



## Company Report: Baidu (BIDU US)

公司报告: 百度 (BIDU US)

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# Cultivating Content Development, "Neutral"

深耕内容发展, “中性”

- **2Q19 result was better than the market and our expectation by 142.3% and 78.2%, respectively, declining 62.3% yoy** due to higher-than-expected online marketing services expense. Gross margin dropped 15.0 ppt yoy due to increase in costs in both traffic acquisition and bandwidth.
- **We have revised up FY19-FY21 online marketing services revenue estimates by 3.7%/ 14.5%/ 21.6%, respectively, due to 1) expected content development and 2) improving user experience.** We believe that Baidu's online marketing services will improve.
- **We revise up FY19-FY21 operating margin estimates by 1.0ppt/ 1.6ppt/ 0.8ppt, respectively, due to expected efficient spend on SG&A.** However, we believe that gross margin will further remain under pressure due to expected 1) increasing contribution to smart hardware with thin gross margin, 2) expected continual high spend on TAC, and 3) bandwidth cost to total net revenue is expected to remain above 8% due to cloud development.
- **We maintain the investment rating as "Neutral" but revise up TP to US\$118.00.** In view of expected positives of online marketing services revenue growth and efficient spending on SG&A, we have revised up FY19-FY21 non-GAAP EPADS by 0.6%/ 12.1%/ 18.7%, respectively. The new TP represents 23.2x/ 16.8x/ 11.8x non-GAAP PER in FY19-FY21, respectively.
- 由于高于预期的在线营销服务, 百度 2019 年第二季度业绩分别高于市场与我们预期 142.3%和 78.2%, 其同比下降 62.3%。毛利率同比下降 15.0 个百分点, 因流量获取和带宽成本的提升。
- 基于 1) 内容发展; 2) 增强的用户体验, 我们分别上调 2019-2021 财年的在线营销服务收入预测 3.7%/14.5%/21.6%。我们认为百度的在线营销服务预期将得到改善。
- 基于对一般营销及行政费用的高效支出, 我们分别上调 2019-2021 年经营利润率 1.0 个百分点/1.6 个百分点/0.8 个百分点。但我们认为毛利率将进一步承压, 由于预计 1) 毛利率相对弱的智能硬件的利润贡献加大; 2) 流量获取成本持续高企; 3) 由于云业务的发展, 带宽成本预计将保持在净收入总额的 8%以上。
- 我们维持投资评级为“中性”和上调目标价至 118.00 美元。由于预计正面的在线营销收入增长和有效的一般营销及行政支出, 我们分别上调 2019-2021 年的非 GAAP 每份 ADS 盈利预测 0.6%/12.1%/18.7%。新目标价分别相当于 23.2 倍/16.8 倍/11.8 倍 2019 年至 2021 年非 GAAP 市盈率。

Rating:

**Neutral**

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

**US\$118.00**

Revised from 原目标价:

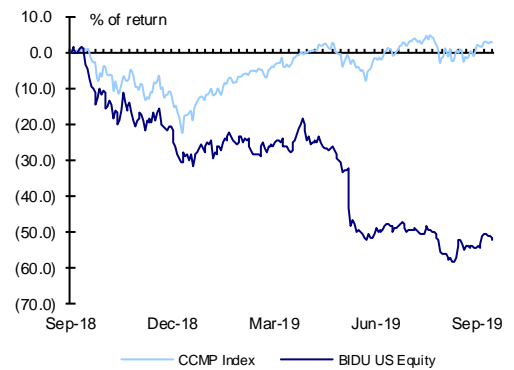
US\$115.00

ADS price ADS价格:

US\$108.400

### Stock performance

股价表现



Change in ADS Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	4.0	(8.0)	(52.1)
Rel. % to NASDAQ Index 相对纳指变动 %	1.8	(10.4)	(55.0)
Avg. ADS price(US\$) 平均股价 (美元)	106.3	109.1	154.0

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADS	Earnings/ADS	PER	BV/ADS	PBR	DP ADS	Yield	ROE
年结	收入	股东净利	每份 ADS 净利	每份 ADS 净利变动	市盈率	每份 ADS 净资产	市净率	每份 ADS 股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2017A	84,809	18,301	52.751	65.1	13.4	332.169	2.1	0.000	0.0	17.6
2018A	102,277	27,573	78.636	49.1	9.5	466.772	1.6	0.000	0.0	19.8
2019F	105,609	10,290	29.570	(62.4)	26.3	500.046	1.6	0.000	0.0	6.1
2020F	118,156	14,830	42.556	43.9	18.3	564.367	1.4	0.000	0.0	8.0
2021F	138,863	22,003	62.957	47.9	12.4	653.479	1.2	0.000	0.0	10.4
ADS in issue (m)	总 ADS 数 (m)			349.0	Major shareholder	大股东				Robin Li 16.1%
Market cap. (US\$ m)	市值 (US\$ m)			37,831.6	Free float (%)	自由流通比率 (%)				80.0
3 month average vol.	3 个月平均成交股数 ('000)			3,738.7	FY19 Net gearing (%)	FY19 净负债/股东资金 (%)				21.0
52 Weeks high/low (US\$)	52 周高/低 (US\$)			234.880 / 93.390	FY19 Non-GAAP PER					21.3

