

**Baidu Stock Analysis – NASDAQ: BIDU – HK:9888****Contents**

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**Summary**

- 72% stable search market share in China where competitors didn't really manage to develop a similar business – the longer you have such a position, the stronger is your moat is.
- Stock recently crashed due to technical reasons with a \$20 billion margin call on a hedge fund. Non fundamental volatility often creates investment opportunities.
- Many unpriced opportunities in the form of autonomous driving, smart transportation, Robotaxis, cloud, iQIYI and the recent acquisition of YY live.
- Many value investing asset managers from Asia have price targets of \$350.
- The risks are the too; most businesses are growing but far from profitable, short-sellers like some parts of Baidu and after all it is always China.

**Baidu Stock Price Overview – Technical Margin Call Crash Creates Opportunity**

Baidu stock or NASDAQ: BIDU stock did really well since its listing on the NASDAQ in 2005. The stock is almost a 20-bagger in Lynch lingo.

Baidu Inc ADR Class A

219,70 USD

+2,15 (0,99%) ↑

1 Apr, 16:00 GMT-4 · Disclaimer

NASDAQ: BIDU

+ Follow

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



Open	224,00	Mkt cap	77,69B	Prev close	217,55
High	227,39	P/E ratio	22,20	52-wk high	354,82
Low	215,62	Div yield	-	52-wk low	90,94

BIDU stock price historical chart

But, as it is usually the case with such growth tech stocks, BIDU stock has also been very volatile. You see the stock peaking in 2007, 2011, 2015, 2020 and recently February 2021, only to crash after it and stay down for a few years. It is a perfect example of how a stock can be exuberantly pumped up, then be forgotten but where the business actually does well and constantly improves. As you will see deeper in the analysis, the current stock price reflects some exuberance about Robotaxies, AI, Cloud and autonomous driving and if the fundamentals don't reflect the estimations soon, it is often years of bad performance. BIDU stock is currently cool and it also holds the 3<sup>rd</sup> position in Cathie Wood's ARKQ ETF Autonomous Technology & Robotics ETF.

Top 10 Holdings

As of 4/5/2021

[View All Holdings](#)

Weight	Company	Ticker	Market Price	Shares Held	Market Value
10.41%	TESLA INC	TSLA	\$661.75	532,841	\$352,607,531.75
5.75%	TRIMBLE INC	TRMB	\$80.74	2,415,276	\$194,997,307.86
5.12%	BAIDU INC - SPON ADR	BIDU	\$219.70	789,698	\$173,496,650.60
4.76%	JD.COM INC-ADR	JD	\$84.31	1,913,892	\$161,360,234.52
4.32%	TERADYNE INC	TER	\$128.81	1,137,649	\$146,540,567.69
4.29%	KRATOS DEFENSE & SECURITY	KTOS	\$28.29	5,132,806	\$145,207,081.74
3.85%	DEERE & CO	DE	\$372.12	350,715	\$130,508,065.80
3.59%	ALPHABET INC-CL C	GOOG	\$2137.75	56,976	\$121,800,444.00
3.58%	NXP SEMICONDUCTORS NV	NXPI	\$208.08	583,349	\$121,383,259.92
3.18%	KOMATSU LTD - SPONS ADR	KMTUY	\$31.40	3,430,181	\$107,707,683.40

BIDU stock in ARK's portfolio – Source: [ARK](#)

Over the last 5 years, we have seen it crash 66% from 2018 to March of 2020 as the business stagnated, then rebound, only to fall down again 35% from its 2021 February 19 peak of \$354.82.

Baidu Inc ADR Class A

219,70 USD

+2,15 (0,99%) ↑

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1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



### BIDU stock price – 5-year chart

In addition to the crash since February, BIDU stock was severely hit recently with a 25% technical margin call drop due to a \$20 billion margin call [by several banks on Bill Hwang](#) Achegos Capital Management that led to the liquidation of several blocks of BIDU, Tencent, Vipshop, Farfetch, iQIYI, ViacomCBS, Discovery and GSX Techedu. The margin call led likely to other liquidations which is the reason for the sudden 25% drop.

Baidu Inc ADR Class A

219,70 USD

+2,15 (0,99%) ↑

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NASDAQ: BIDU

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1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max

### BIDU stock technical margin call quick drop

Apart from creating an opportunity, BIDU's stock price action also indicates what is often the likely result of momentum trades that are fuelled by margin debt as BIDU's stock price had been propelled up in Q4 2020 and early 2021, before the change in momentum towards tech stocks lately. Nevertheless, it all creates volatility, and volatility is one the value investor's best friends.

High volatility is always interesting because if you look at the fundamentals of a business, you can take advantage of the market's irrationality and stock price swings. Let's dig deep into Baidu, create an earnings model, make a sum of parts valuation, compare to western investment options and see what is BIDU's stock investment risk and reward.

The company has recently listed its stock in HK, likely to hedge any possible issues with what is going on regarding Chinese stocks listed in the US and the negative political environment there. Baidu stock ticker in HK is 9888.

*If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.*



**Baidu, Inc.**  
**百度集團股份有限公司**

*(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)*

**GLOBAL OFFERING**

**Number of Offer Shares under the Global Offering** : 95,000,000 Offer Shares (subject to the Over-allotment Option)  
**Number of Hong Kong Offer Shares** : 4,750,000 Offer Shares (subject to adjustment)  
**Number of International Offer Shares** : 90,250,000 Offer Shares (subject to adjustment and the Over-allotment Option)  
**Maximum Public Offer Price** : HK\$295.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)  
**Par Value** : US\$0.000000625 per Share  
**Stock Code** : 9888

*Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*  
*(In alphabetical order)*



*Joint Bookrunners and Joint Lead Managers*



Baidu stock HK: 9888

50% of the listing proceeds will be used for further AI R&D while 40% will be used for the development of the Baidu mobile ecosystem. The remaining 10% for corporate purposes.

The stock has been offered at 295 HK and the current stock price is already lower.

Baidu Inc Class A

**218,20** HKD

+5,20 (2,44%) ↑

1 Apr, 16:08 GMT+8 · Disclaimer

HKG: 9888

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1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



Baidu stock HK listing – HKG:9888

The market capitalization based on the above price and the 2,774,129,040 shares issued is 605 billion HKD or \$77.8 billion USD at the time of writing (4<sup>th</sup> of April 2021).

<b>SUMMARY</b>	
<b>OFFERING STATISTICS</b>	
	<b>Based on the indicative offer price per Offer Share of HK\$295.00 for both Hong Kong Public Offering and International Offering</b>
Our market capitalization <sup>(1)</sup> . . . . .	HK\$818,368 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(2)</sup> . . . . .	RMB65.49 or HK\$77.82
Unaudited pro forma adjusted net tangible assets per ADS <sup>(3)</sup> . . . . .	RMB524 or HK\$623

*Notes:*  
 (1) The calculation of market capitalization is based on 2,774,129,040 Shares that will be in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

1 NASDAQ BIDU ADR represents 8 regular stocks.

International investors with access to HK might consider the alternative listing to avoid any US regulatory issues and liquidity constrains. However, lot size is 50 shares for HK, but please recheck investing opportunities with your broker.

It is important to mention that Baidu first [repurchased stocks for \\$4.5 billion](#) at a lower price than the one they issued stocks for the listing in HK. So, they didn't dilute shareholders and actually created value by buying low and selling high.

Baidu also has a 56.5% stake in iQIYI (Nasdaq: IQ), a leading Chinese video platform that I will analyse too as the stock price movement looks intriguing.

IQIYI Inc - ADR

**16,64** USD

+0,020 (0,12%) ↑

1 Apr, 16:00 GMT-4 · Disclaimer

NASDAQ: IQ

+ Follow

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



BIDU stock analysis – IQ stock price chart

## Baidu stock analysis – Business overview



Baidu business overview – Source: [Baidu investor relations](#)

Most of the content used for this Baidu business overview has been derived from [Baidu's recent HK listing prospectus](#). A listing prospectus is usually a great document to use to get the best insights into the details of a business.

Baidu presents itself as a leading AI company but its core foundation is still the search engine business in China that has been developing into the Baidu App as mobile search traffic sees better monetization with higher average revenues per user due to better targeting. 70% of revenues comes from the Baidu Core business segment and the rest is from iQIYI. Additional businesses are cloud services and intelligent mobility under the Baidu Core segment.

Baidu's Core search business includes the following segments:

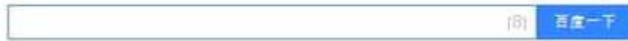
- **Mobile Ecosystem:** a portfolio of over one dozen apps, including **Baidu App**, Haokan and Baidu Post, which provides an open platform that aggregates a wide range of third-party, long-tail content and services through our AI building blocks and which helps communities connect and share knowledge and information;
- **AI Cloud:** a full suite of cloud services and solutions, including PaaS, SaaS and IaaS and uniquely differentiated by our AI solutions; and
- **Intelligent Driving & Other Growth Initiatives (OGI):** our growth initiatives include intelligent driving (self-driving services, including HD Maps, automated valet parking and autonomous navigation pilot, intelligent electric vehicles and robotaxi fleets), as well as Xiaodu smart devices powered by DuerOS smart assistant and AI chip development.

