

Baidu Earnings Update Q1 2021

Strategy: Follow the possible discrepancy between the stock price and business developments into interesting, but from a value investing perspective, still uncertain segments like autonomous driving, robotaxis etc.

Valuation still in line for a 10% long-term return, with possible upside from robotaxis etc.

Q1 Overview

The first chapter of Baidu's press release summarized what Baidu is.

Baidu Announces First Quarter 2021 Results

May 18, 2021

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BEIJING, May 18, 2021 /PRNewswire/ -- Baidu, Inc. (NASDAQ: BIDU and HKEX: 9888) ("Baidu" or the "Company"), a leading AI company with strong Internet foundation, today announced its unaudited financial results for the first quarter ended March 31, 2021.

"We are delighted to bring innovation across many sectors, including marketing cloud, enterprise cloud, smart transportation, autonomous driving, smart assistant and AI chip, through our decade-long investment in AI," said Robin Li, co-founder and CEO of Baidu. "With AI powering the next stage of technology growth, many Baidu alumni have rejoined us, and our employees are energized from working on intelligent computing that can improve daily life and make the complex world simpler."

"Baidu Core delivered a strong first quarter with revenue growing 34% year over year, powered by non-advertising revenue growing 70% year over year," said Herman Yu, CFO of Baidu. "We will continue to invest heavily in sales, R&D and operations to support the rapid growth of our AI-powered business."

A company investing in innovation and growing 34%.

QoQ revenues are down 7%, which is something to watch.

First Quarter 2021 Financial Highlights^[1]

(In millions except per ADS, unaudited)	Baidu, Inc.				
	Q1 2020	Q4 2020	Q1 2021	YOY	QOQ
	RMB	RMB	RMB	US\$	
Total revenues	22,545	30,263	28,134	25%	(7%)
Operating (loss) income	(437)	4,977	2,789	426	-(44%)
Operating income (non-GAAP)^[2]	1,437	7,055	4,362	666	204%(38%)
Net income to Baidu	41	5,174	25,653	3,915	62468% 396%
Net income to Baidu (non-GAAP)^[2]	3,082	6,868	4,297	656	39%(37%)
Diluted earnings per ADS	0.02	15.05	73.76	11.26	368700% 390%
Diluted earnings per ADS (non-GAAP)^[2]	8.84	20.08	12.38	1.89	40%(38%)
Adjusted EBITDA^[2]	2,852	8,564	5,900	901	107%(31%)
Adjusted EBITDA margin	13%	28%	21%	21%	

Anyway, Earnings per share are 1.89 for the quarter.

As the management said in the previous call, as covid passes, revenues should go up and that is exactly what happened. They expect growth ahead.

Financial Guidance

For the second quarter of 2021, Baidu expects revenues to be between RMB 29.7 billion (\$4.5 billion) and RMB 32.5 billion (\$5.0 billion), representing a growth rate of 14% to 25% year over year, which assumes that Baidu Core revenue will grow between 20% and 33% year over year. This guidance does not include potential contribution from an acquisition of YY Live.

All in all, they are just working on their businesses.

- Baidu returned US\$300 million to shareholders under the 2020 Share Repurchase Program this year, bringing the cumulative repurchase to \$2.2 billion since 2020.

AI Cloud

- Baidu EasyDL, a simple to use machine learning service, was rated No.1 in terms of usage in China, per IDC in December 2020, topping the list for the second time.
- Baidu deep learning framework PaddlePaddle, upgraded to v2.0 in March 2021, was ranked among the Top 3 globally in terms of usage based on pull request, according to Github.
- A leading retail bank in China implemented Baidu's AI PaaS, which has led to five follow-on purchases, including application to automate customer service and consumer loan approval, and the recent purchase of private cloud services.
- Baidu partnered with the online arm of China's largest TV network CCTV to implement Baidu AI PaaS with capabilities to automate video clip creation and tagging from live broadcasting and use smart assistant to quickly locate desired video content. During an important annual event, Baidu enabled CCTV.com to simultaneously interview congressional meeting participants with AI reporters, powered by Baidu Brain, and timely share these interviews on the Internet.
- Chongqing, which implemented Apollo V2X last year, marking Baidu's entry into western China, signed with Apollo to make its smart transportation infrastructure 5G enabled, to support robotaxi ride hailing operation.
- Chengdu (Sichuan), a leader in science and technology development, signed with Apollo to implement V2X vehicle-to-road infrastructure.

