Baidu's Stock Is on Sale. Should You Buy?

Description

Most stocks, no matter how well they perform, eventually hit a rough patch that can serve as an excellent entry point for opportunistic investors. That may be the situation **Baidu** (NASDAQ: BIDU) currently finds itself in.

Between the U.S.-China trade war and a decelerating economy, the internet tech giant has been feeling the pressure from multiple angles. As a result, Baidu's shares are down by about 50.7% from a year ago. Further, Baidu's valuation is down as well, trading at just 7.90 times past and 15.57 times future earnings.

With these facts and figures in mind, is now a good time to pull the trigger on a Baidu stock investment?

Declining revenue growth

Baidu's main source of revenue is ads. The company's ascent to its status as the top search engine in China was fueled by consistently strong revenue growth. For instance, between 2014 and 2018, the company's total revenues grew by 108%. But Baidu's revenue growth has been slowing down significantly in 2019. During its last reported quarter — Q2 2019 — Baidu's top line grew by a meager 1% year over year. Just as significant, its online marketing revenue decreased by 9%.

While these financial metrics were actually up sequentially, they still pale in comparison with growth rates that Baidu investors have gotten used to in recent years. It is also worth noting that this trend might persist. Baidu's core business will face strong competition from Chinese tech company ByteDance, which recently launched its own search engine. To be clear, Baidu still stands as the market leader in this category in China, but investors should prepare for weaker top-line growth for the foreseeable future. The search engine mogul expects its revenues to increase by no more than 1% (and perhaps to decrease by as much as 5%) during the third quarter.

Exploring other opportunities

Fortunately, Baidu has other avenues it can explore to help produce needed growth. One such opportunity is artificial intelligence (AI). While the AI revolution is still in its early stages, Baidu has the funds to get in on the act and beat most of its competitors in the Chinese market to the punch. The company has been spending a lot of R&D money on Apollo, its open-source autonomous vehicle technology platform, and other such forays into the AI segment. Despite the potential this venture possesses, it will be a while before Baidu can get a return on its investments.

Another opportunity Baidu can look to is **iQiyi** (which it owns a majority stake in). The online video platform holds a commanding share of the relevant market in China. iQiyi boasted just over 100 million subscribers during the second quarter, and about 99% of them are paying subscribers. That 100-million figure represents a 50% year-over-year increase. iQiyi also posted revenues of a little over $1 billion during the quarter, a 15% jump year over year.

In total, iQiyi accounted for about 27% of Baidu's revenues during Q2. As Baidu's core business encounters headwinds, the so-called "Chinese **Netflix**" could contribute even more to its top line.

Should you buy?

Once the tensions between the U.S. and China ease, Baidu's core business should show signs of life again. The problem is that no one knows when that will happen, and the company will have to contend with tougher competition from here on out. Also, although iQiyi will likely keep on growing substantially, the streaming company isn't profitable yet. Finally, Baidu's AI business may not make a material impact anytime soon.

Those willing to exercise patience may still see Baidu as an attractive option, but the near term looks rocky for the company.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:BIDU (Baidu, Inc.)
2. NASDAQ:IQ (iQIYI, Inc.)

Category

1. Investing
2. Tech Stocks

Tags

1. Syndicated

Date
2025/07/20
Date Created
2019/10/14
Author
prosper-junior-bakiny