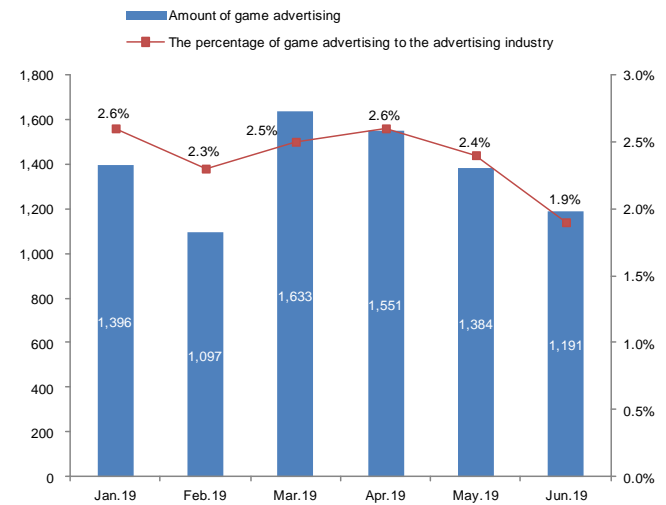
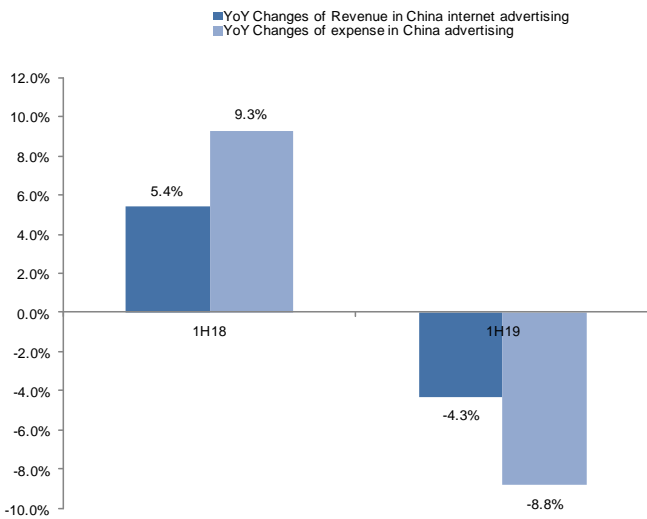
Source: the Company, Guotai Junan International.

**Internet Industry Update**

**The advertising market faced challenges in 1H19, with 8.8% yoy decline due to macro headwinds.** According to CTR data, up to 2019 first half, China’s advertising market dropped by 8.8% yoy compared to an increase of 9.3% in the preceding period. Internet advertising dropped by 4.3% yoy, compared to an increase of 5.4% for the preceding period. We believe the slump in internet advertising growth was mainly due to advertisers expected to optimize their marketing budget under the economic downturn. According to iResearch, the total amount of game advertising increased steadily in 1Q19 but slightly decreased in 2Q19, due to the restart of game license granting but the limited supply of new games. On the other side of the coin, we believe that the game industry will partially support internet advertising market growth due to the industry expected to recover from policy headwinds.

**Figure-1: Expense on China internet advertising yoy Growth**

**Figure-2: 1H19 Amount of game advertising and the percentage of game advertising to advertising industry**



Source: CTR, Guotai Junan International.

Source: iResearch, Guotai Junan International.

**Smart speakers continue fast growth in 2Q19.** According to Strategy Analytics, global sales of AI powered speakers reached 30.3 million units, nearly double the same period in 2018. Baidu, which is the smart speaker market leader in Asia Pacific, ranked third in 2Q19 globally due to the leading position in the Chinese market. Alibaba continued its momentum and ranked fourth globally in 2Q19. However, in terms of market share, Baidu decreased 0.5 ppt qoq to 15.3% while Alibaba remained the same as last quarter, with 14.1% market share. The share was gained by Amazon and Google, which increased to 21.9% and 18.5%, respectively, in 2Q19.

**Table-1: Global Smart Speaker Market by Vendor (Mn Units)**

Vendor	2Q19 Shipments	2Q19 Market Share	1Q19 Shipments	1Q19 Market Share	Shipments QoQ
Amazon	6.6	21.9%	5.6	21.7%	17.9%
Google	5.6	18.5%	4.7	18.0%	19.1%
Baidu	4.7	15.3%	4.1	15.8%	14.6%
Alibaba	4.3	14.1%	3.7	14.1%	16.2%
Xiaomi	3.4	11.1%	3.4	13.1%	0.0%
Apple	1.4	4.7%	1.1	4.3%	27.3%
Others	4.4	14.4%	3.3	12.9%	33.3%
<b>Total</b>	<b>30.3</b>	<b>100.0%</b>	<b>25.9</b>	<b>100.0%</b>	<b>17.0%</b>

Source: Strategy Analytics, Guotai Junan International.

