

iQIYI (IQ US)

Short-term headwind continues

iQiyi announced 2Q24 results: total revenue decreased by 5% YoY to RMB7.4bn, in line with our/consensus estimate; non-GAAP operating income was down by 36% YoY to RMB501mn (in line with our/consensus estimate), due to the intense competition in the long-form video sector. For 3Q24E, we expect membership and ads revenue growth will remain under pressure, and it will take time for the improved content performance to be reflected on the company's financials. Therefore, we forecast total revenue to decline by 9% YoY to RMB7.3bn, and non-GAAP operating profit to drop by 63% YoY to RMB335mn in 3Q24E. Given the intense competition and fluctuations in content performance, we lower FY24-26E non-GAAP net income forecast to RMB1.7/2.5/2.9bn (previous: RMB2.8/3.3/4.0bn). Our target price is US\$5.00 based on 16x 3Q24-2Q25E non-GAAP EPS (previous: US\$6.40 on 16x FY24E non-GAAP EPS). Maintain BUY.

- **Membership & online advertising business under pressure in 2Q24.** Membership services revenue declined by 9% YoY to RMB4.5bn in 2Q24, mainly due to underperformance of certain drama series and intense competition. Online ad revenue decreased by 2% YoY in 2Q24, as fewer variety shows led to a decline in brand ad revenue, while performance-based ad revenue maintained YoY growth. Content distribution/other revenue was up by 2% YoY and 16% YoY respectively in 2Q24.
- **Expect short-term headwind to sustain in 3Q24E.** We estimate total revenue to decline by 9% YoY to RMB7.3bn in 3Q24E, with membership services and online ad service revenue down by 13% and 17% YoY respectively. *Strange Tales of Tang Dynasty 2* achieved strong performance and boosted iQiyi market share in July. However, it will take time for its solid performance to be recognized and reflected in membership revenue growth. Looking ahead, iQiyi plans to enrich content supply targeting the female audience, with a highly-anticipated pipeline including *Go East*, *A Moment But Forever*, *Love Song in Winter*, and *Snowy Night Timeless Love* etc.
- **Margin under pressure due to operating deleverage.** iQiyi gross margin dropped by 2.3ppt YoY to 23.7% in 2Q24, as the decline in revenue led to operating deleverage. Non-GAAP operating margin declined by 3.4ppt YoY to 6.7% in 2Q24. We expect content costs to remain largely stable QoQ in 3Q24E, as iQiyi will invest in content to maintain market share. As a result, we expect margin will remain under pressure, and GPM/non-GAAP OPM will decline to 21.7/4.6% in 3Q24E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	30,277	32,518	34,345
YoY growth (%)	(5.1)	9.9	(5.0)	7.4	5.6
Gross margin (%)	23.0	27.5	25.1	27.3	28.1
Adjusted net profit (RMB mn)	1,284.0	2,838.3	1,683.4	2,468.4	2,872.0
YoY growth (%)	na	121.0	(40.7)	46.6	16.4
EPS (Adjusted) (RMB)	1.52	2.98	1.73	2.49	2.84
Consensus EPS (RMB)	1.52	2.98	2.71	3.50	3.81
P/S (x)	0.6	0.6	0.6	0.5	0.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$5.00
(Previous TP)	US\$6.40
Up/Downside	92.3%
Current Price	US\$2.60

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Stock Data

Mkt Cap (US\$ mn)	2,495.1
Avg 3 mths t/o (US\$ mn)	9.1
52w High/Low (US\$)	5.79/2.60
Total Issued Shares (mn)	959.7

Source: FactSet

Shareholding Structure

Baidu	45.4%
PAG	11.9%

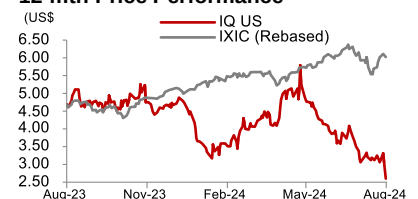
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-17.7%	-16.0%
3-mth	-45.5%	-48.2%
6-mth	-25.9%	-32.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: iQiyi: forecast revision

RMBbn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30.3	32.5	34.3	31.0	33.1	35.4	-2.5%	-1.9%	-3.0%
Gross Profit	7.6	8.9	9.6	8.8	9.9	11.1	-13.4%	-10.9%	-13.2%
Operating Profit	2.1	3.1	3.6	3.2	4.1	5.0	-34.9%	-25.8%	-27.7%
Non-GAAP net profit	1.7	2.5	2.9	2.8	3.3	4.0	-40.4%	-26.3%	-27.9%
Non-GAAP EPS (RMB)	1.7	2.5	2.8	2.9	3.4	3.9	-40.4%	-26.3%	-27.9%
Gross Margin	25.1%	27.3%	28.1%	28.2%	30.0%	31.4%	-3.2 ppt	-2.8 ppt	-3.3 ppt
Operating Margin	6.9%	9.5%	10.6%	10.4%	12.5%	14.1%	-3.5 ppt	-3.1 ppt	-3.6 ppt
Non-GAAP net margin	5.6%	7.6%	8.4%	9.1%	10.1%	11.2%	-3.5 ppt	-2.5 ppt	-2.9 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