Intelligent Driving

- Apollo has accumulated 6.2 million miles of L4 autonomous driving testing on the road and 600 million miles of simulated testing since its founding in 2013.
- Apollo received permit to test autonomous driving at night and under special weather conditions on public roads in Beijing. Apollo also received permits to pilot fully autonomous driving in Beijing, Cangzhou (Hebei), and Changsha (Hunan).
- Apollo Go, China's first fully autonomous ride-hailing, is now available at the Shougang Park, a Beijing 2022 Winter Olympics site.
- Apollo Go begins to charge for robotaxi ride hailing in Cangzhou, based on the distance traveled starting with a minimum fare, similarly to regular ride hailing.
- The total addressable market for robotaxi ride hailing will reach US\$224 billion in China by 2025, according to China Insights Consultancy, a market research and consulting company.
- Jidu Auto, an intelligent EV company established in partnership with Zhejiang Geely Holding Group, appointed Yiping Xia as its CEO. Mr. Xia previously served as CTO at Mobike and held positions at Fiat Chrysler and Ford.
- Guangzhou Automobile Group joins Apollo's network of over 10 leading automakers to install Apollo Self Driving (ASD) services in its new vehicles.
- Guidehouse Insights (previously Navigant Research) has rated Baidu in the "leader" category for the second consecutive year, the only Chinese company honored among the four AI companies selected globally for this category. Apollo's open platform, to empower Jidu and other automakers as well as Apollo Go robotaxi, puts Apollo in a unique position to be well funded and widely adopted.
- DuerOS for Auto, powering infotainment, has been installed in over 1.5 million new vehicles, recorded Q1 2021 installation more than doubled from the prior year.

Other Growth Initiatives

- DuerOS monthly voice queries reached 6.6 billion with first-party voice queries reaching 3.9 billion in March 2021.
- Xiaodu ranked No.1 in smart display shipments globally and No.1 in smart speaker shipments in China for 2020, according to IDC, Strategy Analytics and Canalys

Conference call comments

They continue to build infrastructure – from Apollo V2X Vehicle-to-Road infrastructure for roll-out of robotaxi ride-hailing to other.

If the below is even partially correct, it will be interesting for Baidu.

According to China's Insights Consultancy, a market research and consulting firm, the TAM for Apollo Intelligent Driving, which includes robotaxi riding-hailing EVs and self driving services for automakers will reach US\$467 billion, almost nine times the size of our advertising TAM of \$53 billion in 2025.

And could lead to the following:

Baidu Health has attracted approximately 300,000 doctors and medical experts to provide in-depth authoritative content and online consultation to consumers. As our users adapt to more services on Baidu, we see a great opportunity to offer non-ad services on our own to meet the needs of our large user base.

When you couple this with the robust growth of our AI business, non-advertising revenues could possibly exceed advertising revenue with Baidu Core, within Baidu Core in the next three years.

Baidu, Inc.
Condensed Consolidated Statements of Income (Loss)
(In millions except for per share (or ADS) information, unaudited)

	Three Months Ended			
	March 31, 2020	December 31, 2020	March 31, 2021	March 31, 2021
	RMB	RMB	RMB	US\$(²)
Revenues:				
Online marketing services	14,243	20,708	18,094	2,762
Others	8,302	9,555	10,040	1,532
Total revenues	22,545	30,263	28,134	4,294

That would be likely at least 40 billion RMB revenue in a quarter, or 13.6% growth per year.

Let me give you more color on each area. AI Cloud was RMB2.8 billion, up 55% year-over-year and we expect our AI Cloud growth rate to accelerate in the future. Our cloud growth benefited from customers from the Internet

From the Q/A session, they see core growth to remain strong down the road on all strong verticals, which could mean growth of 15% to 20% and not just 13.6%.

iQiYi Stable

iQIYI revenue reached RMB 8 billion, up 4% year-over-year and its net losses narrowed to RMB1.3 billion, up - down from RMB2.9 billion last year. iQIYI subscribers reached 105.3 million, serving as a strong foundation to support their over 50 in-house studios and produce entertainment blockbuster originals.

Cash still there.

Cash and short-term investments for Baidu and Baidu Core as of March 31, 2021 were RMB172.9 billion and RMB159.6 billion or US\$24.4 billion respectively.

Free cash flow for Baidu and excluding iQIYI were RMB2.6 billion and RMB4 billion or US\$615 million respectively. Baidu Core had approximately 34,000 full-time employees as of March 31, 2021, up 18% from last year.

