

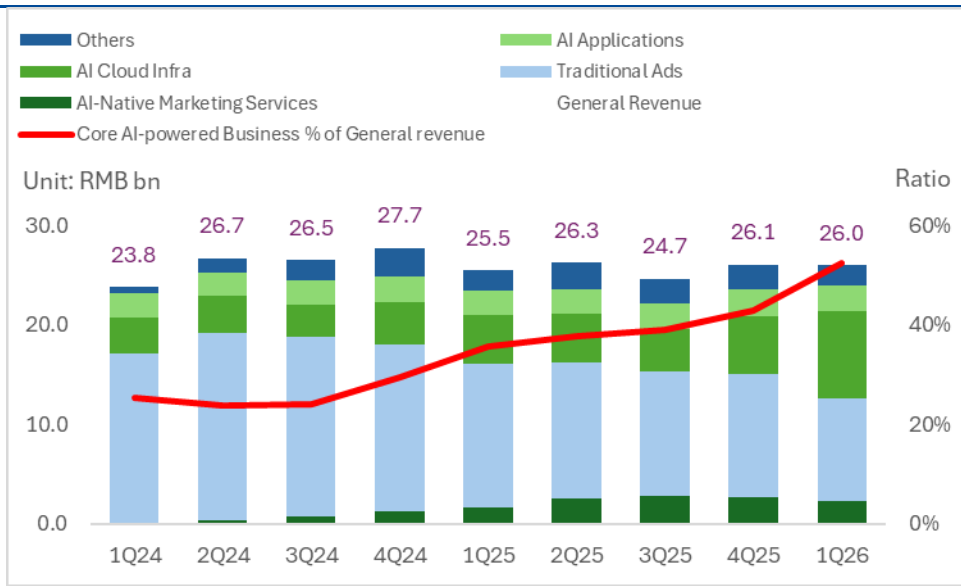
What's Hot Today:

► Baidu (9888 HK, HK\$136.70, HK\$372bn) AI Transitions Still in Progress

Baidu a leading AI and internet player in China, with core businesses spanning online marketing services, AI cloud, AI applications, autonomous driving and IQIYI, a streaming service.

In 1Q26, Baidu reported a revenue of RMB32.1bn (-1% YoY / -2% QoQ) and net profit declined 53% YoY to RMB3.6bn (NPM at 11%) largely due to higher costs related to AI Cloud business. Stripping out the iQIYI, the revenue Baidu General Business stood at RMB 26bn (+2% YoY / 0% QoQ) during the quarter, beating market expectations by 3.6%. Moreover, AI-powered business revenue reached RMB13.6bn (+49% YOY / +21% QoQ), with its contribution rising 9ppt QoQ to 52%, representing more than half of Baidu General Business for the first time.

Fig 1: General Revenue (RMB'bn)



Source: Company Data, Sunwah Kingsway Research

1. AI Cloud Infra remained the core growth driver. AI Cloud Infra provides AI computing power, GPU Cloud, and model training/inference services. Revenue reached RMB8.8bn (+79% YoY / +52% QoQ), accounting for 34% of General Business. Among which GPU Cloud revenue surged 184% YoY, serving as the key growth engine.

2. AI Applications monetization remained relatively weak. AI Applications mainly include Baidu Wenku, Netdisk, digital employees and Agent-related tools. Revenue reached RMB2.5bn (0% YoY / -10% QoQ), suggesting that while the product ecosystem has been established, monetization has yet to enter an acceleration phase.

