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	133,125	129,079	126,688	136,547	148,568
EBITDA	28,114	2,085	17,129	12,449	18,189
Operating profit	21,270	-5,823	7,055	1,325	6,508
Net profit (rep./act.)	24,175	5,457	8,021	6,063	15,924
Net profit (adj.)	27,002	18,941	10,916	7,834	19,137
EPS	965.0	670.1	390.1	282.8	697.8
PE	5.9	8.5	14.5	20.0	8.1
P/B	0.6	0.6	0.6	0.6	0.5
EV/EBITDA	6.1	81.7	9.9	13.7	9.4
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	18.2	4.2	6.3	4.4	10.7
Net debt/(cash) to equity	(9.8)	(6.5)	0.6	(2.9)	26.0
ROE	9.5	2.1	3.0	2.2	5.6
Consensus net profit	-	-	11,668.5	14,182.5	16,621.7
UOBKH/Consensus (x)	-	-	0.94	0.55	1.15

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.
- **4Q26 outlook:** Advertising weakness and higher costs to weigh on earnings. Management expects Baidu Core revenue (excluding iQIYI) to be broadly flat yoy (+0–1%) in 4Q26. Cloud revenue growth of 55–60% yoy should partly offset an expected 23–26% yoy decline in online marketing revenue. Higher cost of revenue and rising R&D and marketing expenses are expected to bring non-GAAP operating profit below Rmb1.6b, with net profit expected at around Rmb1.3b. For 2027, management sees modest Baidu Core revenue growth, a double-digit ad revenue decline and continued pressure on operating profit.

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 30.5x 2027F PE. The company is currently trading at 22.9 2027F PE, above its historical mean of 14.6x.

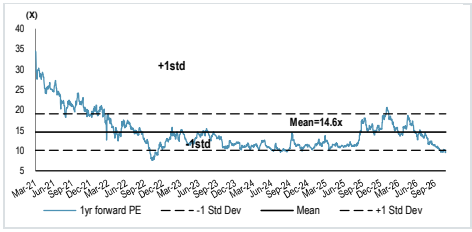
Earnings Revision/Risk

- We keep our 2026 revenue forecast unchanged, which implies a 2% yoy decline to Rmb126.7b, and cut our 2026 non-GAAP net profit estimate by 9% to reflect weaker-than-expected performance in Baidu's legacy business.
- **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.

12-Month Forward PE Band



Source: Bloomberg

SOTP-Based Valuation

Segment (US$m)	Rev 27F (US$m)	NOPAT 27F (US$m)	PE 2027F (x)	EV/S 2027F (x)	Valuation (Rmbm)	Valuation (US$m)	Baidu's stake (%)	To Baidu	$/share
Core, Advertising	6,582	2,106	3	1	37,240	5,477	100.0	5,477	16
AI Cloud (ex ADE)	7,352			3	149,988	22,057	100.0	22,057	64
Kunlun Chip	1,339			10	85,500	12,723	59.0	7,507	22
iQiyi, long form video	3,546			1	23,875	3,511	56.2	1,973	6
Apollo (Robotaxi)	1,260			3	3,150	463	100.0	463	1
Xiaodu	1,049			2	5,440	800	60.0	480	1
Subtotal								37,957	110
Investments									
Trip.com Group					182,328	26,813	11.5	3,083	9
Kuaishou					948,495	139,485	3.1	4,324	12
Net cash								14,798	43
NAV	22,213	3,622		2.2				58,799	170
less holdco discount							30%	(17,640)	(51)
Total, in US$m	22,213			1.6				41,159	119
Total, in HK$m								276,591	100

Source: Baidu Inc, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	129,079.0	126,687.6	136,547.3	148,568.0
EBITDA	2,085.0	17,129.0	12,448.8	18,188.7
Deprec. & amort.	7,908.0	10,074.0	11,124.0	11,680.2
EBIT	(5,823.0)	7,055.0	1,324.8	6,508.5
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	10,320.9	6,482.6	17,296.9
Tax	(1,259.0)	(2,374.9)	(1,888.6)	(4,226.8)
Minorities	(132.0)	75.3	1,469.2	2,854.3
Net profit	5,457.0	8,021.2	6,063.2	15,924.3
Net profit (adj.)	18,941.0	10,915.9	7,834.2	19,136.6

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	217,229.5
Cash/ST investment	24,831.0	24,694.0	31,212.0	(74,030.3)
Other current assets	127,139.0	182,670.0	197,892.0	185,631.8
Total assets	449,157.0	469,932.0	472,388.0	434,453.9
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	64,374.1
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	296,416.1
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	472,448.1

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(3,013.0)	27,644.5	37,122.1	53,528.2
Profit fo the year	6,848.0	10,320.9	6,482.6	17,296.9
Tax	(1,259.0)	(2,374.9)	(1,888.6)	(4,226.8)
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)	(11,432.7)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	29,533.9	25,579.4	34,313.6	40,256.5
Investing	(25,136.0)	(113,441.9)	(69,431.8)	(38,083.3)
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)	(59,113.4)	(14,016.7)	11,790.3
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)	(63,805.5)	(30,387.7)	(4,668.1)
Beginning cash & cash equivalent	36,589.0	24,831.0	(38,974.5)	(69,362.2)
Changes due to forex impact	(751.0)	0.0	0.0	0.0
Ending cash & cash equivalent	24,831.0	(38,974.5)	(69,362.2)	(74,030.3)

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	1.6	13.5	9.1	12.2
Pre-tax margin	5.3	8.1	4.7	11.6
Net margin	4.2	6.3	4.4	10.7
ROA	1.2	1.7	1.3	3.5
ROE	2.1	3.0	2.2	5.6
Growth				
Turnover	(3.0)	(1.9)	7.8	8.8
EBITDA	(92.6)	721.5	(27.3)	46.1
Pre-tax profit	(75.7)	50.7	(37.2)	166.8
Net profit	(77.4)	47.0	(24.4)	162.6
Net profit (adj.)	(29.9)	(42.4)	(28.2)	144.3
EPS	(30.6)	(41.8)	(27.5)	146.7
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)	26.0

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