



Rating  
**Buy**

Asia  
China

Technology  
Software & Services

Company  
**Baidu**

Reuters BIDU.OQ    Bloomberg BIDU US    Exchange NMS    Ticker BIDU

Date  
18 May 2015

Company Update

Price at 15 May 2015 (USD)	192.98
Price target - 12mth (USD)	239.00
52-week range (USD)	250.34 - 154.77
HANG SENG INDEX	27,822

## dbAccess Asia Conference 2015 Highlights

More on the O2O foray

Baidu mgmt covered a series of topics at dbAccess Asia 2015, ranging from the competitive landscape to its ongoing O2O thrust. The co seems committed to broadening its beachhead in O2O, viewing it as a largely under-penetrated and highly fragmented market with enormous opportunity. We expect Baidu to leverage subsidies aggressively to acquire and retain customers. We believe the co has slated RMB5bn in O2O related investments in FY15. Investment scale next year will depend on "market dynamics."

Search business update; confident in mobile dominance despite verticals

We believe that Baidu continues to command a 70% search market share in terms of traffic. While the PC-to-mobile transition has posed challenges, it also presents unprecedented opportunities, demanding aggressive advances in technology. Looking forward to next 3-5 years, both voice search and image search should contribute 50% of queries, likely explaining why Baidu is burrowing further into cutting-edge R&D to maintain its leading position.

Margin outlook: committed to further gains in O2O; SG&A to rise sharply

In addition to RMB5b in O2O related investment in FY15, content cost should grow at a similar pace as last year and TAC cost as % of rev should also be in line with last year. With many peers paying for app preinstall this year, Baidu is likely to continue to invest in pre-installs to stay competitive.

Save the Date! dbAccess Asia TMT debrief call Friday, May 22, 10am ET

The DB Asia TMT team will convene a global investor call to share conclusions from our ongoing dbAccess Asia conference. Please join us at 10amET/3pm GMT/10pm HK time on Friday, May 22nd. Dial-in details are 800966253 for HK, 08000288438 for UK, and (800) 309-8606 for US. Conference code is 50090305

Maintain TP and Buy

Our TP of \$239 is based on unchanged 1.0x PEG against FY15-17E EPS CAGR of 30%. Maintain buy. Key risks: mobile monetization weakness, heavier than expected product development and branding investments.



Price/price relative



Performance (%)	1m	3m	12m
Absolute	-8.4	-9.0	24.2
HANG SENG INDEX	0.7	12.7	22.4

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (CNYm)	31,943.9	49,052.3	67,745.9	88,637.9	113,986.3
EBITDA (CNYm)	13,843.7	16,776.1	19,383.7	25,129.0	32,248.1
Reported NPAT (CNYm)	10,519.0	13,187.1	15,893.2	21,727.2	27,238.5
Reported EPS FD(CNY)	30.02	37.60	45.26	61.80	77.06
DB EPS FD(CNY)	31.49	40.24	49.54	66.84	83.23
DB EPS growth (%)	3.3	27.8	23.1	34.9	24.5
PER (x)	23.5	29.6	24.2	17.9	14.4
EV/EBITDA (x)	17.5	23.1	19.0	13.6	9.7

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 124/04/2015.