China & HK Indices	CLOSE	1D	YTD
HSI	25,797	0.5%	0.7%
HSCEI	8,639	0.5%	-3.1%
HSCCI	4,496	0.3%	12.0%
CSI300	4,852	0.4%	4.8%
Shanghai A	4,372	0.9%	13.3%
Shanghai B	287	2.0%	13.3%
Shenzhen A	3,010	0.5%	13.7%
Shenzhen B	1,138	0.8%	-10.0%

Key Int'l Indices	CLOSE	1D	YTD
Dow Jones	49,363	-0.6%	2.7%
S&P 500	7,353	-0.7%	7.4%
Nasdaq	25,870	-0.8%	11.3%
NIKKEI Index	59,540	-1.7%	18.3%
FTSE Index	10,330	0.1%	4.0%
CAC Index	7,981	-0.1%	-2.1%
DAX Index	24,400	0.4%	-0.4%

Commodities	CLOSE	1D	YTD
GOLD (US\$/oz.)	4,482	-1.8%	4.3%
STEEL (US\$/oz.)	3,045	-2.5%	19.8%
SILVER (US\$/oz.)	73	-5.1%	3.8%
CRUDE OIL (US\$/bbl)	104	-4.2%	80.6%
COPPER (US\$/oz.)	13,411	-1.1%	8.0%
ALUMINIUM (US\$/oz.)	3,602	1.1%	20.3%
PLATINUM (US\$/oz.)	1,924	-3.0%	-6.2%
ZINC (US\$/oz.)	3,513	-0.6%	12.7%
WHEAT (US\$/bu)	667	0.4%	31.2%
CORN (US\$/bu)	475	-0.4%	4.3%
SUGAR (US\$/lb)	126	2.9%	
SOYBEAN (US\$/bu)	1,209	-0.3%	12.3%
PVC (US\$/t)	5,048	-0.5%	58.3%
CRB	406	1.7%	3.0%
BDI		-1.9%	64.7%

Exchange Rates	USD	HKD	EUR	JPY	CHF	RMB
USD		7.833	0.862	159.070	0.789	6.814
HKD	0.128		0.110	20.307	10.072	0.870
EUR	1.161	9.091		184.620	1.092	7.908
JPY	0.006	4.925	0.542		0.496	0.043
CHF	1.267	9.930	1.092	201.625		8.636
RMB	0.147	1.150	0.126	23.342	0.116	

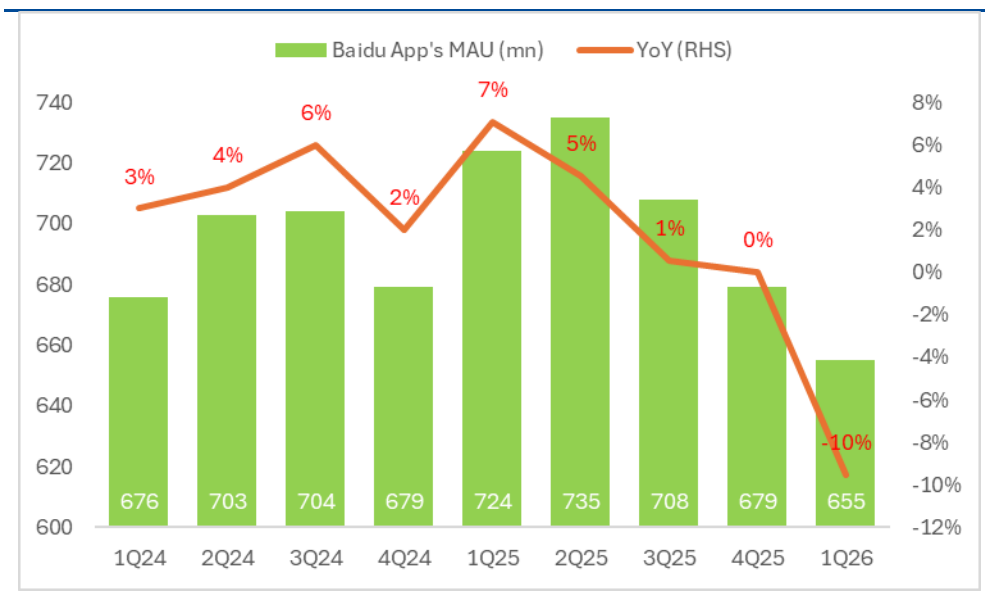
Market Sentiment	CURRENT	5D
CDS Monitor - USD SR 5Y		
Greece	N/A	N/A
Ireland	83	-2.4%
Italy	139	-0.6%
Portugal	207	-0.0%
Spain	108	0.3%
VIX	18	0.4%

