

Baidu, Inc. Class A

Asia Satellite*

Recommended since 01.04.2021

17.09.2024



Country HK	Market capitalization (bn) HKD 262,9	Perf. since reco. (%)
Sector Communication Services	Free float 97,0%	Baidu Inc. -62,1
Factset 9888-HK	Closing price HKD 82,60	Sector 15,1
ISIN KYG070341048	ESG Risk score* 19,2 Low risk	



Profile
Baidu, Inc. is a provider of Chinese-language internet search and solutions based on artificial intelligence (AI). It operates through two segments, Baidu Core and iQIYI. Baidu Core provides online marketing services based on search, feeds and other services, as well as products and services resulting from the company's new AI initiatives. Baidu Core is broken down into three categories: Mobile Ecosystem, Baidu AI Cloud and Intelligent Driving & Other Growth Initiatives. iQIYI is a provider of online entertainment services whose platform offers both professionally produced original content and content generated by partners.

Strengths/opportunities

- Has had great success bringing its products to market.
- Strong balance sheet with cash ready to invest in acquisitions and AI.
- Incorporates new services to strengthen position in advertising.

Weaknesses/threats

- Fierce competition in online advertising (Alibaba, Tencent, ByteDance).
- Expansion into other segments (AI, cloud) will impact margins in the short term.

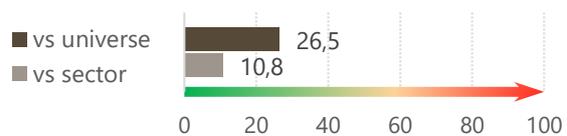
Investment case

- Baidu leads China's online search industry with a 75% market share. Baidu's digital advertising business is highly profitable (generating an EBIT margin of c. 30%). This has enabled Baidu to invest in other fast-growing areas such as streaming and cloud services, AI and driverless vehicles.
- The group's advertising business (c.60% of 2023 revenue) has come under heavy attack from competitors but Baidu has refocused on the mobile market, rolling out a versatile platform (Smart Mini Program or SMP) hosting a wealth of content ranging from press articles to livestreaming (Jiyy), with the user base growing to 634m (up 5% YoY) at the end of the Q3 FY2022. This turnaround will enable the company to keep users connected for longer and drive advertising revenue growth back up in 2023 and 2024.
- Investment in R&D accounted for around c.25% of 2022 revenue and Baidu has kicked up a gear in bringing cloud- and AI-based products to market. For the time being, its cloud solutions offer text, sound and image processing technology. It is estimated that cloud services will continue to grow at 15% YoY in 2024 in a segment that accounted for c.22% of revenue in 2023. As regards AI more generally and smart cars in particular, Baidu has an end-to-end driverless vehicle platform (a joint venture in electric vehicles with Geely, partnerships with OEMs and integration of various vehicle-to-everything [V2X] projects) and standardization of AI models in China.

Valuation

The share is trading at reasonable valuation (P/E: 8x for 2024e and 7.4x for 2025e), which we consider attractive given the company's expected strong growth in cloud services and the rebound in its advertising business. The discount is explained by the rise of competitors in 2021 and the impact of the macro context in China.

ESG risk vs. universe & sector (percentile)*

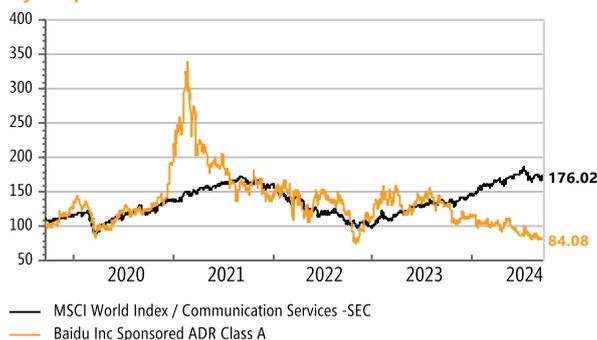


USD	12/2023	2024e	2025e
Sales revenue (mio)	18 998	19 012	20 097
Sales growth	3,4%	0,1%	5,7%
EBIT adjusted (mio)	3 085	3 189	3 451
% of sales	16,2%	16,8%	17,2%
Net income (mio)	2 766	2 968	3 214
Net income growth	167,3%	7,3%	8,3%
FCF/Sales	147,9%	140,5%	139,4%
Net debt/Ebitda	-3,3x	-4,3x	-4,6x
Dividend yield	0,0%	0,0%	0,0%
PE	15,2x	7,7x	7,4x
P/BV	0,9x	0,8x	0,7x

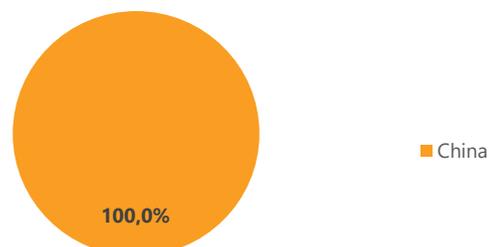
ESG - risks and key points

- Ranked medium risk due to its use of personally identifiable information (PII).
- Subject of controversy in 2016 due to its search engine directing users to counterfeit products and fake news.
- Less at risk from government regulations than its peers (concerns past acquisitions, compliance with Internet laws, and its Variable Interest Entity structure).

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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