Turning to second quarter guidance. For the second quarter of 2021, Baidu expects revenue to be between RMB29.7 billion or US\$4.5 billion and RMB32.5 billion or US\$5 billion representing a growth rate between 14% and 25% year-over-year, which assumes that Baidu Core will grow between 20% and 33% year-over-year.

This guidance does not give any potential contribution from the acquisition of YY Live. The above forecast reflects our current and preliminary view, which is subject to substantial uncertainty.

Important things from the Q/A

Core growth – which vertical?

A – all verticals, on better tech – bidding for sales etc. Forecast is to continue like that, so more core growth.

Now with that, the users, they can complete their tasks like book a flight or buy a book in one stop - step instead of talking away. So all these building blocks actually they contribute to the monetization capability we have built. Especially for Baidu AVP, so, we can see it actually grows even faster than the average 27% - it's more than 30%.

So, with that actually we are seeing pretty good performance for all the verticals on the way down the road.

Robin Li

On apollo TAM

Robin Li

Yes. So for the TAM of Apollo, it's huge. It's very large, and right now, it's growing very fast. If you recall, we started to invest in autonomous driving roughly eight years ago. Over the years, Apollo has morphed into a very comprehensive platform that supports all kinds of business models and directions that includes robotaxi, ride-hailing that includes, software services provider for that OEMs and also that includes building our own smart EVs.

I think all of this effort, well, feedback data and other kinds of market signals to the Apollo platform making Apollo a stronger and a better platform for both autonomous driving and smart transportation. We are very excited that each of this new directions including the smart transportation project we are building for many, many cities, because it all can be integrated together and provide a much more efficient transportation system for the cities, for the society and provide better experience for the drivers and the consumers. And it all comes together and we are very happy we invested early and we start to reap the benefit of this direction.

Talk about possible network effects on all of the above initiatives.

Robin Li

Hi, Jerry. This is Robin. I don't know if you've noticed that when we say what kind of company Baidu is, we see that we are a leading AI company with strong Internet foundation.

That means that, we can not only benefit from the investments we did over the past like, ten years to more - to getting more new businesses like intelligent driving and smart cloud, we also can leverage our AI capability to better monetize our strong user base we accumulated over the past, like 20 years.

Q - scale of the financial investments that we are planning for the EV business this year?

No numbers to give

Q – Margins going forward

Herman Yu

Yes. Yes. So, on the margins, let me answer several ways. I think, number one, obviously, mobile ecosystem search and feed that is a mature business growing not as fast. When you have a business that we are in where our search is the largest in China, where we have tremendous amount of traffic, obviously, you're going to have very good margin.

Margins will definitely dampen

And I think, it's widely known that autonomous driving will not become mature for the next 10 or even 20 years. So, this kind of sustained intensive investment in R&D is necessary to keep the lead in terms of technology.

A look at the stock price

Baidu Inc ADR Class A

189,16 USD

+0,28 (0,15%) ↑

Closed: 20 May, 08:07 GMT-4 · Disclaimer

Pre-market 189,85 +0,69 (0,36%)

NASDAQ: BIDU

+ Follow

1D | 5D | 1M | 6M | YTD | **1Y** | 5Y | Max



Open	184,81	Mkt cap	66,89B	Prev close	188,88
High	189,99	P/E ratio	8,75	52-wk high	354,82
Low	184,15	Div yield	-	52-wk low	102,60

\$66 billion market cap, \$15 billion in likely free cash, that is 50 billion – on 2.5 billion in cash flows, plus the possible future growth, that is likely to be there but uncertain.

Ah, still fairly priced for a 10% long-term return. We'll keep watching.

Baidu

STOCK VALUE LIST'IA1

Scenario	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
Scenario 1 normal case	2.50	2.68	2.86	3.06	3.28	3.51	3.75	4.01	4.30	4.60	4.92	91.92	7%
	10%)											35.44	7%
	INTRINSIC VALUE												10%
													20.0

Scenario	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
Scenario 2 best case	2.50	2.88	3.31	3.80	4.37	5.03	5.53	6.08	6.69	7.36	8.10	184.05	15%
	10%)											70.96	10%
	Present value sum												10%
													25.0

Scenario	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
Scenario 3 worst case	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	37.50	0%
	10%)											14.46	0%
	Present value sum												10%
													15.0

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.5	35.44	17.72
Scenario 2 (best case)	0.4	70.96	28.38
Scenario 3 (worst case)	0.1	14.46	1.45
Sum			47.55

PLUS 12 billion in cabs, plus 20 billion for other **77.55**

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