Source: Bloomberg

3. AI-native Marketing Under Pressure: AI-native Marketing mainly includes AI search ads, Agent marketing, digital humans and automated creative generation. Revenue reached RMB2.3bn (+36% YoY /-15% QoQ), still affected by softer advertising demand and the ongoing transition from traditional search advertising.

4. Traditional advertising remained under pressure. The revenue amounted to around RMB10.2bn, both down 29% YoY and 18% QoQ. The pressure came from advertiser cutting budget due to macroeconomic headwinds, dropping of Baidu's MAU and competition from platforms like Douyin and Xiaohongshu. In 1Q26, Baidu App MAU fell to 655mn, marking the third consecutive quarterly decline.

Fig 2: Baidu App's MAU (mn)

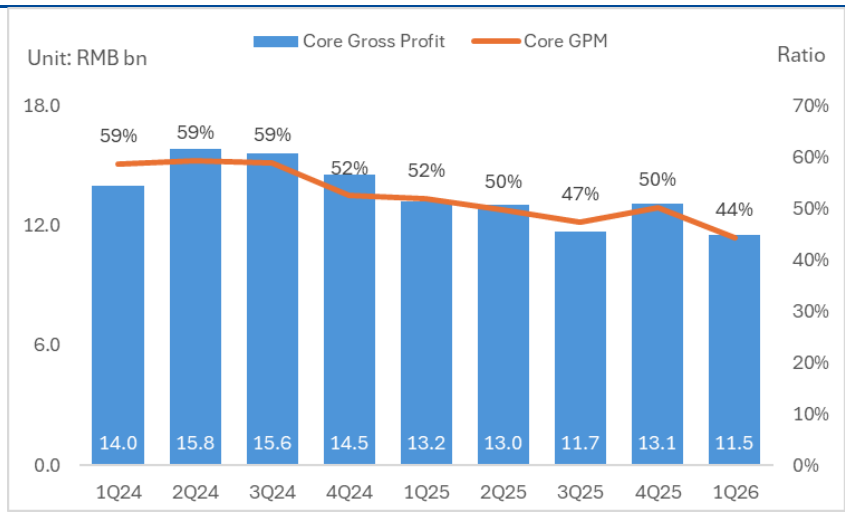


Source: Company Data, Sunwah Kingsway Research

5. Autonomous driving is progressing well. The remaining RMB2.2bn of revenue is estimated to be partly contributed by autonomous driving. It is noted that Apollo Go has completed 3.2mn fully driverless rides in 1Q26, up more than 120% YoY, with its global footprint now extended to 27 cities, primarily driven by overseas expansion.