BIDU stock analysis – Baidu Core business segments



## BAIDU'S 4 BUSINESS CORES

- **BAIDU MOBILE ECOSYSTEM**



- **iQIYI – The Netflix of China**



- **BAIDU CLOUD**

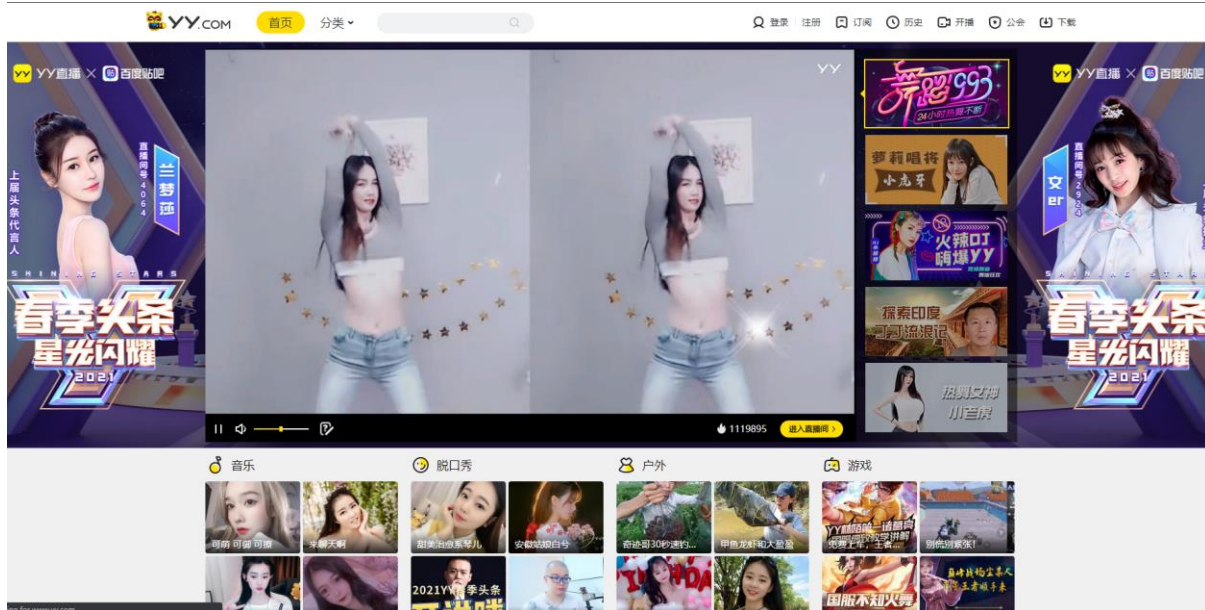


### BAIDU INTELLIGENT DRIVING



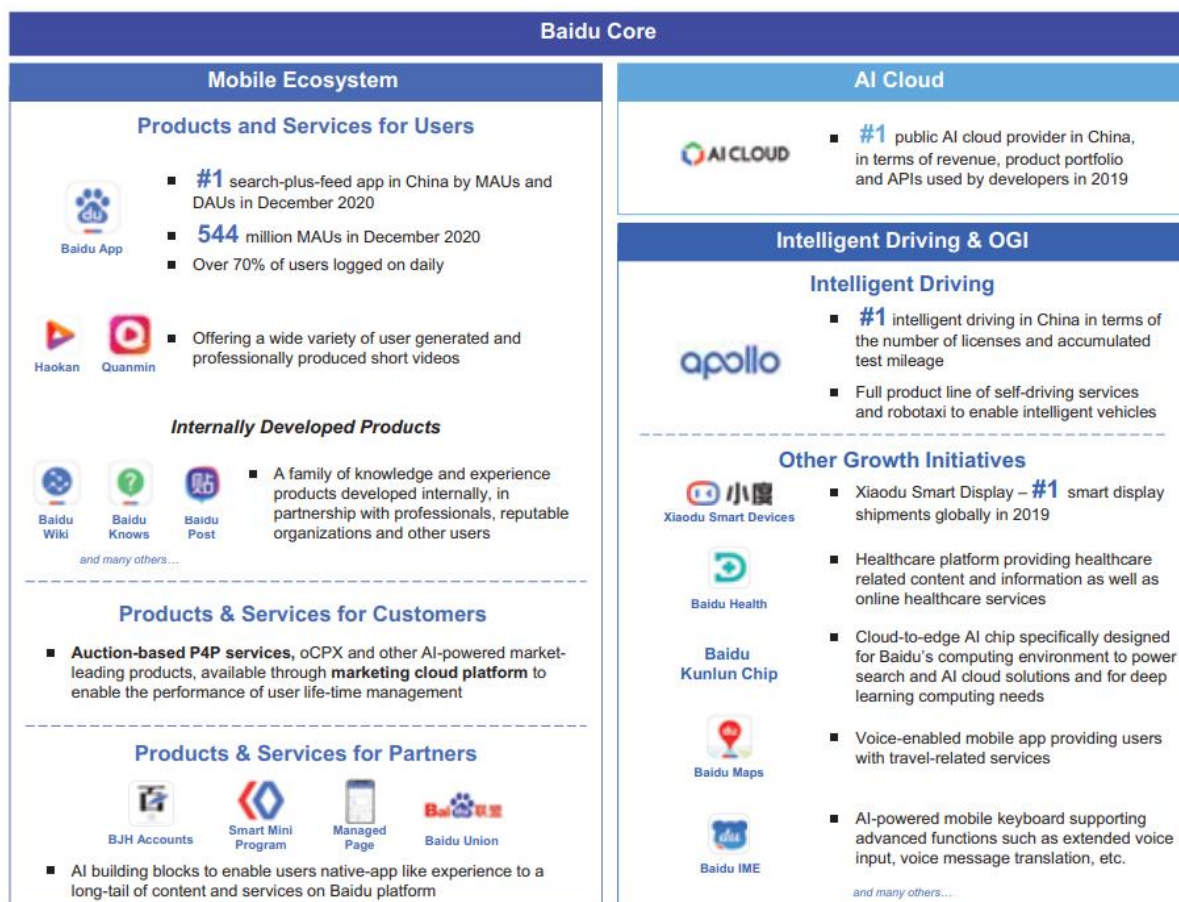
BIDU stock analysis – Baidu's core business segments

In November 2020, Baidu entered into definitive agreements with JOYY Inc. to acquire its domestic live streaming business in China, which includes YY mobile app, YY.com website and PC YY, among others. So, there will be another segment to add to Baidu and it is perhaps following what Google did with YouTube but YY Live is more about scantily clad girls than a real video search engine. However, perhaps they can build on that.



YY Live random snip when I opened the page – Source: [YY.com](http://YY.com)

The following chart shows more in detail Baidu’s Core business segment; the mobile ecosystem including the Baidu App, Baidu Cloud and Intelligent Driving.



BIDU stock analysis – Baidu Core

## Baidu Core search business – Mobile Ecosystem

Baidu has a stable search market position of around 72% with 538 million monthly users and 208 million average daily users. Their search market share has been stable as competitors didn't really manage to develop a similar search business even if they tried – the longer you have such a position, the stronger is your moat as simply others can't easily get all the data Baidu can for search. The main issue for Baidu is to monetize the search traffic and create an ecosystem around the search engine and not having it as an isolated app in the Chinese digital environment.

Ranking	Companies	Market share in terms of revenue (2020, %)	Average MAUs (2020, in millions)	DAUs (2020, in millions)
1	Baidu	72.7%	538.28	208.06
2	Search engine $\alpha^{(1)}$	7.9%	61.14	26.36
3	Search engine $\beta^{(2)}$	6.6%	29.94	6.79
4	Search engine $\gamma^{(3)}$	N/A	2.12	0.69

*Notes:*

(1) Search engine  $\alpha$  is a search engine with over 10 years history.

(2) Search engine  $\beta$  is a search engine acquired by a leading Internet company, Company Y.

(3) Search engine  $\gamma$  is a search engine owned by a leading Internet company, Company X.

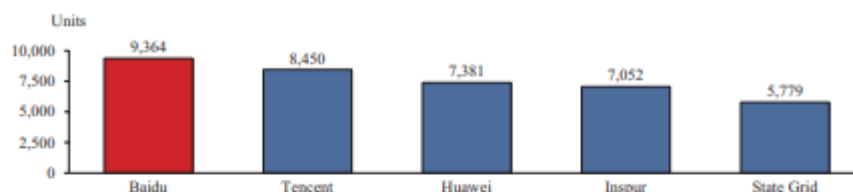
*Source: CIC report*

## BIDU stock analysis – Chinese search market

The key for Baidu is to create an ecosystem around the traffic it gets on search and that is not that easy but the company is investing heavily and it might create interesting things down the road. The ecosystem is supposed to be built around search, AI, autonomous drive and other growth options.

BIDU is also investing heavily into AI and positioning itself among the top, if not the top, AI company in China.

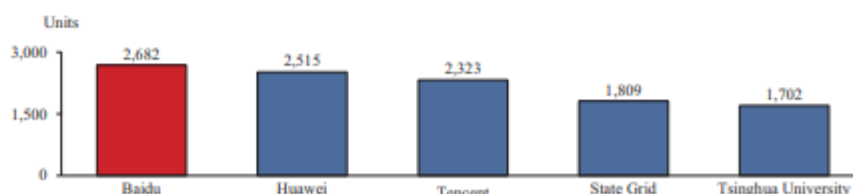
### Top Companies by Cumulative Number of AI Patent Applications in China (October 30, 2020)



Source: CIC Report, China National Industrial Cyber Security Development Center

- Baidu holds the largest number of AI patents in China as of October 30, 2020.

