

### Baidu Earnings Update

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#### Quick facts on earnings

\$566 million repurchase

Loss due to mark-to-market adjusting of kuaishou Technology stock that is just going down since listing in HK.

Kuaishou Technology

**69,80** HKD

-230.20 (-76.73%) ↓ past year

HKG: 1024

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23 Aug, 16:08 GMT+8 · Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open 70,80 Mkt cap 290,38B Prev close 68,05

Revenue growth:

**Total revenues** were RMB 31.4 billion (\$4.86 billion), increasing 20% year over year.

- **Revenue from Baidu Core** was RMB 24.0 billion (\$3.72 billion), increasing 27% year over year; **online marketing revenue** was RMB 19.0 billion (\$2.95 billion), up 18% year over year, and **non-online marketing revenue** was RMB 5.0 billion (\$771 million), up 80% year over year, driven by cloud and other services.
- **Revenue from iQIYI** was RMB 7.6 billion (\$1.18 billion), increasing 3% year over year.

**Cost of revenues** was RMB 15.9 billion (\$2.46 billion), increasing 21% year over year, primarily due to an increase in traffic acquisition costs and cost of goods sold related to new AI business.

**Operating income** was RMB 3.5 billion (\$536 million). **Baidu Core operating income** was RMB 4.6 billion (\$715 million), and Baidu Core operating margin was 19%. **Non-GAAP operating income** was RMB 5.7 billion (\$876 million). **Non-GAAP Baidu Core operating income** was RMB 6.5 billion (\$1.00 billion), and non-GAAP Baidu Core operating margin was 27%. ████████████████████

**Total other loss, net** was RMB 2.4 billion (\$376 million), which included a fair value loss of RMB 3.1 billion from long-term investments. A significant portion of long-term investments is subject to quarterly mark-to-market adjustment, which may contribute to net income volatility in the future.

This is getting interesting compared to the valuation”:

As of June 30, 2021, **cash, cash equivalents, restricted cash and short-term investments** were RMB 179.9 billion (\$27.87 billion), and **cash, cash equivalents, restricted cash and short-term investments excluding iQIYI** were RMB 167.7 billion (\$25.97 billion). **Free cash flow** was RMB 5.4 billion (\$843 million), and **free cash flow excluding iQIYI** was RMB 6.9 billion (\$1.07 billion). ████████████████████

~The business will likely continue to grow.

continue to serve as CFO until the appointment of a new CFO.

### Financial Guidance

For the third quarter of 2021, Baidu expects revenues to be between RMB 30.6 billion (\$4.7 billion) and RMB 33.5 billion (\$5.2 billion), representing a growth rate of 8% to 19% year over year, which assumes that Baidu Core revenue will grow between 9% and 20% year over year.

The COVID-19 situation in China is evolving and business visibility is limited. The above forecast reflects Baidu's current and preliminary view, which is subject to substantial uncertainties.

### Conference call notes

Developments on all fronts, from Cloud, AI, Robotaxis, autonomous drive. 12 other OEM, the likes of Ford, GM, Toyota, and Hyundai have signed with DuerOS for installation in 17 makes.

On search, they now managed pages for companies.

When a user seeks specific information of service, Baidu Search has a distant advantage. **Managed Page now accounts for 40% of Baidu core advertising**, reflecting merchants, opening storefronts on Baidu, as opposed to operating their own sites. For example, a local moving company, [Shenshi Moving] (ph), changed their search landing page to its Managed Page and saw its daily orders doubled five weeks after adoption.

Through Managed Page, users are able to browse its services, interact with the merchant, schedule a move, and pay a deposit, all seamlessly on Baidu. Managed Page also monitors merchants' activities on Baidu with AI for added personnel safety. For example, a moving service entails strangers coming to your house.

\$26 million in cash and \$1.1 billion in FCF over the quarter.

Questions:

On Regulation?

A: "we are ready for it and strong on data security and privacy". On development: "I'm quite optimistic that Robotaxi will be commercially available in more than 30 cities in 2 to 3 years."

"I think by the year 2025, we will cross the line, which means that the total cost of Robotaxi ride-hailing will be lower than manned-vehicle ride-hailing. And after that, I think that the scale will be able to grow much larger than it is today. And I think around that time, we should be able to report in a separate line."

So, in 2025 they are planning to report robotaxies as a separate line and business. If there is still hype around it, It might have some value. How much value, nobody knows, but this is the option you get from such investments.