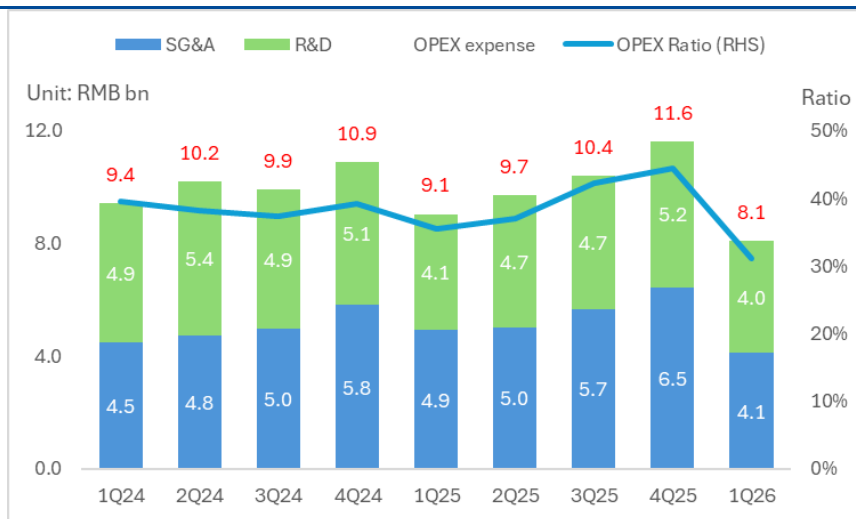
OPEX ratio lowered to support a rebound in NPM: Core GPM declined QoQ and YoY to 44%, mainly due to the decline in high-margin traditional advertising (roughly 65% margin) and the rising mix of lower-margin AI businesses (roughly 35% margin) as well as higher AI cloud hardware costs. However, OPEX ratio improved QoQ and YoY to 31% on the back of lower staff cost and a smaller credit loss. As such, NPM also improved to 14% from 7% in the previous quarter.

Fig 3: Gross Profit & GPM of General Business (RMB'bn)



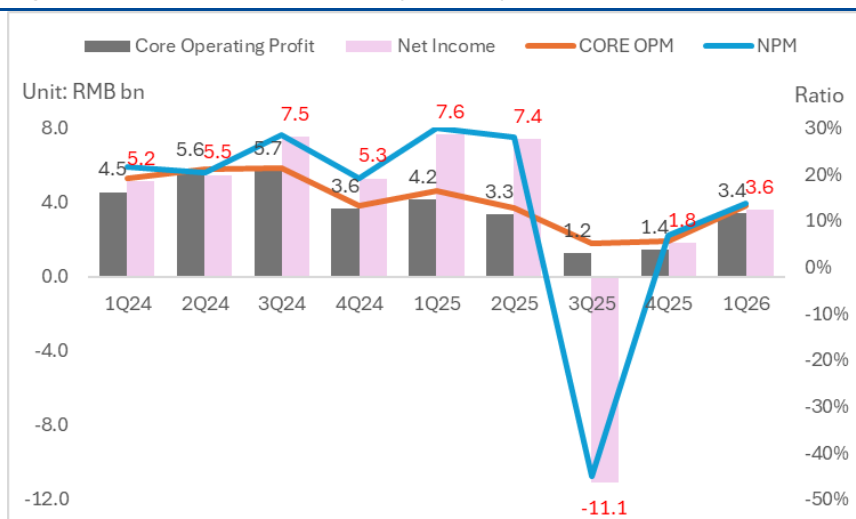
Source: Company Data, Sunwah Kingsway Research

Fig 4: Breakdown of OPEX (RMB'bn)



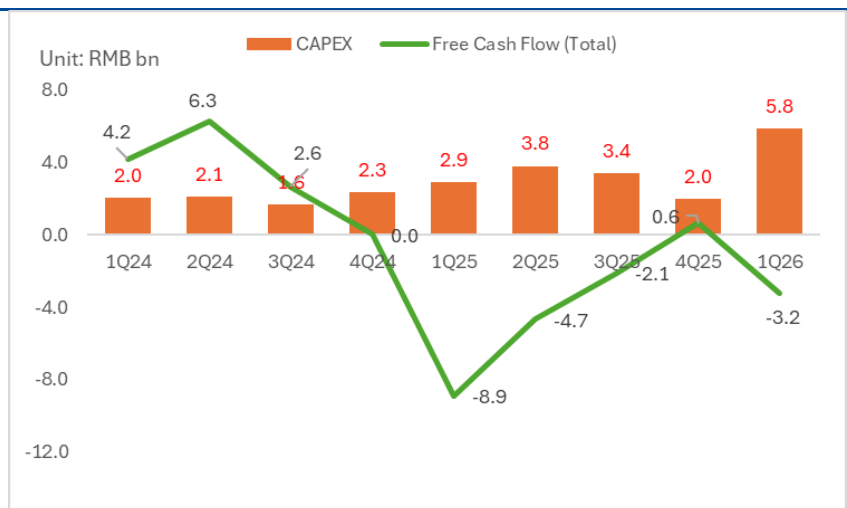
Source: Company Data, Sunwah Kingsway Research

