



Baidu Large Call Buy Sees Upside Potential

Ticker/Price: BIDU (\$101)

Analysis:

Baidu (BIDU) with buyers active today for 12,500 September \$125 calls up to \$3.20 and follows buyers recently across the June options with call buys from the \$100 strike up to the \$140 calls. BIDU has also seen a lot of put sales since mid-February across multiple months with many underwater with the recent move lower. BIDU is consolidating in a narrow multi-week range under \$105, the new VPOC for 2020 as volume continues to grow, and a breakout targeting \$125 on a move higher. The 8- and 20-MA are just below and starting to turn higher, signs of short-term momentum. The \$34.3B company trades 11.2X earnings and 2.25X sales with limited debt. BIDU's balance sheet is strong and gives them a strong moat to withstand the macro uncertainty while they hold over \$60/share in cash which they have said they're willing to deploy on investments in tech and new verticals as appropriate. The company also likely comes out of the COVID-19 pullback in a relatively strong position given mobile internet usage stats in China have surged, up 20%+ from pre-crisis levels. BIDU is coming off a strong quarter with margins improving and DAU growth of 21%. They continue to lead in search with 30% growth in queries. Analysts have an average target for shares of \$146.50. Mizuho defending the company on 4-9 noting that recent government suspensions of content represent only a small percentage of their output and short calls on IQ are overblown. OpCo positive on 3-23 given mobile usage numbers in China and knowing the COVID-19 peaked in China in February. The firm also notes their ad business is showing greater resiliency than peers. Short interest is 0.9% and down from 3% in mid-2019. Hedge fund ownership rose 9.7% in Q4. Harding Levner a buyer of 1.45M shares while Point72 and Driehaus buyers of new positions.

Hawk Vision:



Hawk's Perspective: BIDU surprisingly has not moved much and though like the valuation and its positioning to withstand this crisis, JD/BABA have been much better growth names.

Confidence Ranking: \$\$