### Top Companies by Cumulative Number of AI Patents in China (October 30, 2020)



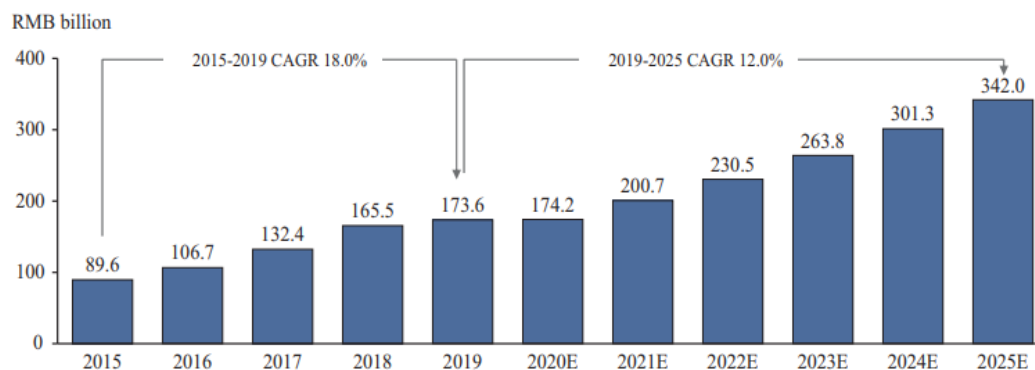
Source: CIC Report, China National Industrial Cyber Security Development Center

BIDU stock analysis - Baidu’s position in the Chinese AI sector

Baidu spends 21% of its revenue on R&D compared to 8.5% for Alibaba and 8.1% for Tencent.

The sector has strong tailwinds as AI and scale enable the key players to create a moat and also as the internal development of the Chinese economy creates much more traffic.

### Market Size of Advertising on Knowledge-and-Information-Centric Internet Platforms in China (2015-2025E)



BIDU stock analysis – expected advertising digital spend in China

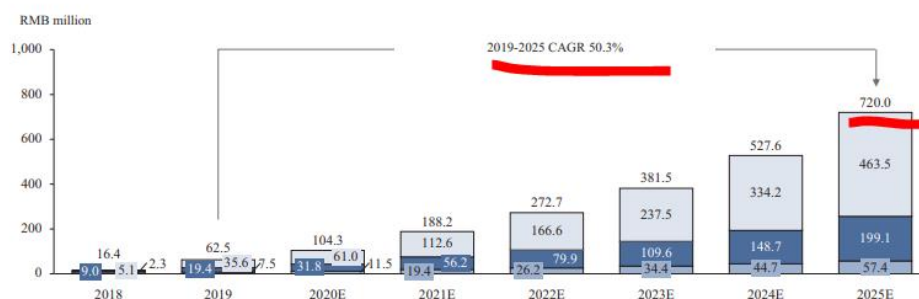
The market related to software sales is expected to increase 7-fold by 2025 in China.

### Hardware Revenue of Smart Devices in China (2017-2025E)



Source: CIC Report

### Non-Hardware Revenue of Smart Devices in China (2018-2025E)



Source: CIC Report

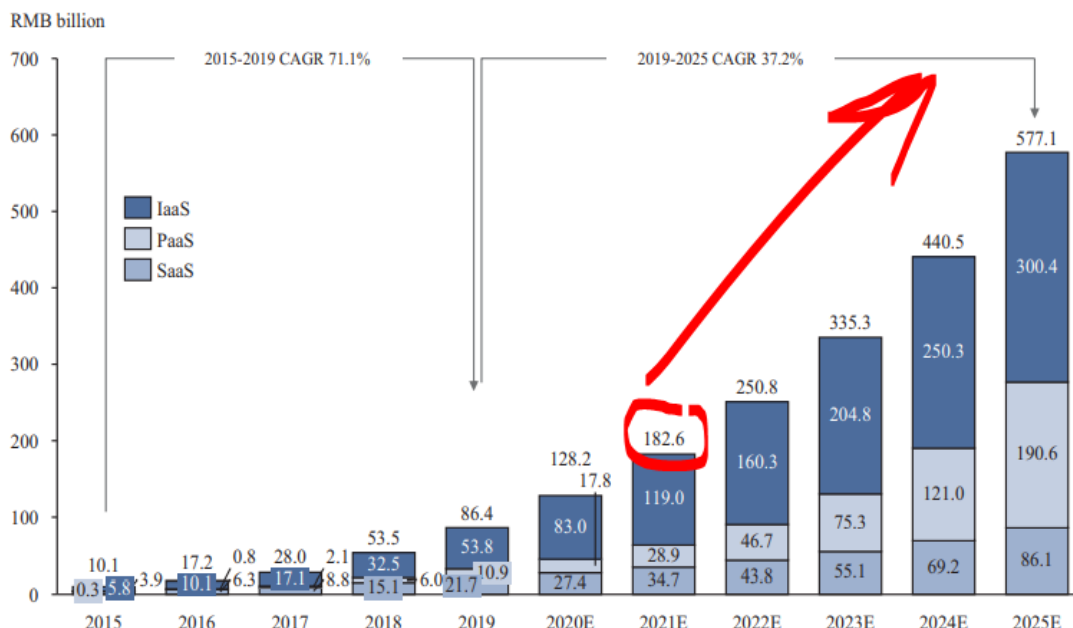
### BIDU stock analysis – expected spend on digital services

It is important to note that the above CIC report which is the source of the data shown by Baidu has actually been commissioned by Baidu itself. Thus the CIC data shared in the HK listing prospectus has to be taken with a grain of salt. If you are paid by someone to make research, you are likely to make it look nice for the one paying.

### Baidu Cloud Services business

Apart from the search related business, Baidu is developing its Cloud related business too. The cloud services business is expected to grow at 37.2% in China over the next years.

### Market Size of Public Cloud Services in China (2015-2025E)



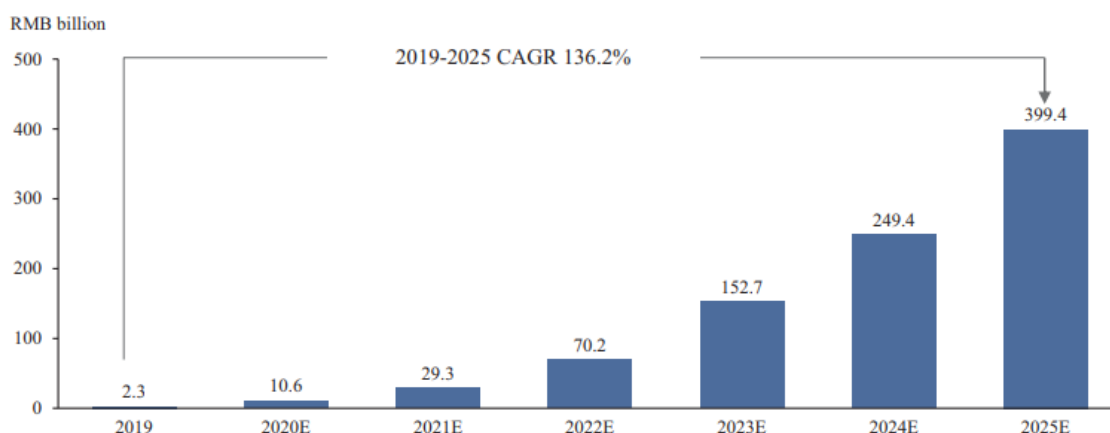
#### BIDU stock analysis – cloud services market

I'll be discussing the specific segment financials in the financial segment but Baidu's cloud business has grown 44% in 2020 and if it just continues to match the market's growth, it certainly deserves a market valuation which is often around 10 times sales.

#### Baidu Intelligent Driving business

The market for intelligent driving services is also expected to boom in China.

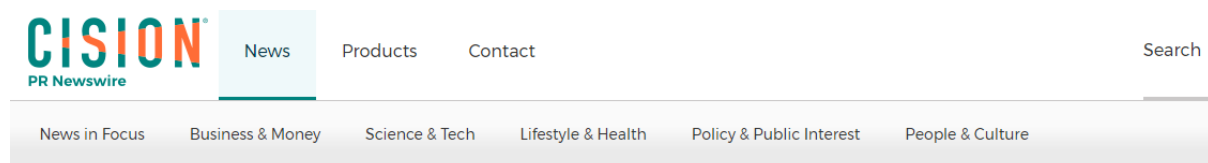
### Market Size of Self-Driving Services Industry in China (2019-2025E)



#### BIDU stock analysis – market for autonomous driving services in China



Baidu is the current leader in licences in China and autonomous driving in China. In the [2020 Beijing Autonomous Vehicles Road Test Report](#), that unfortunately doesn't include Tesla, Baidu's Apollo won for the last 3 years.



## Baidu Tops Beijing Autonomous Vehicles Road Test Report for the Third Consecutive Year

NEWS PROVIDED BY  
**Baidu, Inc.** →  
 Feb 05, 2021, 01:56 ET

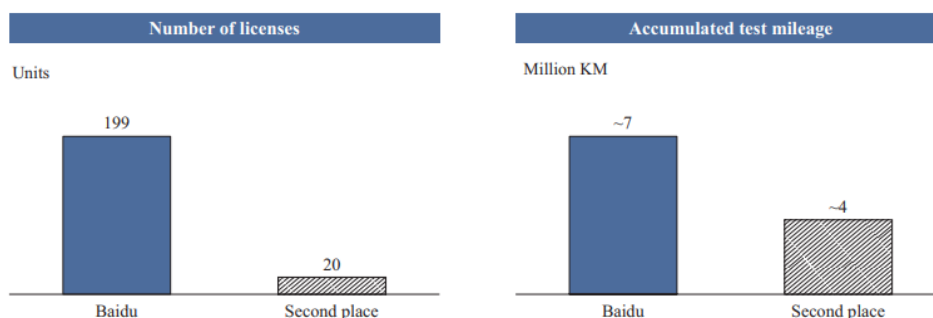
SHARE THIS ARTICLE

BEIJING, Feb. 5, 2021 /PRNewswire/ -- Baidu, Inc. (NASDAQ: BIDU) affirmed its comprehensive leadership position in China's autonomous driving industry with the results of the recently-published 2020 Beijing Autonomous Vehicles Road Test Report, in which Baidu Apollo topped industry peers across every testing category for the third consecutive year. In addition to maintaining the largest fleet of test vehicles and accumulating the highest total testing mileage, Baidu is also the first and only company that has obtained permission to operate fully driverless road tests on public roads in Beijing, which will enable Baidu to spearhead the development of smart transportation in the intelligent era.

