

## Baidu (BIDU US)

FUNDAMENTAL VIEW <sup>1</sup>

As of 28 May 2024

- We maintain our Market perform recommendation on Baidu (A3/NR/A) post its uninspiring 1Q24 results. 1Q24 topline growth decelerated to 1.2% YoY as the core advertising slowed and revenues from iQiyi contracted YoY on a falling number of subscribers. 1Q24 EBITDA margin was stable 28.9%. Baidu's Total debt/EBITDA weakened, FOCF dropped YoY due to higher capex, and net cash position narrowed from YE23. We see limited earnings upside due to the intense competition of the domestic ads market and largely homogeneous competition; we do not expect its AI-related initiatives to translate to better topline and Margin in FY24.
- We continue preferring Tencent and Alibaba among A-rated China tech. We prefer Baidu 2030s.

## RISKS &amp; CATALYSTS

As of 28 May 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).

CREDIT QUALITY SCORE (CQS)<sup>2</sup>

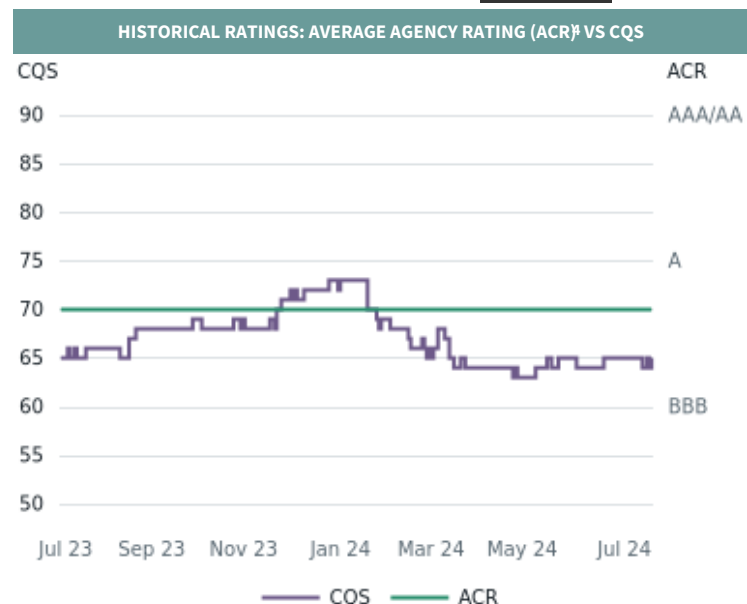
As of 08 Jul 2024

## CURRENT CQS

65

CQS OUTLOOK <sup>3</sup>

NEGATIVE STABLE POSITIVE



## KEY METRICS

As of 28 May 2024

RMB BN	FY20	FY21	FY22	FY23	LTM 1Q24
Debt to Book Cap	30.4%	29.7%	28.5%	25.0%	25.7%
Debt/Total Equity	43.8%	42.2%	39.8%	33.4%	34.7%
Debt/Total Assets	24.8%	24.1%	23.4%	20.8%	21.6%
Gross Leverage	2.7x	3.3x	2.8x	2.2x	2.3x
Interest Coverage	9.8x	8.2x	11.4x	12.1x	12.3x
EBITDA Margin	28.5%	22.6%	26.8%	29.2%	29.2%

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

## BUSINESS DESCRIPTION

As of 28 May 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 (75% of 1Q24 revenues) which provides search-based, feed-based and other online marketing services (total: 54% of 1Q24 revenues), as well as products and services from new AI initiatives (22% of 1Q24 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 254.7 bn as of 28 May 2024.

## GLOSSARY

<sup>1</sup> The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

<sup>2</sup> The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

<sup>3</sup> The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

<sup>4</sup> The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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