



Baidu Bulls Build Positions as China Internet Strengthens

Ticker/Price: BIDU (\$170.50)

Analysis:

Baidu (BIDU) with another 1,625 May \$170 calls bought today up to \$8.45 and recent size buys in the June \$175 calls, May \$180 and \$190 calls, and June \$180 short puts. BIDU has seen the September \$175 calls with buyers recently as well. Shares have lagged peers in 2019 but looking to work out of a narrow bull wedge above \$175. BIDU has a high-volume node at \$190 and then room back to \$220 above with RSI strengthening back above 50 and MACD turning higher back above zero. Longer-term, shares pulled back to key support from 2015/2016 around \$160 and held. The \$57.3B company trades 13.97X earnings, 3.78X sales, and 2.77X cash with FY20 estimates looking for 30% EPS growth and 16% revenue growth. The company topped estimates last quarter with active marketing customers growing 15% and app-based DAUs up 24% Y/Y. BIDU has a lot of exposure to big, forward-looking trends like autonomous driving, big data, cloud and AI, the latter of which they've invested heavily in to improve Search, their voice assistance, and other areas. They also see a big runway into smart homes. Analysts have an average target for shares of \$245 with 14 buy ratings and 3 hold ratings. Susquehanna positive on 2/25 noting that while concerns exist about spending levels, the company is setting themselves up for a strong 2H and 2020 run. Their core business has shown resiliency despite macro issues and they are set to emerge as the dominant player in Search, owner of the top video assets in the country, and a market leader in AI. Short interest is 1.5% and down from around 2% in early 2019. Institutional ownership rose 13%.

Hawk Vision:



Trading Strategy: BIDU has been a laggard to JD/BABA/BZUN/MOMO but if it clears \$175 it could make a run. Shares look quite cheap on valuation considering the growth is still solid and its exposure to multiple positive secular growth trends.

Confidence Ranking: \$\$