Company overview

Baidu ENCYCLOPEDIA

Baidu MAPS

Baidu EYE
"Our vision of the future of mobile and web search is 'box computing.'" In the future, for whatever device you use, when you turn on the device, it'll be on instantly, instead of waiting 20 seconds. In one second, you see a search box. It's not just search though, it's ubiquitous. It replaces the OS. It's the starting point of everything.
Uncontested leader in China
Recommendation

Current price: $218  Projected percentage return: 13%  Upside: $245
Market Cap.: $77.3 bil.  52-week range: $141 - $231  Downside: $200

*Source: Bloomberg*
Investment Thesis

1. Innovation and expansive R&D projects as growth catalysts

**Innovation**
- Mobile payments
- Largest Computer Brain

**R&D spending**

*Source: Bloomberg*

**Partnerships**
- BMW
- Seagate
2. “PC faster” - potential addition to revenue stream

![Baidu PC Faster screen capture]

<table>
<thead>
<tr>
<th>Users (mln)</th>
<th>Price ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$30</td>
</tr>
<tr>
<td>2.5 mln</td>
<td>75</td>
</tr>
<tr>
<td>5 mln</td>
<td>150</td>
</tr>
<tr>
<td>7.5 mln</td>
<td>225</td>
</tr>
<tr>
<td>10 mln</td>
<td>300</td>
</tr>
</tbody>
</table>

*Sources: SeekingAlpha*
Investment Thesis

3. Aggressive expansion into mobile, video and game advertising

*Source: ChinaInternetWatch*
Investment Thesis

4. High cash balances allow for new acquisitions

- **91 Wireless** - mobile app store
- **iQiy** - China’s most popular video service
- **Qunar** - analogous to TripAdvisor in Asia
# Valuation Ratios

<table>
<thead>
<tr>
<th>Company</th>
<th>Trailing PE</th>
<th>Forward PE</th>
<th>PEG</th>
<th>ROI</th>
<th>Net Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIDU</td>
<td>39.61</td>
<td>4.3</td>
<td>1</td>
<td>17.58</td>
<td>29.86%</td>
</tr>
<tr>
<td>GOOG</td>
<td>30.46</td>
<td>18.62</td>
<td>1.32</td>
<td>13.95</td>
<td>20.29%</td>
</tr>
<tr>
<td>QIHOO</td>
<td>62.78</td>
<td>17.78</td>
<td>0.67</td>
<td>10.97</td>
<td>15.05%</td>
</tr>
<tr>
<td>YHOO</td>
<td>35.14</td>
<td>31.77</td>
<td>3.11</td>
<td>N/A</td>
<td>26.53%</td>
</tr>
</tbody>
</table>

*Sources: Bloomberg, Yahoo Finance*
Financials

Investments in R&D and mobile strategy reflected in profit margin

*Source: Bloomberg*
Twice as much cash as total debt

*Source: Bloomberg*
Threats

- Slowdown in Chinese economy
- Expansion outside of China
- Government Action (stimulus leading to inflation, tax changes)
- Competitors (Qihoo 350)

*Source: ChinaInternetWatch*
Conclusion

Opportunities
- potential acquisitions
- new sources of revenue
- cutting edge research allows for innovation

Recommendation
Buy at: $218
Number of shares: 115
Potential gain: 13% ($3,172)
Questions?
Industry

China Smartphone User Growth

- **Users**
  - Scale: In millions
  - Data: '12, '13, '14e, '15e, '16e, '17e

- **Penetration rate**
  - Scale: % of China's population
  - Data: '12, '13, '14e, '15e, '16e, '17e
Capital expenditures increasing