**2Q19 Results Review**

**Baidu's 2Q19 shareholders' profit was better than the market's and our expectation by 142.3% and 78.2%, respectively, mainly due to non-operating other income.** Content cost increased 11.6% yoy, mainly due to increased investment in iQIYI content, BJH and Baidu feeds content network. Traffic acquisition cost, which surpassed our expectation by 4.9%, increased by 26.9% yoy as a result of higher TAC costs and expansion into offline digitalized screens and other areas. In addition, bandwidth costs were in line with our expectation, with 32.1% yoy growth, mainly due to increasing demand from feeds, videos and cloud services. On the other hand, selling, general, and administrative expenses grew 16.4% yoy, primarily due to increased investment in channel and promotional marketing, as well as an increase in personnel related expenses, in line with our expectation due to expected cost control. The Company's shareholders' net profit decreased 62.3% yoy to RMB2,412 million. The Company announced 3Q19 revenue guidance to be between RMB26.9 billion and RMB28.5 billion, yoy growth of -5% to 1%, reflecting the relatively weak business environment and increasing competition for Baidu's advertising business.

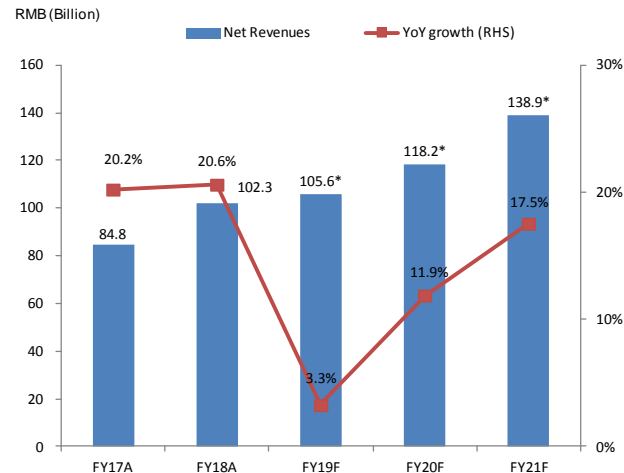
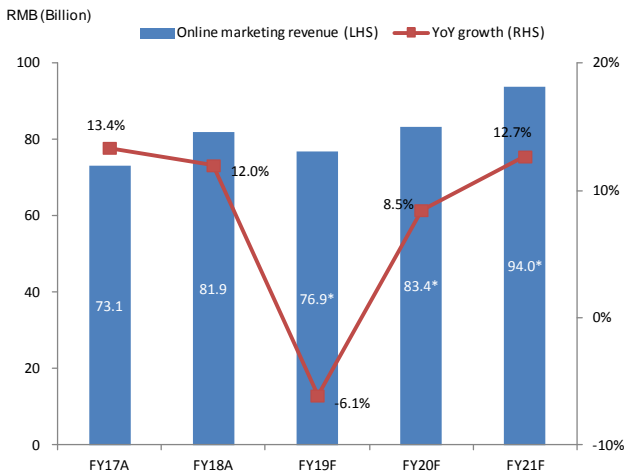
**Table-2: Baidu's Income Statement Analysis**

RMB (Million)	2Q19	2Q18	YoY	1H19	1H18	YoY	Comments
Total revenue	26,326	25,972	1.4%	50,449	46,879	7.6%	Driven by robust growth in iQIYI membership services, cloud and smart devices.
Gross profit	10,210	13,960	(26.9%)	19,494	24,964	(21.9%)	
SG&A	(5,243)	(4,505)	16.4%	(11,297)	(7,647)	47.7%	Primarily due to increased investment in channel and promotion marketing, as well as the increase in personnel related expenses.
R&D	(4,734)	(4,033)	17.4%	(8,900)	(7,327)	21.5%	Primarily due to the increase in personnel related expenses.
Operating profit	233	5,422	(95.7%)	(703)	9,990	n.a.	
Non-GAAP operating profit	1,955	6,563	(70.2%)	2,356	11,934	(80.3%)	
Other income	1,238	734	68.7%	2,138	2,834	(24.6%)	Mainly due to increased income from equity method investments and foreign exchange gains from RMB depreciation.
Net profit to Shareholders	2,412	6,402	(62.3%)	2,085	13,096	(84.1%)	
Non-GAAP net profit to shareholders	3,635	7,705	(52.8%)	4,602	12,522	(63.2%)	
EPADS (RMB)	6.84	18.32	(62.7%)	5.86	37.17	(84.2%)	
Gross profit margin	38.8%	53.8%	(15.0ppt)	38.6%	53.3%	(14.7ppt)	
Non-GAAP operating profit margin	7.4%	25.3%	(17.9ppt)	4.7%	25.5%	(20.8ppt)	
Non-GAAP net margin	13.8%	29.7%	(15.9ppt)	9.1%	26.7%	(17.6ppt)	

Source: the Company, Guotai Junan International.