Fig 5: Breakdown of Profitability (RMB'bn)



Source: Company Data, Sunwah Kingsway Research

Fig 6: Breakdown of Free Cash Flow and Capex (RMB'bn)



Source: Company Data, Sunwah Kingsway Research

Business Outlook: Baidu AI Cloud recently added a few large model customers which are driving the growth of its MaaS platform. In March 2026, the number of external customers' average daily token consumption has grown by 7x YoY. Moreover, the Mgt believes that the long-term margin of GPU cloud could reach 20%. Currently, the GPU cloud margin is significantly higher than traditional CPU cloud margins, due to demand-supply tightness, high GPM from self-developed Kunlun chips (cheaper than procured GPUs), and high technical barriers. They are of the view that AI monetization will shift from token-based pricing to value-based pricing for effective agents and applications. As such, Baidu is actively deploying AI applications across C-end, B-end, and production sectors. In terms of autonomous driving, Apollo Go leads in scale and has achieved UE breakeven in its largest operating city in China. Leveraging its accumulated experience, the company is now prioritizing overseas expansion, where pricing is more favorable. With increasing scale, overall profitability is anticipated to improve.

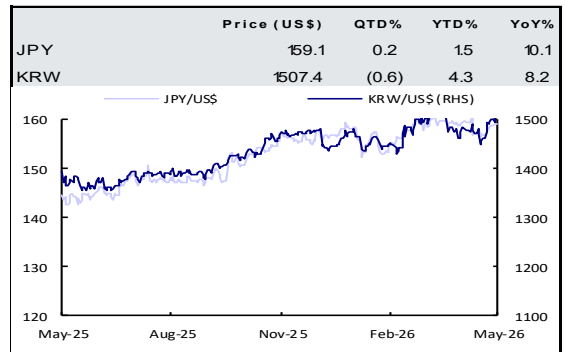
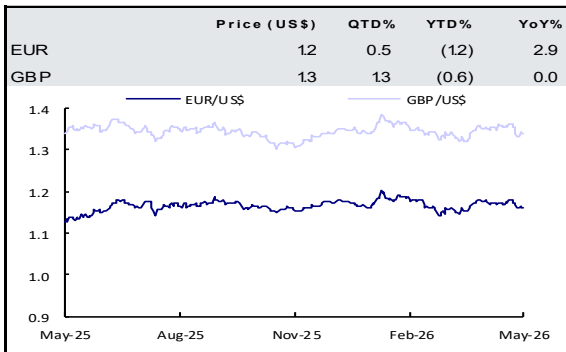
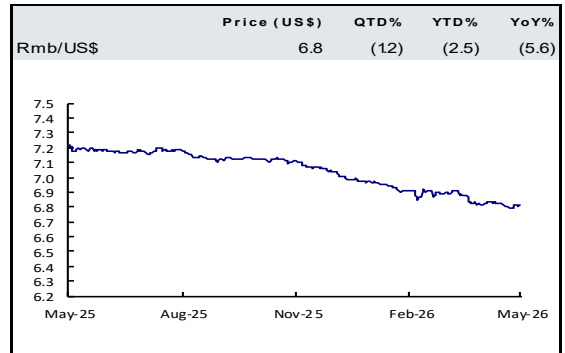
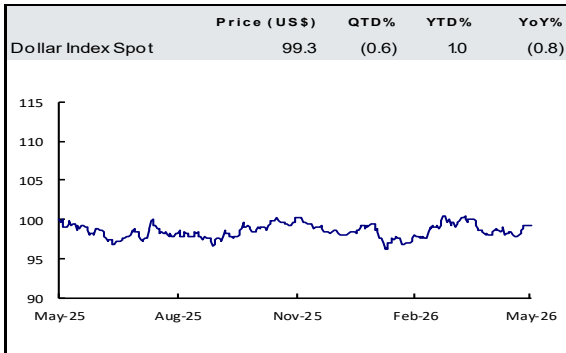
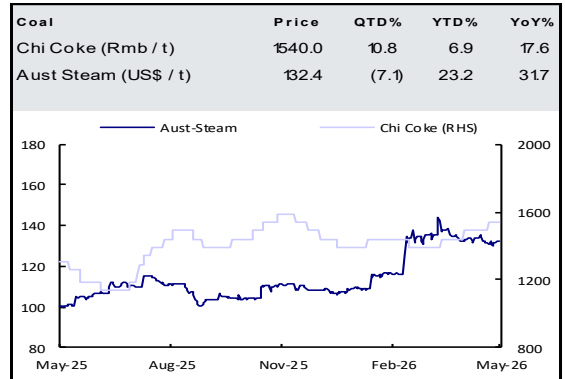
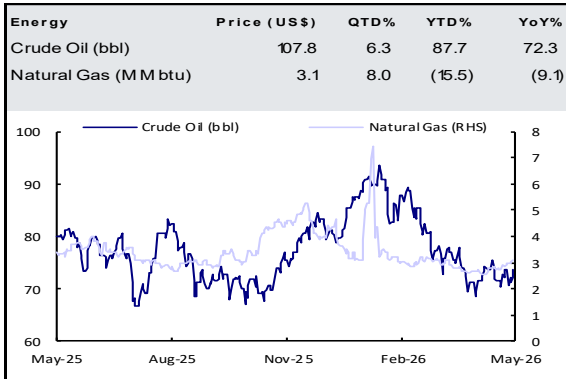
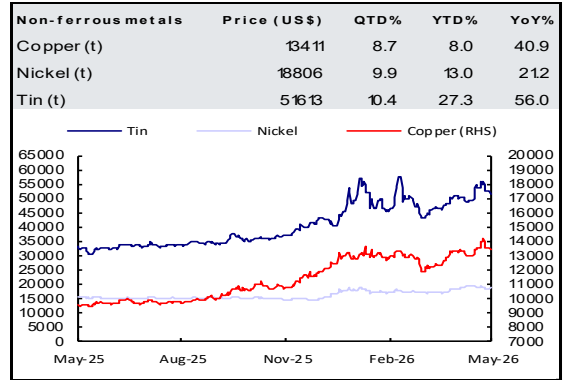
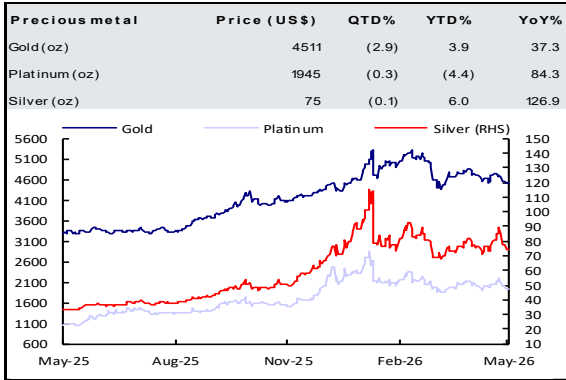
Our view: Baidu's revenue remains under pressure due to the decline in its high-margin traditional advertising business. Although AI-native Marketing continues to grow, its scale and profitability has yet to mitigate the weaker search advertising. Meanwhile, Douyin and Xiaohongshu continue to challenge Baidu's ecosystem and gain ground on the total advertising market.