Baidu Apollo's test results – Source: [PR Newswire](#)

Baidu has the most licenses and test mileage.

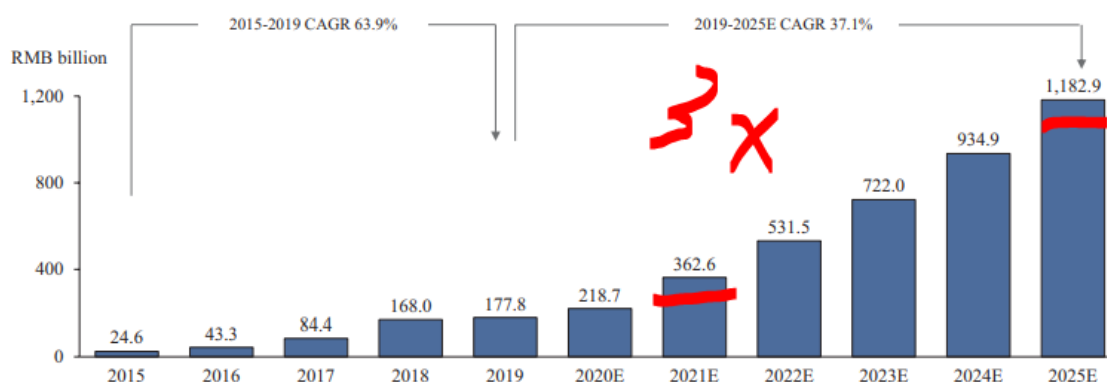
### Industry Ranking of Autonomous Driving Companies in China (December 31, 2020)



BIDU stock analysis – Baidu's position in the autonomous driving field

Alongside autonomous driving, the electric vehicle market is also expected to triple over the coming years.

## Market Size of New Energy Vehicle Industry in China (2015-2025E)



### BIDU stock analysis – Chinese EV market forecast

Baidu has entered into [a strategic partnership](#) with multinational auto manufacturer Zhejiang Geely Holding Group (Geely) to produce intelligent EVs (owning Volvo too). No plans have been shared but it is expected that it will take approximately 3 years from design to market.

### Baidu Announces Plan to Establish an Intelligent EV Company and Forms Strategic Partnership with Geely

January 10, 2021 at 7:30 PM EST

BEIJING, Jan. 10, 2021 /PRNewswire/ -- Baidu, Inc. (NASDAQ: BIDU) ("Baidu" or the "Company"), a leading Internet platform and AI company, today announced its plan to establish a company to produce intelligent electric vehicles (EV), and that it has entered into a strategic partnership with multinational auto manufacturer Zhejiang Geely Holding Group ("Geely"). Baidu will provide intelligent driving capabilities to power the passenger vehicles for the new venture, and Geely, which holds the distinction of best-selling Chinese automobile brand in past years under the Volvo and Geely brands, will contribute its expertise in automobile design and manufacturing.

 PDF Version

"At Baidu, we have long believed in the future of intelligent driving and have over the past decade invested heavily in AI to build a portfolio of world-class self-driving services. China has become the world's largest market for EVs, and we are seeing EV consumers demanding next generation vehicles to be more intelligent." said Robin Li, Co-founder and CEO of Baidu. "As a top Chinese automaker with global reach, Geely has the unique experience and resources to design, produce and market energy-efficient, reliable and safe automobiles in large scale. We believe that by combining Baidu's expertise in smart transportation, connected vehicles and autonomous driving with Geely's expertise as a leading automobile and EV manufacturer, the new partnership will pave the way for future passenger vehicles."

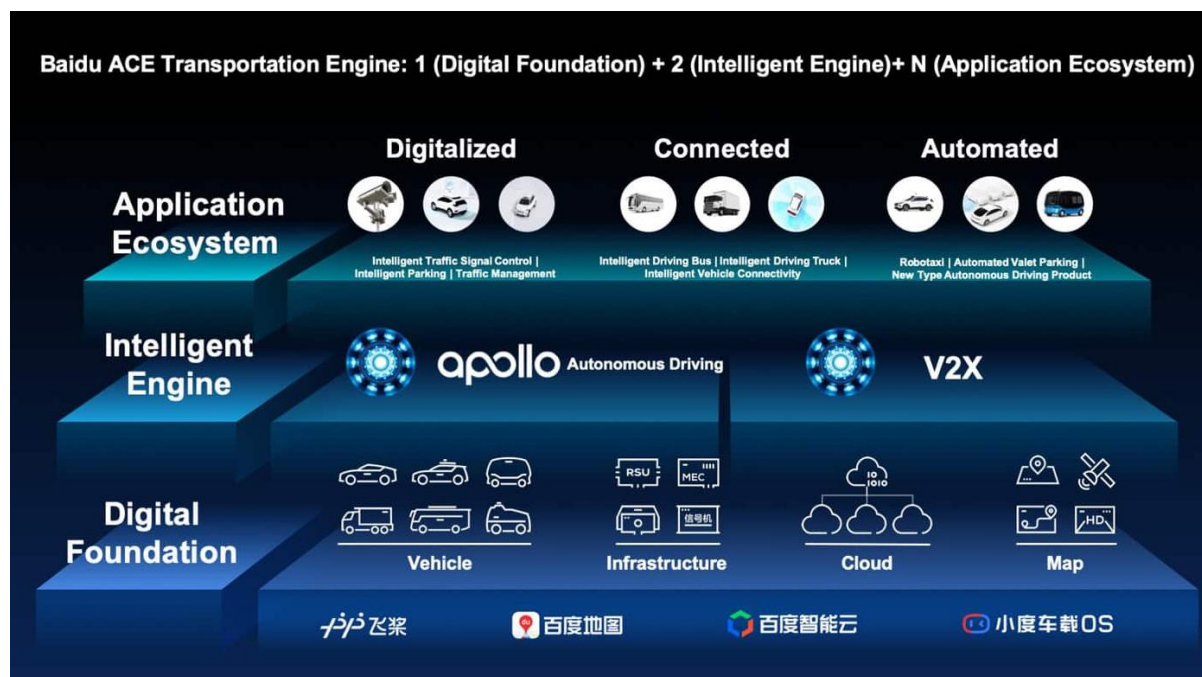
**About Baidu**

### Baidu's EV push

Baidu has the Apollo Robotaxi initiative with 3 Apollo Go Robotaxi test pilot programs in operations, in cooperation with Beijing, Changsha and Cangzhou. Apollo is the market leader in China with 4.3 million accumulated test miles and 199 autonomous driving licenses across China. Baidu has spent 11.8 billion RMB on development for Apollo in the first 9 months of 2020 while competitors like NIO ([NIO stock analysis](#)) and Li Auto have spent 1.7 billion and 0.7 billion respectively.

Baidu's plan is to be the first multi modal autonomous driving system.





Baidu ACE Transportation Engine - Source: [Apollo Auto](#)

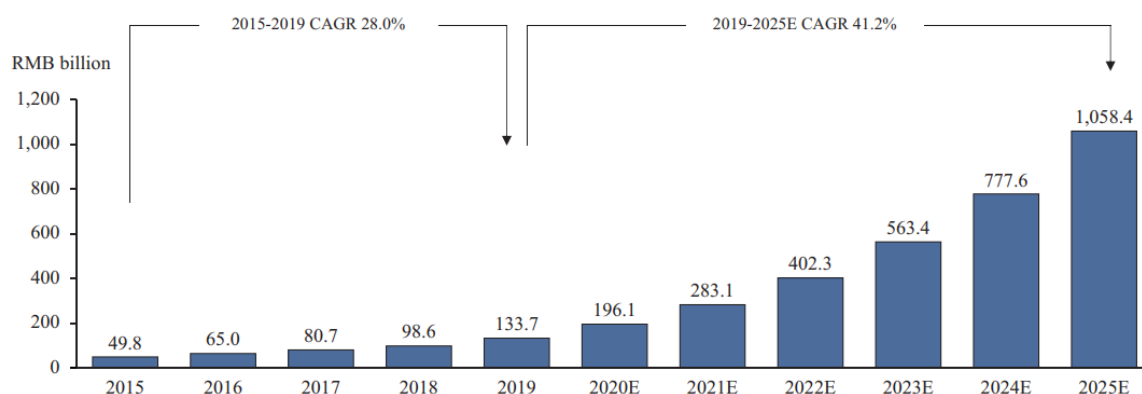
Autonomous drive, AI related software and Robotaxis alongside other smart transportation might be a big contributor to revenues down the road. When? We can't know yet, but it is the future and Baidu is positioning itself to be a very significant player in China and likely elsewhere too.

As it is not yet profitable, as a value investor you want to get it for free, something we'll discuss more in the earnings valuation model and sum of parts valuation. However, as discussed in [Peter Lynch's One Up On Wall Street](#), perhaps the best way to get exposure to a future trend is to buy a business that has the promising opportunity as a side project and not its core business.

### Baidu other growth opportunities

Other business segments that Baidu focuses on are AI chips, healthcare and other growth opportunities. The company constantly invests in stakes in smaller companies and small opportunities. In the tech world, you never know what can come out of that. For now, Baidu's balance sheet investments amount to a significant 75 billion RMB.