**We revise up FY19-FY21 online marketing services revenue estimates by 3.7%/ 14.5%/ 21.6%, respectively.** We believe that Baidu's online marketing services may face further challenges in the near future due to the following three factors: 1) expected continuing macro headwinds, in which advertisers are expected to further control their advertising budgets. We believe that merchants will be more cautious than the good days towards marketing allocation; 2) increasing inventory within the advertising market by peers such as Toutiao, which is expected to have a negative impact on eCPM; 3) internet marketing channel has been diversified, according to iResearch survey in May 2019, with around 60.7% of merchants focused on short video marketing while only 36.0% of merchants focused on information feed advertising. We believe that due to increasing traffic for short video, merchants are expected to increase its budget allocation on short video platforms such as Douyin, which would have a negative impact on Baidu's online marketing business; and 4) search engine platforms are no longer expected to be the main traffic entrance for information acquired in the mobile era. Instead, we believe that users will use different vertical apps for getting different specific information. However, we believe the following factors are expected to offset the negative impact: 1) the Company is expected to further develop its ecosystem on Baidu App in order to increase users' time consumption as well as users' adherence; and 2) healthcare advertising structure data reform has increased user experience. In March the Company required its healthcare marketing services customers to switch over from their H5 to Baidu managed page for the landing pages of their mobile app. In July, the Company extended the requirement to the healthcare PC app. Therefore, we believe with expected increasing user time consumption and experience, Baidu's online marketing services is expected to turn positive.

**Figure-3: Baidu's Online Marketing Services Revenue Estimations and YoY Growth** **Figure-4: Baidu's Revenue Estimations and YoY Growth**



Source: the Company, Guotai Junan International.  
Notes \*: FY19A – FY21F figures are estimated in adjusted Online Marketing Revenue.

Source: the Company, Guotai Junan International.  
Notes \*: FY19A – FY21F figures are estimated in adjusted revenue

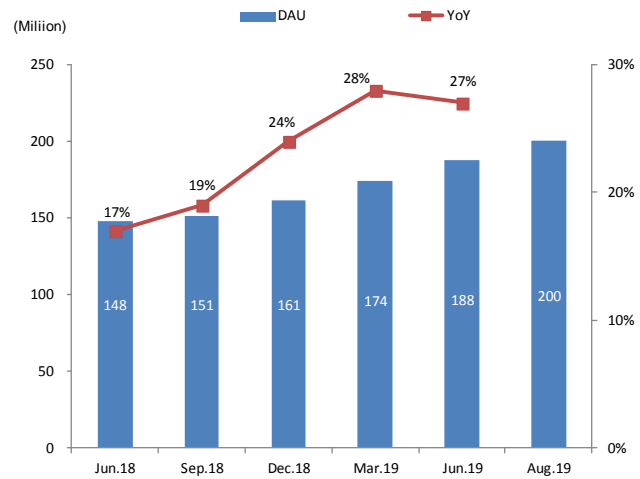
**We believe that BaijiaHao and mini programs could alleviate traffic stress and increase time spent by users.** In the mobile era, with more vertical apps, users tend to get information from separate apps, for example, users would use Meituan for searching for food and entertainment services and Toutiao for searching news information. This has resulted in Baidu losing access to some vertical search results. However, with mini programs, we believe that users could access different services on the Baidu App platform, without transferring to other H5 pages or even the need to download the app. With the Meituan mini program for example, users can access Meituan services via Baidu App without downloading and finishing the food order. We found that the user experience for Meituan mini program is almost the same as the Meituan App. We believe that mini programs on Baidu are service oriented, which could allow users to access different services without leaving the Baidu App. For mini program content development, Baidu has invested in "Kaishu Story", "Qimao Xiaoshuo" and "Zhihu" in July and August. In addition, we believe that Baijiahao is expected to act as a content provider, which will amplify the Baidu App ecosystem. For user time spent, people normally use less time on search engines to find information. We believe that user time consumption on search platforms is shorter than other internet platforms such as short videos. Hence, for expected further content development of mini programs and Baijiahao, baidu is expected to 1) increase user time spent and 2) release more advertising inventory. We see good signs for content development on Baidu App with DAU surging to 200 million in August. Moreover, we believe that competition for user time consumption is still fierce. Super apps such as Weixin, Douyin, Toutiao and Alibaba are all increasing its content amplification by increase its mini program and amplify its content ecosystem.

Figure-5: Mini Program on Baidu App



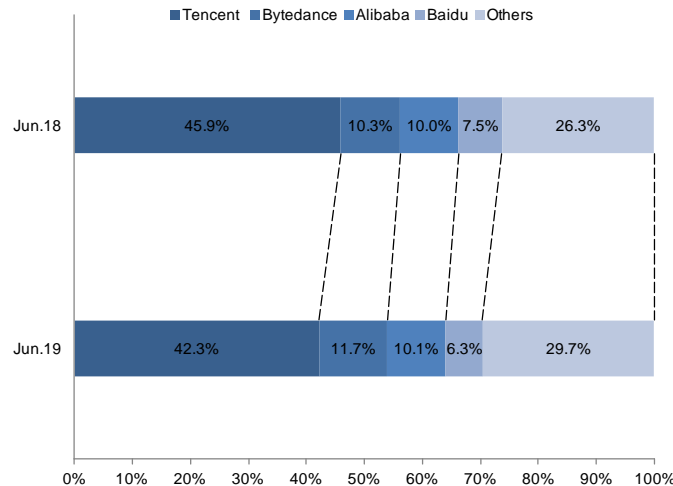
Source: Questmobile, Guotai Junan International.