In summary, they are working on AI, Cloud and Autonomous driving expecting profitability on Robotaxies by 2025. If they can do that, with a bit of positive sentiment, the stock could boom.

## Investment thesis

Baidu, Inc.  
Condensed Consolidated Statements of Cash Flows  
(In millions, unaudited)

	Three months ended June 30, 2020 (RMB)			Three months ended March 31, 2021 (RMB)			Three months ended June 30, 2021 (RMB)			Three months ended June 30, 2021 (US\$)		
	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.
<b>Net cash provided by (used in) operating activities</b>	<b>9,547</b>	<b>(1,358)</b>	<b>8,189</b>	<b>5,467</b>	<b>(1,350)</b>	<b>4,117</b>	<b>9,362</b>	<b>(1,426)</b>	<b>7,936</b>	<b>1,450</b>	<b>(221)</b>	<b>1,229</b>
Net cash (used in) provided by investing activities	(8,854)	1,144	(7,710)	(4,579)	(2,778)	(7,357)	(12,220)	58	(12,162)	(1,893)	9	(1,884)
Net cash (used in) provided by financing activities	(2,211)	823	(1,388)	18,018	611	18,629	5,256	801	6,057	813	124	937
Effect of exchange rate changes on cash, cash equivalents and restricted cash	26	(10)	16	251	(29)	222	(342)	(92)	(434)	(53)	(14)	(67)
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(1,492)</b>	<b>599</b>	<b>(893)</b>	<b>19,157</b>	<b>(3,546)</b>	<b>15,611</b>	<b>2,056</b>	<b>(659)</b>	<b>1,397</b>	<b>317</b>	<b>(102)</b>	<b>215</b>
Cash, cash equivalents and restricted cash												
At beginning of period	18,089	4,681	22,770	25,599	10,941	36,540	44,756	7,395	52,151	6,933	1,145	8,078
At end of period	16,597	5,280	21,877	44,756	7,395	52,151	46,812	6,736	53,548	7,250	1,043	8,293
<b>Net cash provided by (used in) operating activities</b>	<b>9,547</b>	<b>(1,358)</b>	<b>8,189</b>	<b>5,467</b>	<b>(1,350)</b>	<b>4,117</b>	<b>9,362</b>	<b>(1,426)</b>	<b>7,936</b>	<b>1,450</b>	<b>(221)</b>	<b>1,229</b>
Less: Capital expenditures	(797)	(57)	(854)	(1,438)	(61)	(1,499)	(2,435)	(61)	(2,496)	(377)	(9)	(386)
<b>Free cash flow</b>	<b>8,750</b>	<b>(1,415)</b>	<b>7,335</b>	<b>4,029</b>	<b>(1,411)</b>	<b>2,618</b>	<b>6,927</b>	<b>(1,487)</b>	<b>5,440</b>	<b>1,073</b>	<b>(230)</b>	<b>843</b>

Note: Baidu excl. iQIYI represents Baidu, Inc. minus iQIYI's consolidated cash flows.

For now, Baidu is making \$1 billion in free cash flow per year while iQiyi is still burning around \$220 million per quarter.

So, on one had you have \$26 billion in cash and heavy investments of \$1.8 billion over one quarter that might lead to profits down the road – we are talking 2025 for robotaxies, while we will see about cloud, AI and all the other projects.

The company took \$1 billion of [debt](#) at very low interest rates for corporate purposes and refinancing.

The market capitalization is \$48 billion. If I remove the cash, you are paying \$22 billion for \$4 billion in FCF per year from the core business and the potential of all the projects they are involved.

The thing is that nobody knows when or how will the projects materialize into profitability and when will the company make money on that. Therefore the stock has been selling of as the market doesn't know what to think about it.

You have to see how this fits you and whether you want to have such an option in your portfolio and how much to put into it.

I did buy BIDU in the large portfolio with a starting small purchase to learn more about it. At current valuations I think I might do another purchase and then see how it develops over the coming 5 years. But let me first compare to other options in the Large Portfolio!

Investment conclusion: there is definitely value and positive cash flows in the core search advertising business and there is high uncertainty related to all other investments. Nobody knows how will this develop and when so one needs to have a high amount of patience and place his bets carefully in a Large portfolio.

Nothing to change in the valuation – for a 10% return, BIDU should be valued at least at \$77 billion.

