

Baidu (BIDU US)

FUNDAMENTAL VIEW ¹

As of 06 Jan 2025

- We maintain M/P on Baidu post its 3Q24 results; revenues contracted as expected, with advertng and iQiyi revenues continuing to decline; EBITDA margin trended up on disciplined R&D expenses, and FOCF weakened on higher working capital investments; Baidu's net cash contracted due to higher investments, but gross debt metrics improved. We expect Baidu's credit metrics to marginally improve over the next 12 months; we expect topline growth to pick up as advertising revenues gradually recover and AI cloud revenues remains strong, and EBITDA margin to trend up; we expect FOCF to narrow due to higher working capital investments, but debt metrics to improve. The better credit outlook is likely priced in as Baidu trades inside Asia A and A- corporates. We prefer Alibaba and Tencent.

RISKS & CATALYSTS

As of 10 Dec 2024

- Any regulatory clampdowns abroad and domestically (e.g. potential US investment ban, antitrust rules, data security and personal information protection laws) may adversely affect the business of Baidu. The interpretation of Chinese laws and regulations involves some degree of uncertainty.
- There are regulatory risks given the corporate structure which uses variable interest entities (VIEs) to circumvent China's restrictions on foreign ownership of Internet Content Providers (ICPs).
- Baidu has made significant investments into long-term AI-related projects, which may take time to turn profitable. A potential escalation of the US chip restriction could have a material negative impact its AI related business (ie. cloud, ernie bot, autonomous driving).

KEY METRICS

As of 10 Dec 2024

RMB BN	FY20	FY21	FY22	FY23	LTM 3Q24
Debt to Book Cap	30.4%	29.7%	28.5%	25.0%	22.3%
Debt/Total Equity	43.8%	42.2%	39.8%	33.4%	28.7%
Debt/Total Assets	24.8%	24.1%	23.4%	20.8%	18.5%
Gross Leverage	2.7x	3.3x	2.8x	2.2x	1.9x
Interest Coverage	9.8x	8.2x	11.4x	12.1x	13.4x
EBITDA Margin	28.5%	22.6%	26.8%	29.2%	29.7%

Baidu has historically maintained a net cash position. Year-end: 31 December.

BUSINESS DESCRIPTION

As of 10 Dec 2024

- Founded in 2000, Baidu started out as a search engine business and began its development into artificial intelligent (AI) since 2010.
- Baidu Core is the main revenue driver of the company (79% of 3Q24 revenues) which provides search-based, feed-based and other online marketing services (total: 56% of 3Q24 revenues), as well as products and services from new AI initiatives (23% of revenues); Baidu's AI initiatives include AI cloud (enterprise & public sector cloud, and personal cloud), Intelligent Group Driving (Apollo Go, Apollo auto solutions, and intelligent EVs under Jidu Auto), Mobile Ecosystem (Baidu App, ERNIE Bot, Haokan and Baidu Post), and other growth initiatives (ie. Xiaodu smart devices powered by DuerOS smart assistant and AI chips).
- iQiyi accounts for the remaining revenues of Baidu; iQIYI is an online video platform with a content library that includes licensed movies, television series, cartoons, and other programs.
- Baidu launched ERNIE bot in Mar-23, a generative AI chatbot powered by ERNIE, Baidu's in-house foundation model.
- Baidu has a market capitalization of RMB 236.3 bn as of 10 December 2024.

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