

# Baidu (BIDU US)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 10 Jun 2025

- We maintain our M/P on Baidu post its uninspiring 1Q25 results; topline growth was ahead of expectation on strong AI cloud demand, but EBITDA margin fell on a weaker revenue mix, FOCF turned negative on higher AI investments, debt metrics weakened, and net cash contracted. We expect a modest deterioration in Baidu's debt metrics compared to YE24. We continue preferring Alibaba and Tencent over Baidu among A-rated China tech credits. We like the stronger balance sheet, larger scale, stronger business positions, and better credit outlook of Alibaba and Tencent. Baidu trades only 3-8 bp wider than Alibaba and Tencent which we view as rich given the limited improvement in its debt metrics over the next 12 months. For investors looking for exposure in Baidu, we prefer its Apr-2030.

## RISKS & CATALYSTS

As of 10 Jun 2025

- 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 01 Jul 2025

### CURRENT CQS

64

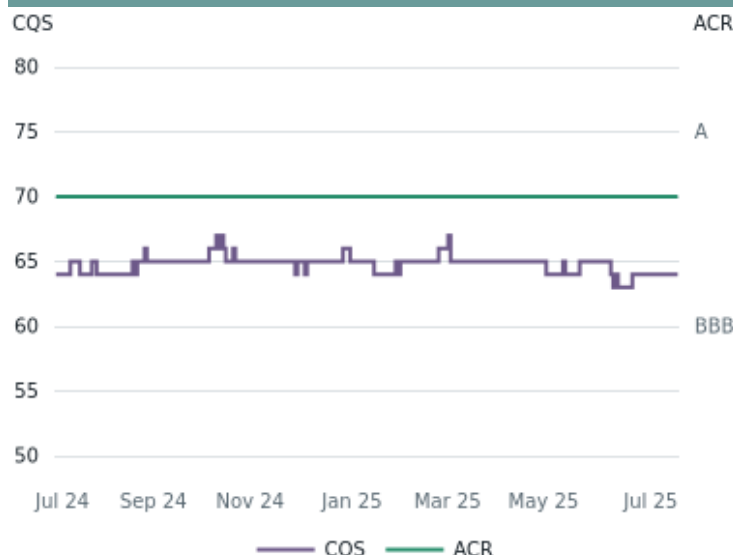
### CQS OUTLOOK <sup>3</sup>

NEGATIVE

STABLE

POSITIVE

### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) <sup>4</sup> VS CQS



## KEY METRICS

As of 10 Jun 2025

RMB BN	FY21	FY22	FY23	FY24	LTM 1Q25
Debt to Book Cap	29.7%	28.5%	25.0%	22.5%	26.7%
Debt/Total Equity	42.2%	39.8%	33.4%	29.0%	36.4%
Debt/Total Assets	24.1%	23.4%	20.8%	18.5%	22.5%
Gross Leverage	3.3x	2.8x	2.2x	2.0x	2.6x
Interest Coverage	8.2x	11.4x	12.1x	13.8x	13.5x
EBITDA Margin	22.6%	26.8%	29.2%	29.3%	28.9%

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

## BUSINESS DESCRIPTION

As of 10 Jun 2025

- 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 (78% of 1q25 revenues) which provides search-based, feed-based and other online marketing services (total: 53% of 3Q24 revenues), as well as products and services from new AI initiatives (29% 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 223.4 bn as of 10 June 2025.

## 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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