Figure-6: Baidu's DAU



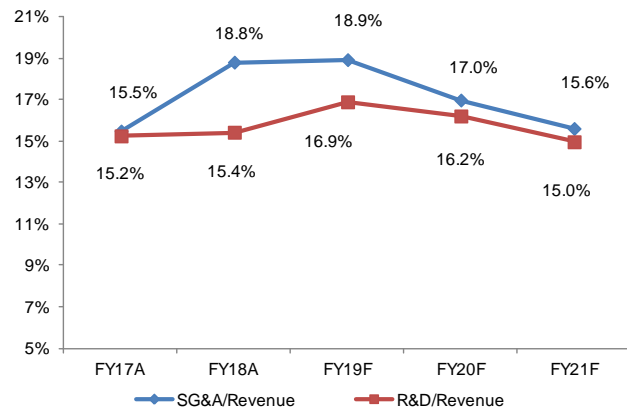
Source: the Company, Guotai Junan International.

Figure-7: Percentage of Time Spent on Different Top Apps in June 2019

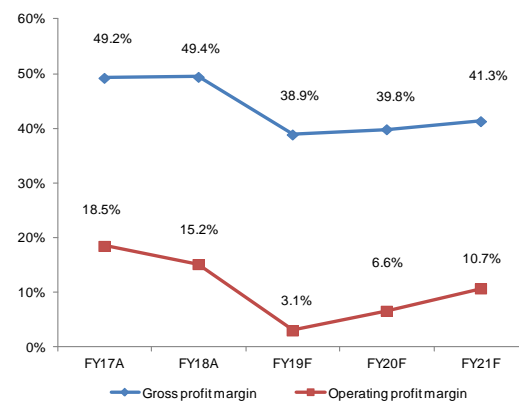


Source: Questmobile, Guotai Junan International.

**We believe that gross profit margin is expected to be under pressure.** Traffic acquisition cost as a percentage of revenue climbed to 13.0% in 2Q19, up 2.6 ppt yoy. The increase was mainly due to the higher TAC costs and expansion into offline digitalized screens and other areas. Content costs as a percentage of revenue increased to 22.1% in 2Q19, up 2.0 ppt yoy. As Baidu is expected to shift its traffic acquisition from TAC traffic to organic traffic, we expect content and marketing investment to continue in the following quarters this year. However, we believe controllable content investment is expected on iQIYI. We expect Baidu's gross margin to be further under pressure due to the following reasons: 1) increasing revenue contribution from smart devices running the DuerOS operating system, in which the hardware has thin margins; 2) TAC is expected to remain at a relatively high level, due to increasing competition. 3) We believe that bandwidth costs may start to increase and expect it to be above 8.0% to total net revenue in the following quarters this year, due to the increasing development of the cloud business. Therefore, we have revised down FY19-FY21 gross profit margin by 1.2ppt/ 1.1ppt/ 1.9ppt, respectively. For the marketing side, we believe that the Company is expected to spend more efficiently in the following quarters this year. The yoy growth rate of SG&A slowed to 16.4% in 2Q19, down 34.2 ppt yoy and 76.3 ppt qoq. As the Company is expected to screen out marketing costs that have low ROI, we believe that the percentage of SG&A to net revenue would be controlled within the range of 15.0% to 16.0% in the following quarters this year. Hence, we have revised up FY19 to FY21 operating margin by 1.0ppt/ 1.6ppt/ 0.8ppt, respectively.

**Figure-8: Baidu's Operating Costs Analysis**


Source: the Company, Guotai Junan International.

**Figure-9: Baidu's Gross Margin and Operating Margin**


Source: the Company, Guotai Junan International.

In 2Q19, Baidu returned US\$291 million to its shareholders, increasing its accumulated return to US\$778 million, under the 2018 Share Repurchase Program. In May 2019, the Company's board approved an additional US\$1 billion repurchase under the 2019 Share Repurchase Program, which is expected to be effective until July 1<sup>st</sup> 2020. We estimate that the repurchase accounted for around 2.4% of its total market capitalization. We believe the repurchase could stabilize the share price in some circumstances but we expect the share price to remain under pressure due to the impact on its online marketing services.

### Profit Revision

We have revised up FY19-FY21 non-GAAP EPADS by 0.6%/ 12.1%/ 18.7%, respectively. With increasing content development, we have revised up the FY19-FY21 online marketing services revenue by 3.7%/ 14.5%/ 21.6%, respectively. Therefore, we have revised up FY19-FY21 Non-GAAP net profit by 0.2%/ 11.6%/ 18.2%, respectively.