**Market Size of Internet healthcare in China (2015-2025E)**



Source: CIC report

**BIDU stock analysis – internet healthcare market forecasts in China**

Perhaps the most important table related to Baidu’s other business opportunities in the Chinese market is the total addressable market analysis made by CIC. The search business market will likely grow by 12% which is something already remarkable, but Baidu’s core business is expected to be surpassed both in size and growth rates by internet services, cloud services, autonomous driving & intelligent EVs, internet health and Robotaxis.

	<u>Businesses</u>	<u>TAM in 2025 (RMB billion)</u>	<u>CAGR (2019-2025E)</u>
Online Marketing	Knowledge and information-centric Internet platforms	342	12.0%
Non-marketing (excluding Robotaxi)	Internet Services	751	23.2%
	Cloud services	577	37.2%
	Self Driving Services & Intelligent EVs	1,582	43.6%
	Smart Devices	56	32.7%
	AI Chips	110	44.2%
	Internet Health	1,058	41.2%
	Non-marketing subtotal (excluding Robotaxi)	4,134	36.5%
	Robotaxi	Robotaxi	1,458

**BIDU stock analysis – growth rates per sector**

With a total addressable market of 5.5 trillion RMB, if they can get just 10% of that by 2025, it would represent 5 times current revenues. If the above actually happens only in 2030, that would still good if they get significant market share and possibly healthy margins as Baidu is positioning itself more as a service or platform rather than manufacturer.

For now, 86% of Baidu’s revenues are still derived from advertising while just 14% from the other segments mentioned above. If Baidu can scale its reach of 1 billion monthly average devices using Baidu services and 584 million Baidu app members on the other business segments, the investment should be an interesting one. Cross-selling opportunities should be

significant on the 316 million average monthly Baidu Maps users with autonomous driving etc.

Given the above, and how China is strongly developing its internal business, BIDU might be a great opportunity to diversify into China ([as Bridgewater suggests to do now](#)) and the growth in the above markets banking on the growth of the Chinese internal economy.

Baidu's business is certainly interesting, but let's see the financial side of it and then make a valuation.

### Baidu stock analysis - financials

Over the last years, the key thing pressuring BIDU's stock price was the lack of revenue growth in the Core business segment.

#### Baidu Core

	For the Month Ended December 31,		
	2018	2019	2020
MAU of Baidu App (in millions) .....	435	500	544
DAU of Baidu App (in millions) .....	161	195	202

	For the Year Ended December 31,		
	2018	2019	2020
Revenue (RMB in millions) .....	78,271	79,711	78,684
Operating profit (RMB in millions) .....	23,808	15,261	20,538

194

#### BIDU stock analysis – Baidu Core revenues

iQIYI has been stagnating too, also seeing a decline in the number of average users while producing losses year over year.

#### iQIYI

	As of December 31,		
	2018	2019	2020
Subscribing Members (in millions) .....	87.4	106.9	101.7

	For the Year Ended December 31,		
	2018	2019	2020
Revenue (RMB in millions) .....	24,989	28,994	29,707
Operating loss (RMB in millions) .....	(8,306)	(9,258)	(6,041)

#### BIDU stock analysis – iQIYI revenues

The recent acquisition, YY Live, has not see much growth either.

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Net revenues:</b>				
Live streaming .....	10,073,347	10,721,295	9,664,816	1,481,198
Others .....	199,349	241,243	285,470	43,750
<b>Total net revenues</b> .....	<b>10,272,696</b>	<b>10,962,538</b>	<b>9,950,286</b>	<b>1,524,948</b>
Cost of revenues <sup>(1)</sup> .....	(5,357,786)	(5,703,255)	(5,342,372)	(818,754)
<b>Gross profit</b> .....	<b>4,914,910</b>	<b>5,259,283</b>	<b>4,607,914</b>	<b>706,194</b>
<b>Operating expenses<sup>(1)</sup>:</b>				
Sales and marketing expenses .....	(498,211)	(506,605)	(581,091)	(89,056)
Research and development expenses .....	(412,046)	(393,100)	(362,406)	(55,541)
General and administrative expense .....	(203,678)	(198,450)	(152,866)	(23,428)
<b>Total operating expenses</b> .....	<b>(1,113,935)</b>	<b>(1,098,155)</b>	<b>(1,096,363)</b>	<b>(168,025)</b>
Other income .....	67,018	203,408	166,272	25,482
<b>Operating income</b> .....	<b>3,867,993</b>	<b>4,364,536</b>	<b>3,677,823</b>	<b>563,651</b>
Interest income and investment income .....	1,565	2,455	2,899	444
<b>Income before income tax expenses</b> .....	<b>3,869,558</b>	<b>4,366,991</b>	<b>3,680,722</b>	<b>564,095</b>
Income tax expenses .....	(580,935)	(666,311)	(539,435)	(82,672)
<b>Net income</b> .....	<b>3,288,623</b>	<b>3,700,680</b>	<b>3,141,287</b>	<b>481,423</b>

Note:

(1) Share-based compensation expenses was allocated in cost of revenues and operating expenses as follows:

Cost of revenues .....	17,494	8,655	11,241	1,723
Research and development expenses .....	97,945	56,960	45,861	7,029
Sales and marketing expenses .....	2,473	1,799	1,276	196
General and administrative expenses .....	75,284	72,913	34,344	5,263

## BIDU stock analysis – YY Live segment financials

But, investing is about what will happen in the future compared to the current price.

Despite being hit by COVID-19, Baidu still managed to reach net income of 22.4 billion RMB or \$3.4 billion.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Revenues:</b>				
Online marketing services .....	81,912	78,093	72,840	11,163
Others .....	20,365	29,320	34,234	5,247
<b>Total revenues</b> .....	<b>102,277</b>	<b>107,413</b>	<b>107,074</b>	<b>16,410</b>
<b>Operating costs and expenses<sup>(1)</sup>:</b>				
Cost of revenues .....	51,744	62,850	55,158	8,454
Selling, general and administrative .....	19,231	19,910	18,063	2,769
Research and development .....	15,772	18,346	19,513	2,989
<b>Total operating costs and expenses</b> .....	<b>86,747</b>	<b>101,106</b>	<b>92,734</b>	<b>14,212</b>
<b>Operating profit</b> .....	<b>15,530</b>	<b>6,307</b>	<b>14,340</b>	<b>2,198</b>
<b>Total other income (loss), net</b> .....	<b>11,795</b>	<b>(6,647)</b>	<b>8,750</b>	<b>1,341</b>
<b>Income (loss) before income taxes</b> .....	<b>27,325</b>	<b>(340)</b>	<b>23,090</b>	<b>3,539</b>
Income taxes .....	4,743	1,948	4,064	623
<b>Net income (loss)</b> .....	<b>22,582</b>	<b>(2,288)</b>	<b>19,026</b>	<b>2,916</b>
Less: Net loss attributable to non-controlling interests .....	(4,991)	(4,345)	(3,446)	(528)
<b>Net income attributable to Baidu, Inc.</b> .....	<b>27,573</b>	<b>2,057</b>	<b>22,472</b>	<b>3,444</b>
<i>Note:</i>				
(1) Share-based compensation expenses are allocated in operating costs and expenses as follows:				
Cost of revenues .....	224	327	360	55
Selling, general and administrative .....	1,725	1,768	1,897	290
Research and development .....	2,727	3,531	4,471	686
<b>Total</b> .....	<b>4,676</b>	<b>5,626</b>	<b>6,728</b>	<b>1,031</b>

## BIDU stock analysis – Income statement 2020

From a segment perspective, Cloud has grown 44% year over year and iQIYI membership services 14%. The rest has been stagnating or declining like iQIYI's advertising revenue. But if you grow membership revenues, it is logical advertising revenues decline.

**Segment Revenues**

The following table sets forth our revenues by segment and the year-over-year change rate for the periods indicated, with each segment revenues including inter-segment revenues:

	Year ended December 31,					
	2018	2019		2020		
	RMB	RMB	YoY%	RMB	US\$	YoY%
(In millions, except percentages)						
<b>Baidu Core:</b>						
Online marketing services	72,645	70,038	(4)	66,283	10,158	(5)
Cloud services	3,005	6,370	112	9,173	1,406	44
Interest income earned from provision of financial services	1,724	—	(100)	—	—	—
Others	897	3,303	268	3,228	495	(2)
<b>Subtotal</b>	<b>78,271</b>	<b>79,711</b>	<b>2</b>	<b>78,684</b>	<b>12,059</b>	<b>(1)</b>
<b>iQIYI:</b>						
Online advertising services	9,329	8,271	(11)	6,822	1,046	(18)
Membership services	10,623	14,436	36	16,491	2,527	14
Content distribution	2,163	2,544	18	2,660	408	5
Others	2,874	3,743	30	3,734	572	(0)
<b>Subtotal</b>	<b>24,989</b>	<b>28,994</b>	<b>16</b>	<b>29,707</b>	<b>4,553</b>	<b>2</b>
<b>Intersegment eliminations</b>	<b>(983)</b>	<b>(1,292)</b>	<b>31</b>	<b>(1,317)</b>	<b>(202)</b>	<b>2</b>
<b>Total revenue</b>	<b>102,277</b>	<b>107,413</b>	<b>5</b>	<b>107,074</b>	<b>16,410</b>	<b>(0)</b>

**BIDU stock analysis – Segment income statement 2020**

As Covid restrictions pass, we might see a 10% bounce back for online marketing revenue when travelling and all other sectors strongly related to internet advertising bounce back. If Baidu can grow alongside the expected 12% growth in online advertising, that would be very significant for the company.