**Baidu**

STOCK VALUE LIST!A1

Scenario 1	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate	
normal case	2.50	2.68	2.86	3.06	3.28	3.51	3.75	4.01	4.30	4.60	4.92	2030	7%	next 5 years
	10%)											91.92	7%	5 to 10 years
	INTRINSIC VALUE											35.44	10%	Discount rate
													20.0	Terminal multiple

Scenario 2	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate	
best case	2.50	2.88	3.31	3.80	4.37	5.03	5.53	6.08	6.69	7.36	8.10	2030	15%	next 5 years
	10%)											184.05	10%	5 to 10 years
	Present value sum											70.96	10%	Discount rate
													25.0	Terminal multiple

Scenario 3	Cash flow in billions USD	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate	
worst case	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2030	0%	next 5 years
	10%)											14.46	0%	5 to 10 years
	Present value sum											14.46	10%	Discount rate
													15.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.5	35.44	17.72
Scenario 2 (best case)	0.4	70.96	28.38
Scenario 3 (worst case)	0.1	14.46	1.45
		<b>Sum</b>	<b>47.55</b>

PLUS 12 billion in cahs, plus 20 billion for other **77.55**

Disclaimer: This is just for educational purposes and not for investing advice!

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At current levels one can expect higher returns, but a lot comes from the uncertainty related to the projects. Given the projects are almost received for free, it is a positive option for exposure to the sector of AI, Cloud and autonomous that we will see how it will develop.

On my list, BIDU has really gotten cheap, but I just feel it is also such an investment where it is really uncertain what the outcome will be of the heavy investments into new technologies. If it becomes a leader, it will be worth much more than currently while if not, it can give many years of ugly ahead. Unfortunately, I can't see beyond so I have to manage the risks here.

14	Berkshire	BRK.A	SLOW GROWER	647.06	484.71	0.75	<a href="https://sven-carlin-research-platform.com/BRK!A1">https://sven-carlin-research-platform.com/BRK!A1</a>	07-May-21	WATCH
15	PROSUS	AMS:AD	FAST GROWTH	168.18	137.64	0.82	<a href="https://sven-carlin-research-platform.com/PROSUS!A1">https://sven-carlin-research-platform.com/PROSUS!A1</a>	25-May-21	Good
16	China Mo	HKG:0941	slow growth	51.05	48.13	0.94	<a href="https://sven-carlin-research-platform.com/CM!A1">https://sven-carlin-research-platform.com/CM!A1</a>	13-May-21	Good
17	Baidu	NAS: BIDU	Search engine China	40.80	77.55	1.90	<a href="https://sven-carlin-research-platform.com/BIDU!A1">https://sven-carlin-research-platform.com/BIDU!A1</a>	23-Aug-21	Good
18	TCEHY	HKG:0700	FAST GROWTH	534.42	443.99	0.83	<a href="https://sven-carlin-research-platform.com/TCEHY!A1">https://sven-carlin-research-platform.com/TCEHY!A1</a>	25-May-21	Good
19	Amsterdam	AMS: ACC	STARWART	733.63	663.48	0.90	<a href="https://sven-carlin-research-platform.com/ACOMO!A1">https://sven-carlin-research-platform.com/ACOMO!A1</a>	27-May-21	Good
20	Facebook	FB	FAST GROWTH	359.37	391.05	1.09	<a href="https://sven-carlin-research-platform.com/FB!A1">https://sven-carlin-research-platform.com/FB!A1</a>	21-May-21	GOOD
21	Jungfrau	SWX: JFN	STALWART	849.58	705.66	0.83	<a href="https://sven-carlin-research-platform.com/JUNG!A1">https://sven-carlin-research-platform.com/JUNG!A1</a>	12-Jan-21	WATCH
22	Titlis	SWX: TIB	STALWART	162.96	176.36	1.08	<a href="https://sven-carlin-research-platform.com/TITLIS!A1">https://sven-carlin-research-platform.com/TITLIS!A1</a>	08-Jan-21	GOOD
23	TERNIUM	NYSE:TX	STALWART	10.27	8.08	0.79	<a href="https://sven-carlin-research-platform.com/TX!A1">https://sven-carlin-research-platform.com/TX!A1</a>	03-Mar-21	WATCH

Kuaishow will report earnings on the 25<sup>th</sup>, so that will be a nice addition to look at from a Baidu perspective where Baidu holds an 11.2% stake while Tencent is the majority holder with 21%. Can't promise when, but will dig deeper as I build on these investing frameworks.