182,670.0 | 197,892.0 | 184,900.3 |
| **Total assets** | 449,157.0 | 469,932.0 | 472,388.0 | 443,121.4 |
| ST debt | 7,626.0 | 26,311.0 | 23,222.0 | 3,016.0 |
| Other current liabilities | 78,702.0 | 62,805.0 | 67,037.0 | 63,343.1 |
| LT debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT liabilities | 73,103.0 | 85,719.0 | 86,720.0 | 86,720.0 |
| Shareholders' equity | 266,330.0 | 271,752.0 | 273,487.0 | 296,387.8 |
| Minority interest | 13,166.0 | 13,685.0 | 12,699.0 | 12,699.0 |
| **Total liabilities & equity** | 449,157.0 | 469,932.0 | 472,388.0 | 471,388.8 |

## Cash Flow

| Year to 31 Dec (Rmbm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Operating** | (3,013.0) | 29,220.9 | 45,268.8 | 53,196.2 |
| Profit fo the year | 6,848.0 | 12,196.6 | 16,278.3 | 17,158.4 |
| Tax | (1,259.0) | (2,696.8) | (3,503.7) | (4,223.5) |
| Deprec. & amort. | 7,908.0 | 10,074.0 | 11,124.0 | 11,680.2 |
| Associates | (3,995.9) | (1,236.8) | 22.4 | (45.9) |
| Working capital changes | (42,048.0) | (14,718.0) | (12,932.0) | (11,732.1) |
| Non-cash items | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 29,533.9 | 25,601.9 | 34,279.8 | 40,359.2 |
| **Investing** | (25,136.0) | (113,445.1) | (69,420.4) | (38,073.8) |
| Capex (growth) | (12,073.0) | (54,328.5) | (55,415.1) | (49,873.6) |
| Investment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (13,063.0) | (59,116.6) | (14,005.3) | 11,799.8 |
| **Financing** | 17,142.0 | 21,992.0 | 1,922.0 | (20,113.0) |
| 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 | 1,829.0 | (20,206.0) |
| Net cash inflow (outflow) | (11,007.0) | (62,232.2) | (22,229.6) | (4,990.6) |
| Beginning cash & cash equivalent | 36,589.0 | 24,831.0 | (37,401.2) | (59,630.8) |
| Changes due to forex impact | (751.0) | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | 24,831.0 | (37,401.2) | (59,630.8) | (64,621.3) |

## Key Metric

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 1.6 | 14.9 | 16.6 | 12.3 |
| Pre-tax margin | 5.3 | 9.6 | 12.1 | 11.7 |
| Net margin | 4.2 | 7.5 | 10.6 | 10.8 |
| ROA | 1.2 | 2.1 | 3.0 | 3.4 |
| ROE | 2.1 | 3.6 | 5.2 | 5.5 |
| | | | | |
| **Growth** | | | | |
| Turnover | (3.0) | (1.4) | 5.5 | 9.2 |
| EBITDA | (92.6) | 811.5 | 17.0 | (18.9) |
| Pre-tax profit | (75.7) | 78.1 | 33.5 | 5.4 |
| Net profit | (77.4) | 75.5 | 48.8 | 10.8 |
| Net profit (adj.) | (29.9) | (34.1) | 28.1 | 19.5 |
| EPS | (30.6) | (34.1) | 27.5 | 18.9 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 2.7 | 8.4 | 7.5 | 1.0 |
| Debt to equity | 2.9 | 9.7 | 8.5 | 1.0 |
| Net debt/(cash) to equity | (6.5) | 0.6 | (2.9) | 22.8 |

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