


**Baidu (BIDU) 2Q17 Results: Strong Beat on Disciplined Cost Control**
**Figure 1. Baidu 2Q17 Key Metrics**

	2Q17	2Q16	YoY Change
Revenues (CNY Bil.)	¥20.87	¥18.26	14.3%
Gross Margin	49.5%	52.2%	(270) bps
Operating Margin	20.2%	15.7%	450 bps
Non-GAAP Diluted Earnings per ADS (CNY)	¥16.00	¥8.08	98.0%

Source: Company reports/FGRT

- Baidu reported 2Q17 non-GAAP diluted earnings per ADS of ¥16.00, up 98.0% year over year, to beat the consensus of ¥10.13. Revenues reached ¥20.9 billion, up 14.3% year over year and were broadly in-line with the consensus estimate.
- The solid EPS beat is mainly due to lower-than-expected operating expenses as well as a tax-rate reduction. The decrease in the effective tax rate was due to the preferential tax status that was granted to certain PRC subsidiaries in 2Q17.
- Management expects the top-line for 2Q17 to be in the ¥23.13–¥23.75 billion range, representing a year-over-year increase of 26.7%–30.1%. Management expects to use artificial intelligence (AI) as a fundamental driver to offset the slow growth in the core business.

Baidu reported 2Q17 revenues of ¥20.9 billion, a 14.3% year-over-year increase and broadly in-line with consensus. Non-GAAP diluted earnings per ADS was ¥16.00 in 2Q, beating the consensus estimate of ¥10.13, primarily driven by cost control in sales and marketing spend, as well as a tax-rate reduction.

#### 2Q17 Results Review

**Revenues:** Total revenues in 2Q17 were ¥20.9 billion, a 14.3% increase from 2Q16. Mobile revenues represented 72% of total revenues, up from 62% in 2Q16.

- **Online marketing revenues** for 2Q17 saw a rebound, increasing 5.6% year over year to ¥17.9 billion. Baidu had approximately 470,000 active **online marketing customers** in 2Q17, a decline of 20.9% from 2Q16.
- **Revenue per online marketing customer** for 1Q17 was approximately ¥37,500, up 32.0% year over year.

**Selling, general and administrative expenses** were ¥2.9 billion, a decrease of 30.1% from the corresponding period in 2016, primarily due to a decrease in promotional spending.

**Operating profit** increased by 46.9% year over year to reach ¥4.2 billion.

**Income tax expense** for the quarter was ¥564 million, compared to ¥793 million in 2Q16. The effective tax rate for the second quarter of 2017 was 11.3%, compared to 24.8% for 2Q16. The decrease in the effective tax rate was due to the preferential tax status that was granted to certain PRC subsidiaries in 2Q17.



## FLASH REPORT

Non-GAAP net income attributable to Baidu in 2Q17 was ¥5.6 billion, an increase of 98.4% year over year. Non-GAAP diluted earnings per ADS was ¥16.00, beating the consensus estimate of ¥10.13.

**Outlook and Strategy**

Baidu expects 3Q17 revenues to be in the ¥23.13–¥23.75 billion range, representing a year-over-year increase of 26.7%–30.1% and a quarter-over-quarter increase of 10.8%–13.8%.

The company is at a transition stage of its core development strategy, with a focus on AI. The company plans to use AI as a driver to elevate its current core business, specifically the core products of Mobile Baidu, search and feed. In parallel, Baidu will continue to build out the newer AI-enabled initiatives through an open platform and ecosystem approach to capture long-term economic opportunity.



# FLASH REPORT

---

**Deborah Weinswig, CPA**

Managing Director

FGRT

New York: 917.655.6790

Hong Kong: 852.6119.1779

China: 86.186.1420.3016

deborahweinswig@fung1937.com

**Simic Chan**

Senior Research Associate

---

**Hong Kong:**

2nd Floor, Hong Kong Spinners Industrial Building Phase 1&2

800 Cheung Sha Wan Road, Kowloon

Hong Kong

Tel: 852 2300 4406

**London:**

242–246 Marylebone Road

London, NW1 6JQ

United Kingdom

Tel: 44 (0)20 7616 8988

**New York:**

1359 Broadway, 18th Floor

New York, NY 10018

Tel: 646 839 7017

**[FungGlobalRetailTech.com](http://FungGlobalRetailTech.com)**