**Table-3: Financial Estimations Revisions**

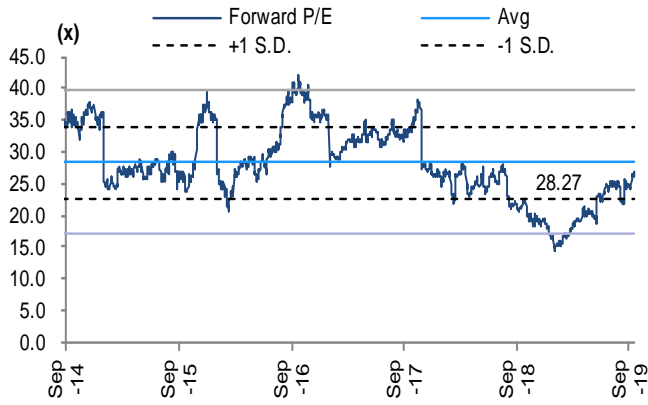
RMB (Million)	OLD			NEW			CHANGE		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Total revenue	103,513	111,111	125,382	105,609	118,156	138,863	2.0%	6.3%	10.8%
- Online marketing	74,164	72,869	77,255	76,898	83,402	93,974	3.7%	14.5%	21.6%
- Other services	29,349	38,242	48,127	28,712	34,754	44,890	(2.2%)	(9.1%)	(6.7%)
Non-GAAP Net profit	12,207	15,105	20,423	12,226	16,863	24,137	0.2%	11.6%	18.2%
Non-GAAP EPADS (RMB)	34.9	43.2	58.2	35.1	48.4	69.1	0.6%	12.1%	18.7%

Source: Guotai Junan International.

### Valuation

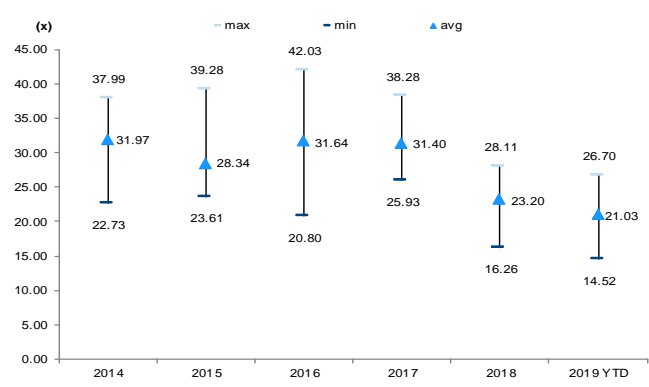
We maintain the investment rating as "Neutral" but revise up TP to US\$118.00. Baidu traded at 28.3x forward (next four quarter) PE on average over the past five years. Our new target price is 2.6% discount to 28.3x average forward PE, reflecting the expected challenge of economic headwinds. The new TP represents 23.2x/ 16.8x/ 11.8x FY19/ FY20/ FY21 non-GAAP PER.

**Figure-10: Baidu's Non-GAAP Forward PE Graph**



Source: Bloomberg.

**Figure-11: Baidu's Historical PE Range**



Source: Bloomberg.



