Sohu.com reports Q2 profits slump by 37%

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WU CHANGQING / FOR CHINA DAILY

Sohu.com Inc's booth at the China International Copyright Expo in Beijing in June.

Sohu.com Inc, a major Web portal in China, reported a 37.3 percent drop in profits as its growth on advertising sales slowed down while expenses in its online video services rose.

INTERNET

The slower growth of advertising reflects the effect of a weakening economic climate on companies that generate revenue from advertising , experts said.

Operating profit dropped to $43 million in the second quarter from $68.8 million in the same period last year, according to Sohu's financial report released on Monday. Its revenue rose 29 percent to $256 million.

"As China's economic growth continued to decelerate and we initiated some operational transitions in our online video business, revenues from brand advertising recorded only a low single-digit year-on-year increase," said Charles Zhang, company chairman and CEO, in a statement.

Sohu is spending more on licensed online video content and developing its search engine Sogou to attract users to fend off competition from rivals like Tencent Holdings Ltd and Sina Corp.

China's annual GDP growth slowed to 7.6 percent in the second quarter, registering the lowest growth rate since the second quarter of 2009.

This has led to a tightening of advertising spending, which further affected companies like Sohu, which got 65 percent of its revenues from advertising in the second quarter.

Sina Corp, one of the largest Internet portals in China, also saw its adverting business slow in the first quarter, with only 9 percent year-on-year growth. Sina CEO Charles Chao cited the slowing economic growth to be the main reason.

And the situation is not going to change in the short term, experts said.

"The whole advertising market is recovering very slowly," said Huang Shengmin, dean of the Advertising School at the Communication University of China.

Internet advertising expenditure increased by 25.9 percent in the first quarter, down from last year's 35.5 percent, according to domestic research company iResearch.

Other kinds of media have also felt the pinch.

China's advertising expenditure in traditional media, including newspapers, magazines, TV, radio and outdoor, increased only 1.4 percent in the first quarter, the lowest in nearly five years, according to a report released by CTR, a market information and research service provider.

"The time for improvement will be in the fourth quarter or next year," Huang said.

Qiu Lin, an Internet stock analyst at Guosen Securities in Hong Kong, agreed.

"There are no substantial signs of improvement of the advertising market in the second half," he said, citing his research on media companies. "The situation will remain in downturn for some time until more easing measures are released."

Baidu Inc, China's biggest search engine, reported a 70 percent growth in profits, reaching 2.77 billion yuan ($436 million), boosted by its robust advertising sales that more than offset its rising costs.

Huang, of the Communication University of China, said advertising on search engines, which is keyword-based, is closer to sales, while that on portals is more about improving brand recognition. Advertisers tend to cut advertising to the latter if they have to reduce spending.

Youku Inc, China's biggest online video company, also registered growth in its advertising business. Its net revenues were 387.4 million yuan in the second quarter, up 96 percent year-on-year, according to its financial report released on Monday.

The growth was because of the increased average spending per advertiser from 0.9 million yuan to 1.7 million yuan and the increased number of advertisers from 260 to 283, it said. However, the company had a net loss of 62.8 million yuan.

ANTA Sports expects weak demand in first quarter of 2013

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ANTA Sports Products Ltd, one of the largest sportswear makers in China, received at least 20 percent fewer orders from distributors in the first quarter of 2013 compared with a year ago, suggesting a continued bleak outlook for the sector despite its multi-million sponsorship of the Olympic Games and other sport activities.

RETAIL

"The (sportswear) industry is still facing great challenges, (and) the competition between retail stores is fierce," Lai Shixian, chief operating officer of ANTA, told a media briefing in Hong Kong on Monday after the company reported a 17 percent fall in its interim net profit.

ANTA's distributors and franchisees are being more conservative about placing orders as they also see difficulties in the industry, said Lai, adding that the company has lowered the average selling price by a single-digit percentage to help ease the pressure on its distributors. All of these factors contributed to a 20 to 30 percent plunge in the total value of the orders it received for the first quarter of 2013.

He said that it is still too early to say whether the industry has hit bottom, as retail stores still needed to clear inventories and the discounts they are offering are very aggressive.

ANTA's same store sales growth fell by a mid-single digit percentage in the first half, the company said.

"I think more (sports wear) retail stores will have to be closed before the industry gets better," said Lai, explaining that pressure is mounting for the distributors and franchises as costs increase and the retailer's profit margins are squeezed.

During the first half, the number of ANTA stores increased by 29 to 7,807, while the number of its Sports Lifestyle series stores decreased by 198 to 689. The company forecast at the beginning of this year that the number of its stores will increase to 8,000 by the end of 2012, but now, Lai expects the number of stores to only "remain stable".

Despite the challenges and uncertainties facing the industry, ANTA did not cut its budget on advertising and promotion, and instead introduced a series of advertising campaigns recently in relation to the ongoing London Olympics.

While refusing to disclose the specific sponsorship amount for the London Olympics at the press conference, Lai said that the sponsorship is crucial for its brand building.

Dickie Wong, director of Kingston Securities Research, also said the sponsorship should benefit the company, as the Olympics is a good event for ANTA to present its logo to audiences from all over the world.

"But it is very hard to say the sponsorship will single-handedly boost its sales in the short term," said Wong.

He also sees challenges in the sportswear industry, due to a high inventory level as well as prolonged account receivable days.

But Wong pointed out that although the industry is facing difficulties, ANTA is better positioned than its rival Li Ning Co Ltd, which won the CBA sponsorship contract after ANTA's 5-year contract expired.

Wong said that Li Ning is now suffering from the consequences of its over-expansion in the past and it has to spend a lot on repurchasing its inventories.

Li Ning issued a profit warning in June, saying its net profit for the year is expected to see a rather substantial decline compared with its results in 2011, mainly due to intensified competition within the sporting-goods industry, increased discount promotions and strong inventory clearance pressure at the retail level.

ANTA said on Monday that for the first half of 2012, the company's profit attributable to shareholders dropped 17 percent to 769.6 million yuan ($120.6 million) from a year ago, beating the market consensus. The company declared an interim dividend of HK$0.23 per share.

Shares of ANTA jumped 17 percent to close at HK$4.85 in Hong Kong on Monday due to its better-than-expected results.