The number of our active online marketing customers decreased from approximately 528,000 in 2019 to approximately 505,000 in 2020, while the average revenue per customer decreased slightly from approximately RMB132,700 in 2019 to approximately RMB131,300 (US\$20,120) in 2020. The decrease of our active online marketing customers was primarily due to quarantines, travel restrictions, and the temporary closure of businesses and facilities and resulting impact to general economy brought by the COVID-19 pandemic.

**BIDU stock analysis – Decline in business 2020**

Cloud revenues reached 9.1 billion RMB on 44% growth. This is important because we will use it in the sum of parts valuation.

Apart from business cash flows and growth opportunities, Baidu has a strong cash position, extremely significant compared to the \$77.8 billion market capitalization.



### Liquidity and Capital Resources

As of December 31, 2020, we had RMB162.9 billion (US\$25.0 billion) of cash, cash equivalents, restricted cash and short-term investments. Our cash and cash equivalents consist of cash on hand and investments in interest bearing demand deposit accounts, time deposits, money market funds and other liquid investments which have original maturities of three months or less. The short-term investments primarily consist of fixed-rate and adjustable-rate debt investments with original maturity of less than one year. We believe that our current cash, cash equivalents, restricted cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital, capital expenditures and debt repayment, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue, and we may incur additional indebtedness (such as loans, convertible senior notes and notes payable) in the future.

### BIDU stock analysis – cash position

They have almost a third of the market cap in cash. Net, net cash would be 44 billion RMB or \$6.75 billion which is still almost 10% of the market capitalization. If we would just look at available cash compared to long-term liabilities, the net cash position is actually \$12 billion.

From a cash flow perspective, the business as is, is operating well. Operating cash flows have been 24 billion RMB or \$3.7 billion in 2020.

### Cash Flows

As of December 31, 2018, 2019 and 2020, we had RMB141.5 billion, RMB147.4 billion and RMB162.9 billion (US\$25.0 billion) in cash, cash equivalents, restricted cash and short-term investments.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in millions)			
Net cash provided by operating activities	35,967	28,458	24,200	3,709
Net cash used in investing activities	(34,460)	(19,974)	(27,552)	(4,223)
Net cash provided by (used in) financing activities	15,082	(3,873)	5,665	869
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,902	1	(212)	(32)
Net increase in cash, cash equivalents and restricted cash	18,491	4,612	2,101	323
Cash, cash equivalents and restricted cash at beginning of the year	11,336	29,827	34,439	5,278
Cash, cash equivalents and restricted cash at end of the year	29,827	34,439	36,540	5,601

### BIDU stock analysis – cash flow

When looking for free cash flows, we must differentiate between cash flow business expenses and financial investments.

*Investing Activities*

Net cash used in investing activities was RMB27.6 billion (US\$4.2 billion) in 2020, consisting primarily of RMB159.2 billion (US\$24.4 billion) in purchase of held-to-maturity investments, RMB133.0 billion (US\$20.4 billion) in purchase of available-for-sale investments, RMB134.3 billion (US\$20.6 billion) in maturities of held-to-maturity investments, RMB135.6 billion (US\$20.8 billion) in sales and maturities of available-for-sale investments, and RMB4.5 billion (US\$685 million) in purchase of other long-term investments offset by RMB6.5 billion (US\$1.0 billion) in proceeds from disposal of long-term investments.

Net cash used in investing activities was RMB20.0 billion in 2019, consisting primarily of RMB12.2 billion for acquisition of licensed copyrights, RMB6.4 billion for acquisition of fixed assets, RMB120.2 billion in purchase of held-to-maturity investments, RMB218.2 billion in purchase of available-for-sale investments, offset by RMB46.6 billion in maturities of held-to-maturity investments and RMB291.2 billion in sales and maturities of available-for-sale investments, and RMB6.3 billion in purchase of other long-term investments offset by RMB7.5 billion in proceeds from disposal of long-term investments.

From a balance sheet perspective, it looks like the company could survive also without the cash, so we can only hope the cash gets invested well or fairly distributed to shareholders. Something to watch carefully over time.



### UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

(Amounts in millions of Renminbi ("RMB"))

	The Company (Note 1)	YY Live (Note 2)	Acquisition of YY Live (Note 3)	Pro forma Enlarged Group
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	35,782	206	(22,076)	13,912
Restricted cash	758	—	9,918	10,676
Short-term investments	126,402	—	—	126,402
Accounts receivable, net	8,668	207	—	8,875
Amounts due from related parties	726	—	—	726
Other assets, current	11,006	45	—	11,051
<b>Total current assets</b>	<b>183,342</b>	<b>458</b>		<b>171,642</b>
<b>Non-current assets:</b>				
Fixed assets, net	17,508	60	—	17,568
Licensed copyrights, net	6,435	—	—	6,435
Produced content, net	6,556	—	—	6,556
Intangible assets, net	2,022	48	6,741	8,811
Goodwill	22,248	—	16,329	38,577
Long-term investments, net	76,233	—	—	76,233
Amounts due from related parties	3,438	—	—	3,438
Deferred tax assets, net	1,674	8	—	1,682
Operating lease right-of-use assets	9,804	—	—	9,804
Other assets, non-current	3,448	24	—	3,472
<b>Total non-current assets</b>	<b>149,366</b>	<b>140</b>		<b>172,576</b>
<b>Total assets</b>	<b>332,708</b>	<b>598</b>		<b>344,218</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities:</b>				
Short-term loans	3,016	—	—	3,016
Accounts payable and accrued liabilities	36,716	929	8,467	46,112
Customer deposits and deferred revenue	12,626	407	—	13,033
Deferred income	158	—	—	158
Long-term loans, current portion	7,427	—	—	7,427
Convertible notes payable	4,752	—	—	4,752
Amounts due to related parties	1,324	—	—	1,324
Operating lease liabilities	2,366	—	—	2,366
<b>Total current liabilities</b>	<b>68,385</b>	<b>1,336</b>		<b>78,188</b>
<b>Non-current liabilities:</b>				
Deferred income	97	—	—	97
Deferred revenue	686	29	—	715
Amounts due to related parties	3,543	—	—	3,543
Notes payable	48,408	—	—	48,408
Convertible senior notes	11,927	—	—	11,927
Deferred tax liabilities	3,067	—	1,011	4,078
Operating lease liabilities	4,693	—	—	4,693
Other non-current liabilities	59	—	667	726
<b>Total non-current liabilities</b>	<b>72,480</b>	<b>29</b>		<b>74,187</b>
<b>Total liabilities</b>	<b>140,865</b>	<b>1,365</b>		<b>152,375</b>
<b>Redeemable noncontrolling interests</b>	<b>3,102</b>	<b>—</b>	<b>—</b>	<b>3,102</b>
<b>Equity</b>				
<b>Total shareholders' equity/(parent company deficit)</b>	<b>182,696</b>	<b>(767)</b>	<b>767</b>	<b>182,696</b>
<b>Noncontrolling interests</b>	<b>6,045</b>	<b>—</b>	<b>—</b>	<b>6,045</b>
<b>Total equity</b>	<b>188,741</b>	<b>(767)</b>		<b>188,741</b>
<b>Total liabilities, redeemable noncontrolling interests and equity</b>	<b>332,708</b>	<b>598</b>		<b>344,218</b>

BIDU stock analysis – full balance sheet

A significant account above is long-term investments of 76 billion RMB. That includes the following:

**Long-term Investments**

The following table sets forth a breakdown of the categories of **long-term investments** held by the Company as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	RMB	RMB	RMB
	(In millions)		
Equity investments at fair value with readily determinable fair value .....	4,428	11,334	12,978
Available-for-sale debt investment .....	1,167	3,970	2,607
Equity investments without readily determinable fair value .....	29,269	24,686	24,603
Equity method investments .....	44,133	27,105	24,067
Investments accounted for at fair value .....	1,457	1,819	2,238
Long-term held-to-maturity investments .....	—	496	9,740
Total .....	<u>80,454</u>	<u>69,410</u>	<u>76,233</u>

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### BIDU stock analysis – long-term investments

Of the above 76 billion RMB, for 24 billion RMB is not possible to account for fair value so that is something that we will have to see how it will develop in the future.

#### Equity investments without readily determinable fair value

In accordance with ASC 321, the Company elected to use the measurement alternative to measure such investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Impairment charges recognized on equity investments without readily determinable fair value was RMB455 million, RMB778 million and RMB2.3 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

The total carrying value of equity investments without readily determinable fair value held as of December 31, 2018, 2019 and 2020 were as follows:

	As of	As of	As of
	December 31, 2018	December 31, 2019	December 31, 2020
	RMB	RMB	RMB
	(In millions)		
Initial cost basis .....	26,728	21,211	19,725
Cumulative unrealized gains .....	6,271	5,636	8,113
Cumulative unrealized losses (including impairment) .....	(3,730)	(2,161)	(3,235)
Total carrying value .....	<u>29,269</u>	<u>24,686</u>	<u>24,603</u>

Just an example of the investments is the 12% equity interest in Trip worth \$2.9 billion given the current market cap of \$24 billion for NASDAQ: TCOM. The company is continuing to do many small investments.