**Table-4: Peers Comparison**

Company	Ticker	Currency	Price	PER (x)			PBR (x)			P/S	PEG	Market Cap
				19F	20F	21F	19F	20F	21F	19F	19F-21F	Local currency (million)
<b>US Online Game Companies</b>												
Changyou	CYOU US	USD	9.090	5.0	5.0	4.8	n.a.	n.a.	n.a.	1.1	2.8	484
Electronic Arts Inc	EA US	USD	98.280	29.3	21.4	19.3	5.5	4.4	3.8	6.2	1.9	28,964
Activision Blizzard Inc	ATVI US	USD	55.120	25.1	21.7	19.2	3.3	3.0	2.7	6.7	1.7	42,278
Netease	NTES US	USD	270.020	21.7	19.5	18.0	5.0	4.3	3.7	3.2	2.2	34,552
Simple Average				20.3	16.9	15.3	4.6	3.9	3.4	4.3	2.2	
Weighted Average				25.1	20.8	18.7	4.5	3.8	3.3	5.4	1.9	
<b>HK Online Game Companies</b>												
Kingsoft Corp Ltd	3888 HK	HKD	18.880	n.a.	38.4	34.5	1.9	1.8	1.7	3.0	n.a.	25,917
Forgame Holdings Ltd	484 HK	HKD	4.630	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	738
Linekong Interactive Group C	8267 HK	HKD	0.700	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	258
Idreamsky Technology Holding	1119 HK	HKD	4.520	8.6	6.8	7.2	1.6	1.3	n.a.	1.7	0.9	5,739
Tencent	700 HK	HKD	338.400	30.7	25.3	21.1	6.9	5.5	4.4	7.6	1.5	3,233,534
Boyya Interactive Int.	434 HK	HKD	1.190	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	859
Fingertango Inc	6860 HK	HKD	0.820	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,584
Leyou Technologies Holdings	1089 HK	HKD	2.550	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7,858
Fire Rock Holdings Ltd	8345 HK	HKD	5.250	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,680
Digital Hollywood Interactiv	2022 HK	HKD	0.134	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	268
Ourgame International Holdin	6899 HK	HKD	0.710	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	776
Baioo Family Interactive Ltd	2100 HK	HKD	0.690	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,925
Feiyu Technology Internation	1022 HK	HKD	0.178	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	275
IGG	799 HK	HKD	5.190	5.7	5.4	4.9	2.3	1.8	1.5	1.2	0.7	6,534
Netdragon	777 HK	HKD	19.060	11.4	9.6	8.7	1.7	1.5	1.4	1.5	0.8	10,111
Simple Average				11.4	9.6	8.7	1.7	1.5	1.4	1.5	0.8	
Weighted Average				14.1	17.1	15.3	2.9	2.4	2.2	3.0	1.0	
<b>Advertising Companies</b>												
Momo Inc-Spon Adr	MOMO US	USD	35.490	14.1	11.6	10.3	3.0	2.2	1.6	3.1	0.8	7,359
Bilibili Inc-Sponsored Adr	BILI US	USD	15.210	n.a.	n.a.	116.1	4.6	5.5	5.5	5.3	n.a.	4,960
Sohu.Com Inc	SOHU US	USD	12.240	n.a.	n.a.	n.a.	1.1	2.0	4.0	0.3	n.a.	480
Weibo	WB US	USD	49.010	17.9	16.0	13.7	4.6	3.6	2.9	6.0	1.3	11,029
Bitauto	BITA US	USD	15.050	12.1	9.4	8.0	0.6	0.6	0.6	0.7	0.5	1,056
Cheetah Mobile	CMCM US	USD	3.790	48.6	17.5	8.3	n.a.	n.a.	n.a.	1.0	0.3	543
58.com	WUBA US	USD	56.300	16.5	16.3	14.2	2.2	2.2	2.0	3.8	2.1	8,370
Soufun	SFUN US	USD	2.410	n.a.	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	232
Phoenix New Media	FENG US	USD	3.010	n.a.	n.a.	250.8	0.3	0.3	0.3	0.9	n.a.	219
Sina	SINA US	USD	43.880	17.5	15.0	11.9	0.9	0.8	0.7	1.4	0.8	3,044
Facebook	FB US	USD	188.140	21.0	17.0	14.5	5.4	4.2	3.3	7.6	1.0	536,754
Simple Average				21.1	13.1	49.8	2.5	2.4	2.3	3.0	1.0	
Weighted Average				20.8	16.9	15.3	5.2	4.1	3.3	7.4	1.0	
<b>E-commerce Companies</b>												
Pinduoduo Inc-Adr	PDD US	USD	34.370	n.a.	69.0	28.8	18.4	16.3	11.5	9.5	n.a.	39,950
Alibaba*	BABA US	USD	180.000	33.8	26.1	21.1	6.3	5.5	4.3	8.4	1.1	468,643
VIPSHOP	VIPS US	USD	9.570	11.8	10.2	9.4	2.1	1.7	1.5	0.5	1.0	6,390
EBay	EBAY US	USD	40.360	14.7	13.0	11.6	12.3	10.0	8.0	3.1	1.2	33,852
JD.com	JD US	USD	31.040	36.3	26.2	19.5	4.7	4.1	3.5	0.6	1.0	45,131
AMAZON	MZN US	USD	1817.460	54.8	41.3	28.9	15.3	10.8	7.8	3.2	1.5	899,018
Simple Average				30.3	31.0	19.9	9.9	8.1	6.1	4.2	1.1	
Weighted Average				46.3	36.1	25.7	12.1	9.0	6.6	4.9	1.3	
<b>Search Engine Companies</b>												
Sogou Inc-Adr	SOGO US	USD	5.130	27.0	21.2	20.3	1.9	1.7	1.6	1.7	1.8	2,037
Alphabet Inc-CIA	GOOGL US	USD	1232.650	20.7	19.7	16.2	4.1	3.5	2.9	6.5	1.6	854,629
Baidu Inc - Spon Adr	BIDU US	USD	108.400	26.1	17.6	13.8	1.7	1.5	1.4	2.5	0.7	37,782
Simple Average				24.6	19.5	16.8	2.6	2.2	2.0	3.6	1.3	
Weighted Average				21.0	19.6	16.1	4.0	3.4	2.8	6.3	1.6	
Overall Average				22.1	19.5	23.4	4.5	3.8	3.2	3.6	1.3	
Overall Weighted Average				28.8	23.8	19.5	6.6	5.2	4.1	6.3	1.5	

Source: Bloomberg.

