

Baidu (BIDU US)

FUNDAMENTAL VIEW ¹

As of 21 Aug 2025

- We lowered our recommendation on Baidu to Underperform from Market perform post its weak 2Q25 results; revenues contracted and EBITDA margin fell sharply due to low advertising monetization rate; free operating cash flow was negative for a second consecutive quarter, and net cash narrowed; we expect Baidu's credit outlook to further weaken over the next 12 months and we see reduced rating headroom at Moody's as we expect gross leverage to trend higher in 2H25 to 2.8x. We view its bonds as rich compared to A-rated China tech and Asia corporate peers; for example, Baidu trades only 3-5 bp tighter than Alibaba and Tencent, and it is 11/6 bp tighter than Asia A- and A rated corporates; as a gauge, the average spread differential is 23 bp for A3 and A1 rated Asian \$ bonds.

RISKS & CATALYSTS

As of 21 Aug 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) ²

As of 26 Sep 2025

CURRENT CQS

69

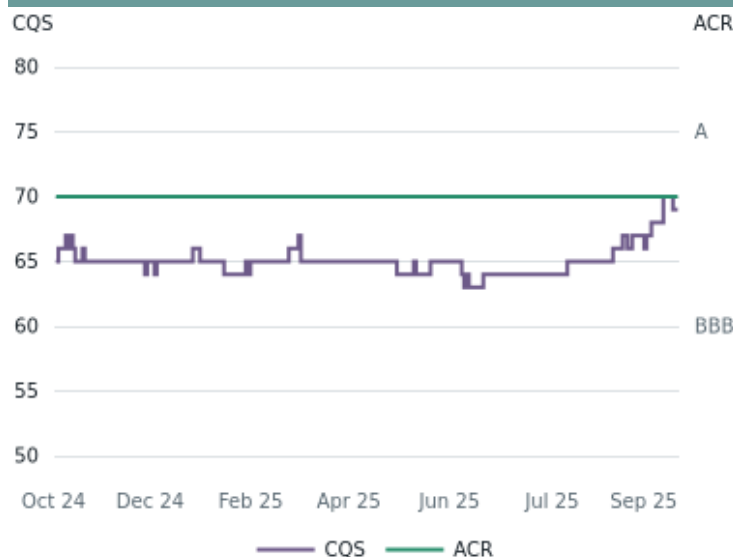
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

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



KEY METRICS

As of 21 Aug 2025

RMB BN	FY21	FY22	FY23	FY24	LTM 2Q25
Debt to Book Cap	29.7%	28.5%	25.0%	22.5%	24.4%
Debt/Total Equity	42.2%	39.8%	33.4%	29.0%	32.2%
Debt/Total Assets	24.1%	23.4%	20.8%	18.5%	20.4%
Gross Leverage	3.3x	2.8x	2.2x	2.0x	2.5x
Interest Coverage	8.2x	11.4x	12.1x	13.8x	12.8x
EBITDA Margin	22.6%	26.8%	29.2%	29.3%	27.2%

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

BUSINESS DESCRIPTION

As of 21 Aug 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 (80% of 2Q25 revenues) which provides search-based, feed-based and other online marketing services (total: 50% of revenues), as well as products and services from new AI initiatives (31% 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 238.4 bn as of 21 August 2025.

GLOSSARY

¹ 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.

² 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.

³ 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.

⁴ 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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