(other than those, the considerations of which were less than RMB20 million—being less than 0.02% of our total assets as of December 31, 2020 and revenue for the year ended December 31, 2020):

Investment <sup>(2)(3)</sup>	Consideration (approx. in RMB millions)	Percentage of shareholding/equity interest <sup>(1)</sup>	Principal business activities
Company A .....	350	28%	Consulting
Company B .....	100	9%	Medical
Company C .....	80	40%	Medical
Company D .....	50	10%	Consulting
Company E .....	50	9%	Consulting
Company F .....	33	8%	Medical
Company G .....	30	5%	E-commerce
Company H .....	25	23%	Entertainment
Company I .....	22	11%	Education
Company J .....	20	6%	Commerce
Company K .....	20	8%	Medical
Company L .....	20	1%	Medical
Company M .....	20	1%	Technology

*Nestor*

Baidu's investments in first few months of 2021 – not significant but interesting

From a cash flow perspective, free cash flows for shareholders for 2020 should be 19 billion RMB from net income, plus 5.7 in depreciation, minus 7 billion for investments. So, 17.7 billion RMB from operating activities, minus 7.5 for investments, I get to free cash flows of 10 billion RMB or \$1.6 billion.

## BAIDU, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US\$"))

	For the Years Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
<b>Cash flows from operating activities:</b>				
Net income (loss)	22,582	(2,288)	19,026	2,916
Adjustments to reconcile net income (loss) to net cash generated from operating activities:				
Depreciation of fixed assets and computer parts	3,730	5,615	5,772	885
Amortization of intangible assets	385	661	544	83
Deferred income tax, net	(761)	(696)	115	17
Share-based compensation	4,676	5,626	6,728	1,031
Allowance for credit losses	451	429	679	104
Investment and interest income	(7,648)	(2,305)	(11,966)	(1,833)
Amortization and impairment of licensed copyrights	12,253	12,885	11,864	1,818
Amortization and impairment of produced content	2,266	2,977	4,534	695
Impairment of other assets	1,208	10,714	2,928	449
Share of losses from equity method investments	79	1,254	2,248	345
(Gain)/loss on disposal of subsidiaries	(5,525)	578	—	—
Barter transaction revenue	(1,083)	(683)	(1,376)	(211)
Accretion on convertible senior notes and asset-backed debt securities	25	380	501	77
Other non-cash expenses	99	76	739	113
Others	(51)	(78)	71	10
<b>Changes in operating assets and liabilities, net of effects of</b>				
Accounts receivable	(1,611)	(1,779)	(1,660)	(254)
Amounts due from related parties	527	(135)	125	19
Licensed copyrights	—	—	(10,528)	(1,613)
Produced content	(4,545)	(3,596)	(6,728)	(1,031)
Other assets	3,212	(863)	(351)	(54)
Customer deposits and deferred revenue	912	1,515	1,177	180
Accounts payable and accrued liabilities	4,094	(1,653)	208	32
Deferred income	(64)	(37)	(293)	(45)
Amounts due to related parties	756	(139)	(157)	(24)
<b>Net cash generated from operating activities</b>	<b>35,967</b>	<b>28,458</b>	<b>24,200</b>	<b>3,709</b>
<b>Cash flows from investing activities:</b>				
Acquisition of fixed assets	(8,772)	(6,428)	(5,084)	(779)
Acquisition of businesses, net of cash acquired	(1,978)	(969)	(2,396)	(367)
Acquisition of licensed copyrights	(13,116)	(12,152)	—	—
Acquisition of intangible assets	(385)	(541)	(247)	(38)
Purchases of held-to-maturity investments	(27,640)	(120,189)	(159,197)	(24,399)
Maturities of held-to-maturity investments	49,040	46,563	134,299	20,582
Purchases of available-for-sale investments	(284,149)	(218,171)	(133,008)	(20,384)
Sales and maturities of available-for-sale investments	239,861	291,163	135,606	20,783
Purchases of other long-term investments	(9,891)	(6,322)	(4,467)	(685)
Proceeds from disposal of long-term investments	2,524	7,517	6,523	1,000
Disposal of subsidiaries' shares	5,581	(476)	(486)	(74)
Loans provided to related parties	(8,632)	—	—	—
Repayment of loans provided to related parties	12,270	24	917	140
Micro loan origination and disbursement (Note)	(35,824)	—	—	—
Principal payments received on micro loans (Note)	38,063	—	—	—
Purchases of other invested securities (Note)	(16,362)	—	—	—
Sales and maturities of other invested securities (Note)	24,949	—	—	—
Other investing activities	1	7	(12)	(2)
<b>Net cash used in investing activities</b>	<b>(34,460)</b>	<b>(19,974)</b>	<b>(27,552)</b>	<b>(4,223)</b>

BIDU stock analysis – cash flow statement

However, if I eliminate iQIYI, the picture looks much better and we are at 16 billion RMB or approximately \$2.5 billion USD for the Baidu core business.

**iQIYI, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020**  
**(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"))**

Note	Year ended December 31,			
	2018 RMB	2019 RMB	2020 RMB	2020 US\$
<b>Cash flows from operating activities:</b>				
<b>Net loss</b>	(9,061,231)	(10,276,739)	(7,007,153)	(1,073,892)
<b>Adjustments to reconcile net loss to net cash provided by operating activities</b>				
Depreciation of fixed assets	312,138	476,068	480,396	73,624
Amortization and impairment of intangible assets	346,672	972,760	317,579	48,671
Amortization and impairment of licensed copyrights	12,236,239	12,743,323	11,863,521	1,818,164
Amortization and impairment of produced content	2,265,543	2,977,181	4,534,116	694,883
Impairment of long-lived assets	—	—	143,534	21,998
Provision for credit losses	107,223	58,006	265,540	40,696
Unrealized foreign exchange loss/(gain)	940,479	155,079	(51,819)	(7,942)
Loss/(gain) on disposal of fixed assets	4,184	13,257	(20,991)	(3,217)
Accretion on convertible senior notes and asset-backed debt securities	24,544	379,916	501,033	76,787
Barter transaction revenue	(1,082,964)	(682,941)	(1,376,912)	(211,021)
Share-based compensation	556,211	1,084,520	1,370,095	209,976
Share of losses on equity method investments	16,965	155,073	224,489	34,404
Fair value change and impairment of long-term investments	(189,639)	162,350	33,928	5,200
Fair value change of assets and liabilities remeasured at fair value on a recurring basis	13,005	5,711	—	—
Interest and other investment income	—	(25,272)	49,622	7,605
Deferred income tax benefit	(45,086)	(77,312)	(41,979)	(6,434)
Amortization of deferred income	(5,346)	(12,446)	(14,969)	(2,294)
Other non-cash expenses/(income)	19,496	4,183	(67,750)	(10,384)
<b>Changes in operating assets and liabilities</b>				
Accounts receivable	(543,988)	(810,774)	8,841	1,355
Amounts due from related parties	(155,361)	45,717	144,423	22,134
Licensed copyrights	—	—	(10,527,700)	(1,613,441)
Produced content	(4,544,977)	(3,596,339)	(6,728,467)	(1,031,183)
Prepayments and other assets	(735,191)	(854,906)	1,166,105	178,713
Accounts payable	583,099	(654,987)	(605,394)	(92,781)
Amounts due to related parties	435,911	460,964	77,049	11,808
Customer advances and deferred revenue	466,961	880,844	429,510	65,825
Accrued expenses and other liabilities	817,530	132,551	(580,615)	(88,981)
Other non-current liabilities	101,769	190,440	2,897	444
<b>Net cash provided by/(used for) operating activities</b>	<b>2,884,186</b>	<b>3,906,227</b>	<b>(5,411,071)</b>	<b>(829,283)</b>
<b>Cash flows from investing activities:</b>				
Acquisition of fixed assets	(611,910)	(740,163)	(240,750)	(36,897)
Acquisition of intangible assets	(387,539)	(127,505)	(144,978)	(22,219)
Acquisition of licensed copyrights from related parties	(58,660)	(324,040)	—	—
Acquisition of licensed copyrights from third parties	(12,983,396)	(11,633,509)	—	—
Purchase of long-term investments	(883,375)	(706,149)	(1,050,810)	(161,044)
Proceeds from disposal of long-term investments	—	3,000	40,000	6,130
Acquisition of business, net of cash acquired	(1,018,002)	(5,798)	(5,798)	(889)
Film investments made as passive investor	(2,932)	(3,250)	—	—
Proceeds from film investments as passive investor	6,173	27,420	1,612	247

iQIYI cash flow statement – Source: [20-F](#)

You could say that \$2.6 billion is not much for a company that isn't growing fast, given that the market capitalization is \$77 billion and the price to cash flow is than 29.6. However, that is why we have to approach Baidu from a sum of parts valuation too.

Baidu sum of parts valuation

I will start with the market capitalization of \$77.8 billion. Deduct \$12 billion in cash and we are at \$65.8 billion.

There is 76 billion RMB in long-term investments that includes a 12% stake in CTRIP among other things. If we take 66% of book value of the long-term investments, we are at \$7.7 billion. Now at \$57.1 billion.



Then we have the unprofitable iQIYI business that Baidu was also [in some talks to divest](#). The market capitalization is \$13.3 billion where the 56.5% stake is worth \$7.5 billion. If Baidu divests its stake, perhaps it can get a premium as it is said it wants \$20 billion while buyers think it is worth \$20. Anyway, I am down to \$49.6.

The cloud business has revenues of 10 billion RMB and is growing at 44%. In the current market, a valuation of 10 times revenues might not be that crazy. In such a case, the cloud business would be valued at \$15 billion. Another possible value could be Apollo, the autonomous drive tech, as anything related to electric vehicles and robotaxis is crazily valued today and the autonomous drive leader in China should be worth something. Some say Tesla is worth zero while others think it is worth even more than the current market capitalization.

Nevertheless, I am going to use the above \$49.6 billion, compare it to the \$2.5 billion in FCF I got above for the search engine business, and I have a search engine with good cash flows in China trading at 20 times free cash flows and huge options for growth coming from Cloud, Autonomous and Robotaxis.

Plus, as the Chinese economy rebounds, we might see 12% growth in advertising revenues.

