



Baidu (BIDU) 4Q16 Results: EPS Beats, Revenue Falls on Revamped Advertising Practices

	4Q16	4Q15	YoY Change
Revenues (RMB Bil.)	¥18.21	¥18.70	(2.6)%
Gross Margin	46.6%	56.4%	(980) bps
Operating Margin	12.0%	18.9%	(690) bps
Non-GAAP Diluted EPS (RMB)	¥13.23	¥7.61	73.9%

Source: Company reports/Fung Global Retail & Technology

- Baidu reported 4Q16 non-GAAP diluted EPS of ¥13.23, up 73.9% year over year, beating the consensus by 77.1%. Revenue was ¥18.21 billion, down 2.6% year over year and in line with consensus, as the company took measures to revamp its advertising practices to meet stringent requirements for vetting advertising customers.
- Baidu's gross merchandise value (GMV) totaled ¥18.1 billion (US\$2.6 billion) for 4Q16, an increase of 23% year over year. Mobile search monthly active users (MAU) and mobile maps MAUs for December 2016 were up 2% and 13% year over year, respectively.
- Management guides for 1Q17 revenue of ¥16.48–¥17.03 billion, an increase of 4.2%–7.6% year over year.

4Q16 Results

Baidu reported 4Q16 revenues of ¥18.21 billion, down 2.6% year over year and in line with consensus. Non-GAAP EPS was ¥13.23 for the quarter, beating guidance by 77.1%, primarily due to an adjustment for the net gain recognized from Baidu's exchange of Uber China shares with Didi in the quarter.

Online Marketing

Due to more stringent advertisement requirements for vetting customers, Baidu now serves fewer qualified customers. There were about 452,000 active online marketing customers in 4Q16, down 18.6% year over from 4Q15. Online marketing revenues for the quarter totaled ¥16.17 billion (US\$2.328 billion), accounting for 88% of total revenue, and representing an 8.2% decrease from 4Q15.

On the other hand, the quality and unit revenue of its current customers are higher than before. Revenue per online marketing customer for 4Q16 was approximately ¥35,400 (US\$5,099), a year-over-year increase of 14.2% from 4Q15.

Now that Baidu has largely completed its initiatives to raise the requirements for its advertising customers, it expects the negative impact of these measures to be behind it and is looking to 2017 to recover and grow.

Outlook

Management guides for revenue for 1Q17 of ¥16.48–¥17.03 billion, an increase of 4.2%–7.6% year over year.

Baidu is now at a transition stage in its core development strategy, with a new focus on artificial intelligence (AI). In 2017, the company says more investment will be made to capture the AI opportunity in China. Given the saturated search engine market, Baidu estimates the traditional core search business will grow by about 6% in 1Q17. Operating



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metrics such as mobile search MAU, mobile maps MAU, GMV and wallet user numbers will no longer be reported, due to the company's strategic shift to capture the opportunities in the new AI era.



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