

Baidu (9888 HK) is a Chinese international IT company providing Internet-related services, the main service being its search engine. It is rated 4th in global search engine markets with 1.06% share.

Company	BAIDU
Ticker	9888 HK
Sector	Internet
Capitalization, \$ million	75,940
EV, \$ million	65,147
Dividend yield	-
Entry level, HKD	205.40
Current price, HKD	213.0
Result	3.7%

Source: Bloomberg

Key investment attractiveness factors.

- 1) **Good performance in Q4 2020.** According to Q4 2020 results, the company increased its revenue by 4.8% year-on-year to \$4.6 billion. EBITDA grew by 11.1% to \$1.21 billion, while EBITDA margin YOY remained unchanged at 26.4%. Quarter-end results show 11.3% decrease in net profit down to \$966 million, whereas earnings per share declined by 10.2% to \$2.83. Despite the decline in net profit, we assess Baidu's performance as strong enough. Considering specific nature of this business, the main drivers here are revenue growth rates and operating margin.
- 2) **Current decline in quoted prices is a good opportunity to buy interesting equity cheaper.** Baidu's securities are quoted sensibly lower by equity markets due to sanctions-related statements from China and U.S. authorities, as well as the risk of company's equity delisting in the U.S. We assess the risk of delisting from U.S. markets as low; however, we chose rather to buy the equity at Hong Kong Stock Exchange where the risk of delisting is minimal according to our estimates.
- 3) **Substantial undervaluation with reference to multipliers.** In our view, Baidu's equity looks substantially undervalued as compared to market equivalents. Discount for P/S multiplier is around 74%, for EV/EBITDA — 86%, for P/E — 97%, and for P/FCF — 92%.

Risks. Any negative news concerning China and U.S. relations may put pressure on Baidu's equity prices.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	15,552	15,534	19,273	24%
Gross profit	6,452	7,532	9,500	26%
EBITDA	4,456	3,862	4,580	19%
Net profit	1,858	2,243	3,548	-
EPS	5.33	6.56	10.18	-
<i>Gross margin</i>	<i>41%</i>	<i>48%</i>	<i>49%</i>	<i>1%</i>
<i>EBITDA margin</i>	<i>29%</i>	<i>25%</i>	<i>24%</i>	<i>-1%</i>
<i>Net margin</i>	<i>12%</i>	<i>14%</i>	<i>18%</i>	<i>4%</i>
Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	10,560	12,653	12,653	0%
Cash	21,019	24,847	24,847	0%
Net debt	-10,459	-12,194	-12,194	0%
Net debt/EBITDA	-	-	-	-
Benchmarking against similar companies, 2021P*	Country	P/S	EV/EBITDA	P/E
ALPHABET	USA	7.5	15.4	26.1
ALIBABA	Luxembourg	5.7	17.6	22.0
NETEASE	Russia	5.3	20.7	25.8
NAVER	Russia	9.4	33.7	44.0
YANDEX	China	5.2	29.9	62.4
KAKAO	USA	8.0	41.2	73.0
Average		6.9	26.4	42.2
BAIDU	USA	3.9	14.2	21.4
<i>Discount/(premium)</i>		<i>74%</i>	<i>86%</i>	<i>97%</i>

*P – Projection

Source: Bloomberg

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