If I put a \$10 billion valuation for Apollo and \$15 billion for the cloud business, among other possibly very valuable items, the remaining price for Baidu's core business would be just \$23.6 billion.

BAIDU SUM OF PARTS (billion USD)	
iQIYI	<b>\$7.5</b>
INVESTMENTS CTRIP etc.	<b>\$7.7</b>
CASH	<b>\$12</b>
CLOUD	<b>\$15</b>
APOLLO	<b>\$10</b>
YY Live	<b>\$3.7</b>
Total	<b>\$54.2</b>
BAIDU remaining	<b>\$23.6</b>

If we take into account the above, you get a lot of things and \$23 billion for the current Baidu cash flow positive business is ridiculously low. The question is how will the market value the company, the listing prospectus clearly states not to expect dividends soon.

### Baidu stock valuation

To make a valuation, I will start by using the \$2.5 billion in FCF and attach a 7% growth rate which is pretty conservative given the expected Chinese economic growth rate on internal economy focus and the CIC report 12% market growth rate.

**Baidu**

STOCK VALUE LIST '1A1

Scenario	Measure	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate
Scenario 1 normal case	Measure	2.50										91.92	7%
	10%)		2.68	2.86	3.06	3.28	3.51	3.75	4.01	4.30	4.60	4.92	7%
	INTRINSIC VALUE											35.44	10%
													20.0
next 5 years													
5 to 10 years													
Discount rate													
Terminal multiple													
Scenario 2 best case	Measure	2.50										155.48	12%
	10%)		2.80	3.14	3.51	3.93	4.41	4.80	5.23	5.71	6.22	6.78	9%
	Present value sum											59.94	10%
													25.0
next 5 years													
5 to 10 years													
Discount rate													
Terminal multiple													
Scenario 3 worst case	Measure	2.50										37.50	0%
	10%)		2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	0%
	Present value sum											14.46	10%
													15.0
next 5 years													
5 to 10 years													
Discount rate													
Terminal multiple													

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.5	35.44	17.72
Scenario 2 (best case)	0.4	59.94	23.98
Scenario 3 (worst case)	0.1	14.46	1.45
<b>Sum</b>		<b>43.14</b>	

SVEN CARLIN  
RESEARCH PLATFORM

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

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EMPTY LIST (10) STOCK VALUE LIST PORTFOLIOS Portfolio Transactions MKT CAPS BIDU VZ VIV MTB ...

### Baidu stock valuation – Source: [Sven Carlin Research Platform](#)

If we assume 7% free cash flow growth onward and a 20 price to FCF ratio in 2030 for the terminal value, the fair valuation for a 10% required return is \$35 billion. If they reach 12% growth per year which is possible and in line with the market’s expected growth rate, the fair value would be \$60 billion. In the worst-case scenario of no growth with a 15 price to free cash flow ratio, the value would be just \$14.46 billion. The \$14 billion valuation is not that crazy. If we add the cash and attach some value to other businesses, the low of \$30 billion reached in March 2020 was not far.

With a 50% chance for a normal scenario, 40% for the best-case scenario and 10% for the worst-case scenario, my Baidu valuation gives me a fair value of \$43.14 billion for an expected return of 10%.

The question is how big is the potential of Cloud, iQIYI, YY Live, Apollo, Chips, Healthcare and Robotaxis worth. If the totally addressable market of 5.5 trillion RMB is even half correct, the value of Baidu’s other businesses could easily be more than \$100 billion in 2025, if not more.

We could say that Baidu’s fair value is \$43 billion. When we add \$12 billion of cash we are at \$55 billion and therefore if you invest in Baidu now, you pay \$23 billion for Cloud, iQIYI, YY Live, Apollo, Chips, Healthcare and Robotaxis.

### BIDU comparison to GOOG

Baidu's western counterpart would be Google (NASDAQ: GOOG). However, the comparison is not an easy one as Google's market capitalization is \$1.49 trillion while BIDU's is \$77.8 billion. GOOG's price to sales ratio is 8.59 while BIDU's is much lower at 4.47. Of course, GOOG has been growing constantly over the last years, year after year, but if BIDU manages to do the same, we could see a similar valuation especially as the Chinese digital customer becomes more valuable thanks to the focus on internal economy growth.

Alphabet Inc Class C

2.217,88 USD

+80,12 (3,75%) ↑

5 Apr, 12:12 GMT-4 · Disclaimer

NASDAQ: GOOG

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1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max



### BIDU vs GOOG stock comparison

iQIYI can also be compared to Netflix but that is again a crazy comparison in market capitalization terms but iQIYI has 100 million members while Netflix has 200 million.

### Baidu investment thesis & risks

If you think iQIYI is worth its market cap, cloud is worth 10x its current revenues and Apollo can be the dominant player in autonomous driving in China with a strong Robotaxi squad, then BIDU search engine business is maybe even irrelevant from an investing perspective and only there to take advantage of the huge opportunities through cash flows and data.

You can also see it as you are paying a 20 price to FCF ratio for the search engine and you get all the other businesses for free.

The key investment thesis is the portfolio exposure you get to China and to the future tech like cloud, autonomous driving and Robotaxies. If you wish to have such portfolio exposure with a margin of safety coming from a profitable business with a strong position, then BIDU could be your choice.

There are also many risks.

### BIDU stock investment risks



We have already mentioned how the stock can be badly looked at the market for many years and deliver negative returns for long periods. If the ‘cool’ business opportunities don’t lead to significant developments relatively fast, many momentum buyers might turn into sellers and put pressure on the stock. Even if ARK ETFs runs into liquidity issues, it might be forced to sell its large position in BIDU and add more pressure on the stock.

From a business perspective, there are several risks and the [HK listing prospectus](#) explains the risks for Baidu from page 40 to 112. If you are really interested in investing in BIDU, I strongly suggest you read those. Apart from normal businesses risks like competition from Tencent, Alibaba and others, currency, Chinese government involvements and others, here is a short summary of other interesting risks related to Baidu:

[Muddy Waters recently](#) issued a short seller report stating that YY Live is 90% fraudulent and most of the traffic is created by bots.

## MW is Short Joyy Inc. (YY US)

While trawling the sewers of the world’s capital markets over the past 10 years, irony has never been in short supply. And yet, nothing could prepare us for the surreality of Baidu announcing its intention to buy YY Live from JOYY, which happened just as we were preparing to reveal that our year-long investigation shows YY Live is about 90% fraudulent.

It was clear to us from early on that YY Live was almost entirely fake. YY Live is an ecosystem of mirages. Its supposedly high-earning performers in reality take home only a fraction of their reported totals. The purportedly independent channel owners are largely controlled by YY in order to facilitate continuous sham transactions. The legions of benefactor fans are almost entirely bots operating from YY’s internal network (~50% of YY Live gift volume), bots operating from external bot farms, and performers roundtripping gifts to themselves. We conclude that YY Live is ~90% fraudulent. YY’s international livestreaming business, Bigo, seems barely more real.

So, the question is: What will Baidu do? It’s no secret that Baidu is struggling to grow. But will Baidu really try to buy “growth” in the form of an almost completely fake business? And for \$3.6 billion cash, or seven percent of its market cap?! We have been arguing for the past 10 years that the rot in “China Inc.” is far greater than most investors either understand or admit. Many have called us overly cynical. Baidu / YY Live will be THE test of whether China Inc. is really just a few bad apples; or, whether the incessant cheating, lying, and indifference to U.S. law permeate the highest echelons of China’s public companies.

Muddy Waters calls YY a total scam

Similarly to Muddy Waters, [Wolfpack issued a report](#) that alleges iQIYI inflated its user numbers

**Report Date:** April 7, 2020  
**Company:** iQIYI, Inc.  
**Ticker:** IQ US  
**Industry:** Internet Media  
**Stock Price (USD):** \$16.76  
**Market Cap (USD, Millions):** \$12,295.9



### iQIYI: The Netflix of China? *Good Luckin*

#### Introduction

Our research shows us that iQIYI, Inc. ("IQ") was committing fraud well before its IPO in 2018 and has continued to do so ever since. Like so many other China-based companies who IPO with inflated numbers, IQ is unable to legitimately grow their business enough to true up their financial statements. We estimate IQ inflated its 2019 revenue by approximately RMB 8-13 billion, or 27%-44%.

IQ does this by overstating its user numbers by approximately 42%-60%. Then, IQ inflates its expenses, the prices it pays for content, other assets and acquisitions in order to burn off fake cash to hide the fraud from its auditor and investors.

iQIYI overstating its numbers

The SEC launched an investigation on the above and there have been other class-action law suits so it is still uncertain what will come out of the above.

A general risk for investing in Chinese companies is also the VIE (variable interest entity) structure through the Cayman Islands. By buying BIDU stock you buy the contractual agreement the Cayman company has with the company on mainland. For now there are no issues with such a structure, but given the environment regarding China and the US, you never know.

On listing issues, for now only Chinese government owned entities have been delisted and then transferred to OTC. We will see how the environment evolves over time.

#### BIDU portfolio situation

BIDU looks interesting from a large portfolio perspective to follow and perhaps even for a core portfolio perspective with a much larger margin of safety. As I have only 3 Chinese stocks in the large portfolio I'll add BIDU with an initial exposure of 1000 EUR. Then I will play on the volatility there longer term.

I am also playing a little bit on the margin call situation and exuberance I feel coming from many value investors alongside ARK investors. Let's see.

I have bought 5 stocks of BIDU for the large portfolio at \$222.17.

Product	Datum	Beurs	Uitvoeringsplaats	Actie	Aantal	Koers
Baidu Inc	05/04/2021 21:30:41	NDQ	CDED	Koop	5	\$222,71

The [portfolio looks the following now](#).