Notes: \* represents figures of FY19/FY20/FY21



**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Online marketing services	73,146	81,912	76,898	83,402	93,974	Fixed assets, net	12,475	17,903	18,251	18,516	18,983
Other services	11,663	20,365	28,712	34,754	44,890	Intangible assets, net	5,467	9,181	11,034	14,105	17,688
Total Revenue	84,809	102,277	105,609	118,156	138,863	Investments, net	56,283	80,454	96,545	115,854	127,439
Cost of revenue	(43,062)	(51,744)	(64,555)	(71,097)	(81,507)	Deferred tax assets, net	1,532	2,324	2,112	2,363	2,777
Gross profit	41,747	50,533	41,054	47,059	57,357	Other non-current assets	24,802	32,610	33,439	35,544	38,779
SG&A	(13,128)	(19,231)	(19,985)	(20,056)	(21,665)	Total Non-current Assets	100,559	142,472	161,381	186,382	205,667
R&D	(12,928)	(15,772)	(17,836)	(19,147)	(20,774)	Short-term investments	89,381	111,626	116,416	130,246	153,072
Operating profit	15,691	15,530	3,233	7,856	14,918	Account Receivable	4,571	6,015	5,692	6,368	7,484
Interest income, net	1,539	2,568	2,630	2,768	2,772	Prepaid expenses	3,425	6,841	7,064	7,903	9,288
FX loss, net	(482)	(122)	(207)	(224)	(242)	Cash & Cash Equivalents	11,084	27,638	25,791	22,596	31,668
Other income, net	5,592	11,795	6,489	7,106	7,914	Others	42,708	2,974	2,773	3,100	3,776
Loss from investment	(63)	(79)	(158)	(164)	(171)	Total Current Assets	151,169	155,094	157,736	170,214	205,288
Profit Before Tax	21,283	27,325	9,722	14,962	22,831	Total Assets	251,728	297,566	319,116	356,595	410,955
Income Tax	(2,995)	(4,743)	(1,556)	(2,394)	(3,699)	Accrued expenses & other liabilities	66,009	35,381	40,950	44,120	49,578
Profit After Tax	18,288	22,582	8,167	12,568	19,133	Customers' advances & deposits	6,785	7,338	7,577	8,477	9,963
Non-controlling Interest	13	4,991	2,123	2,262	2,870	Short-term loans payable	1,254	3,130	3,232	3,616	4,250
Shareholders' Profit / Loss	18,301	27,573	10,290	14,830	22,003	Notes payable, current proportion	6,500	6,871	8,572	9,441	10,823
Basic EPS	52.751	78.636	29.570	42.556	62.957	Others	1,509	4,133	3,866	3,886	4,151
Non-GAAP Shareholder's Profit	17,244	23,324	12,226	16,863	24,137	Total Current Liabilities	82,057	56,853	64,198	69,540	78,765
Non-GAAP EPADS	49.659	66.834	35.133	48.389	69.064	Notes payable	29,111	42,735	53,316	58,719	67,316

Cash Flow Statement					
Year end 31 Dec (RMB m)	2017A	2018A	2019F	2020F	2021F
Profit After Tax	18,288	22,582	8,167	12,568	19,133
D&A	11,748	16,187	20,171	25,121	30,902
Deferred income tax, net	(756)	(761)	212	(251)	(414)
Share-based compensation	3,244	4,676	1,936	2,033	2,134
Gain on investments	(3,244)	(7,648)	(3,427)	(3,834)	(4,506)
Changes of working capital	6,271	1,344	621	3,931	6,814
Others	(2,975)	(2,350)	4,782	5,764	6,370
Cash from Operating Activities	32,576	34,030	32,462	45,331	60,433
Investing activities					
CAPEX	(4,779)	(8,772)	(6,337)	(7,089)	(8,332)
Changes of short-term investments	(17,681)	(22,888)	(4,790)	(13,831)	(22,826)
Changes of long-term investments	(12,467)	(7,320)	(19,309)	(23,171)	(13,902)
Changes of micro loans	(23,522)	2,239	0	0	0
Changes of other investments	(10,250)	8,587	0	0	0
Acquisition of intangible assets	(9,122)	(13,501)	(15,056)	(17,013)	(22,994)
Others	872	7,195	(854)	(1,135)	(1,318)
Cash from Investing Activities	(76,949)	(34,460)	(46,345)	(62,239)	(69,372)
Financing activities					
Changes of loans	(3,106)	3,802	1,441	1,957	2,485
Change of financial products	31,480	(21,279)	0	0	0
Change of debts	13,415	16,239	10,581	5,403	8,597
Proceeds of exercise of share options	453	676	710	745	783
Issuance of a subsidiary's Shares	4,046	15,689	4,178	4,674	5,493
Others	(1,731)	(45)	(6,205)	0	0
Cash from Financing Activities	44,557	15,082	10,705	12,780	17,358
Net Changes in Cash	184	14,652	(3,178)	(4,128)	8,420
Cash at Beg of Year	11,216	11,084	27,638	25,791	22,596
FX change	(316)	1,902	1,331	932	652
Cash at End of Year	11,084	27,638	25,791	22,596	31,668
Restricted cash	252	2,189	2,260	2,529	2,972
Cash and restricted cash end of the year	11,336	29,827	28,052	25,124	34,640

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross margin (%)	49.2	49.4	38.9	39.8	41.3
Operating margin (%)	18.5	15.2	3.1	6.6	10.7
Net margin (%)	21.6	27.0	9.7	12.6	15.8
ROE (%)	17.6	19.8	6.1	8.0	10.4
ROA (%)	7.5	6.8	1.6	2.8	4.1
Net gearing (%)	21.8	14.7	21.0	23.5	21.1
Debt/equity ratio (%)	32.1	32.7	37.6	37.0	36.7

Source: the Company, Guotai Junan International.

**Company Rating Definition**

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

**Sector Rating Definition**

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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