Baidu's AI growth is mainly driven by AI clouds. It is one of the few full-stack AI platforms in China, with a strategy closest to Google. Baidu's advantage lies in the integration of framework (PaddlePaddle), chips (Kunlun), and cloud infrastructure. PaddlePaddle can adapt and optimize code from leading third-party models, while working with Kunlun chips and Baidu Cloud resources to improve efficiency and cost structure. As a result, customers currently using external models may choose to run them on Baidu Cloud, supporting customer stickiness and the growth in GPU cloud.

The proposed separate listing of Kunlun is believed to be a main reason for the strength in Baidu's recent share price. Based on industry estimates, Kunlun's 2026 revenue could reach around RMB8bn. Using Cambricon's roughly 40x 2026E P/S as a benchmark and Baidu's 59% stake, Kunlun's implied equity value could reach around RMB180bn in a bull case, or about 55% of Baidu's current market cap.

Baidu has a solid balance sheet to support its AI capex. The company has over RMB130bn in net cash. It also announced a \$5bn two year buyback plan in February 2026 to enhance shareholder returns. Moreover, Baidu is also actively developing AI applications, which could be a key catalyst to the next stage of AI development. The company is trading at 17x FY26E P/E. (Research Department)

Market Watch – Major Commodities and Currencies



Source: Bloomberg

US Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
Initial Jobless Claims	WoW		21-May-26
Housing Starts / Building Permits	MoM		21-May-26
Consumer Confidence	MoM		26-May-26
Personal Income & Spending	MoM		28-May-26
Durable Goods Orders	MoM		28-May-26
GDP	QoQ		28-May-26
New home Sales	MoM		28-May-26
Wholesale Inventories	MoM		29-May-26
ISM Manufacturing PMI	MoM		1-Jun-26
Factory Orders	MoM		3-Jun-26
Employment Report	MoM		5-Jun-26
Trade Balance	MoM		9-Jun-26
Existing Home Sales	MoM		9-Jun-26
CPI	MoM		10-Jun-26
PPI	MoM		11-Jun-26
Industrial Production	MoM		15-Jun-26
Retail Sales	MoM		17-Jun-26
Business Inventories	MoM		17-Jun-26
Auto Sales	MoM		

China Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
PMI Manufacturing	MoM		31-May-26
Foreign Exchange Reserves	QoQ		7-Jun-26
Money Supply - M2	MoM		9-Jun-26
Trade Balance	MoM		9-Jun-26
PPI	MoM		10-Jun-26
CPI	MoM		10-Jun-26
Retail Sales	MoM		16-Jun-26
Industrial Production	MoM		16-Jun-26
GDP	YoY		15-Jul-26

Hong Kong Economic Calendar

Indicators	Freq	Obs Date	Expected Release Date
CPI	MoM		21-May-26
Trade Balance	MoM		28-May-26
Money Supply - M2	MoM		29-May-26
Retail Sales	MoM		2-Jun-26
PMI	MoM		3-Jun-26
Foreign Currency Reserve	MoM		5-Jun-26
Producer Prices Index	QoQ		12-Jun-26
Industrial Production	QoQ		12-Jun-26
Unemployment Rate	MoM		16-Jun-26
GDP	QoQ		31-Jul-26
Composite Interest Rate	MoM		

Kingsway Research Team

Analyst
Howard Wong
Alan Li

Email
howard.wong@sunwahkingsway.com
alan.li@sunwahkingsway.com

Phone No.
(852) 2283 7307
(852) 2283 7306

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KFS and/or its affiliates beneficially own shares of Baidu (9888.HK)

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Head Office

Hong Kong
Kingsway Financial Services Group Limited
7/F, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Tel: 852-2283-7000
Fax: 852-2877-2665

Affiliated & Overseas Offices

Guangdong
廣東新華滙富商業保理有限公司
601-5, Building 3
130 Jiaoxi Road, Nansha District,
Guangzhou, 511455, PRC