

Baidu (BIDU US)

FUNDAMENTAL VIEW ¹

As of 10 Sep 2024

- We maintain our Market perform recommendation on Baidu post its 2Q24 results; topline growth contracted, EBTIDA margin was flat, and free operating cash flow declined YoY during the quarter. Looking into 2H24, we expect Baidu's topline growth to turn around to a low single digit in 2H24 thanks to higher AI cloud revenues but online ads and iQiyi revenues to continue facing headwinds; we expect EBITDA margin to sequentially improve. We expect the better topline growth and EBITDA margin to support higher FOCF, and total leverage to improve over the next 6-12 months. Baidu \$ bond spreads trade roughly in line with the comparable \$ bonds of Tencent and Alibaba, which we view as rich. We prefer BIDU 4.125% Jun-25 for total return investors, and BIDU 3.625% Jul-27 for spread investors.

RISKS & CATALYSTS

As of 10 Sep 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)²

As of 29 Oct 2024

CURRENT CQS

65

CQS OUTLOOK ³



HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 10 Sep 2024

RMB BN	FY20	FY21	FY22	FY23	LTM 2Q24
Debt to Book Cap	30.4%	29.7%	28.5%	25.0%	24.0%
Debt/Total Equity	43.8%	42.2%	39.8%	33.4%	31.5%
Debt/Total Assets	24.8%	24.1%	23.4%	20.8%	19.9%
Gross Leverage	2.7x	3.3x	2.8x	2.2x	2.1x
Interest Coverage	9.8x	8.2x	11.4x	12.1x	12.6x
EBITDA Margin	28.5%	22.6%	26.8%	29.2%	29.3%

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

BUSINESS DESCRIPTION

As of 10 Sep 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 2Q24 revenues) which provides search-based, feed-based and other online marketing services (total: 57% of 2Q24 revenues), as well as products and services from new AI initiatives (22% 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 203.8 bn as of 10 September 2024.

GLOSSARY

- 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.
 - 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.
 - 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.
 - 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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