RMBbn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30.3	32.5	34.3	31.9	33.7	35.6	-5.2%	-3.6%	-3.6%
Gross Profit	7.6	8.9	9.6	9.0	9.9	10.7	-15.4%	-10.8%	-9.5%
Operating Profit	2.1	3.1	3.6	3.4	4.1	4.5	-38.1%	-25.7%	-20.1%
Non-GAAP net profit	1.7	2.5	2.9	2.6	3.3	3.7	-34.1%	-24.7%	-22.0%
Non-GAAP EPS (RMB)	1.7	2.5	2.8	2.7	3.5	3.8	-36.1%	-28.9%	-25.5%
Gross Margin	25.1%	27.3%	28.1%	28.1%	29.5%	29.9%	-3.0 ppt	-2.2 ppt	-1.8 ppt
Operating Margin	6.9%	9.5%	10.6%	10.6%	12.3%	12.7%	-3.7 ppt	-2.8 ppt	-2.2 ppt
Non-GAAP net margin	5.6%	7.6%	8.4%	8.0%	9.7%	10.3%	-2.4 ppt	-2.1 ppt	-2.0 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$5.00 per share based on 16x 3Q24-2Q25E non-GAAP EPS. Our target PE multiple is at a discount to the sector average (23x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	2024E
3Q24-2Q25E Non-GAAP EPADS (RMB)	2.26
Target PE	16.0
Target Price (CNY)	36.17
Target Price (US\$)	5.00

Source: Company data, CMBIGM estimates

Figure 4: Global streaming platforms

Companies	Ticker	Price (LC)	PE(x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Netflix Inc	NFLX US	689.0	35.8	30.0	25.0	7.6	6.8	6.1	31%
Disney	DIS US	89.9	18.2	17.4	15.5	1.8	1.7	1.6	17%
Spotify	SPOT US	342.2	NA	38.3	30.0	4.0	3.4	3.1	NA
TME	TME US	10.3	16.1	13.8	12.0	4.4	4.0	3.7	19%
Average			23.4	24.9	20.6	4.5	4.0	3.6	

Source: Bloomberg, CMBIGM

Note: data as of 22 Aug

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	30,277	32,518	34,345
Cost of goods sold	(27,513)	(22,319)	(23,102)	(22,691)	(23,652)	(24,708)
Gross profit	3,041	6,678	8,770	7,585	8,866	9,636
Operating expenses	(7,520)	(5,366)	(5,781)	(5,482)	(5,791)	(6,013)
SG&A expense	(4,725)	(3,467)	(4,014)	(3,744)	(3,988)	(4,178)
R&D expense	(2,795)	(1,899)	(1,767)	(1,739)	(1,802)	(1,835)
Operating profit	(4,479)	1,312	2,989	2,103	3,075	3,624
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	54	54	54
EBIT	(4,926)	1,099	2,938	2,157	3,129	3,678
Interest income	119	70	257	257	257	257
Interest expense	(1,350)	(715)	(1,130)	(1,139)	(1,124)	(1,124)
Foreign exchange gain/loss	55	(168)	(105)	0	0	0
Other income/expense	90	(319)	73	(79)	0	0
Pre-tax profit	(6,012)	(34)	2,033	1,196	2,263	2,811
Income tax	(97)	(84)	(80)	(160)	(385)	(562)
After tax profit	(6,109)	(118)	1,953	1,036	1,878	2,249
Minority interest	61	18	27	0	0	0
Net profit	(6,170)	(136)	1,925	1,036	1,878	2,249
Adjusted net profit	(4,487)	1,284	2,838	1,683	2,468	2,872
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	12,635	26,824	29,340	31,853
Cash & equivalents	2,997	7,098	4,435	17,977	20,123	22,306
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,088	2,154	2,181
Prepayment	3,267	2,603	2,794	2,654	2,851	3,011
Other current assets	2,435	1,668	3,231	4,098	4,206	4,350
Non-current assets	30,948	32,263	31,959	22,365	23,103	24,239
PP&E	1,345	1,105	864	1,369	1,422	1,483
Right-of-use assets	907	674	684	684	684	684
Deferred income tax	31	0	0	0	0	0
Investment in JVs & assos	3,035	2,454	2,261	2,261	2,261	2,261
Intangibles	545	437	310	1,017	1,187	1,367
Goodwill	3,888	3,826	3,821	3,276	3,276	3,276
Other non-current assets	21,196	23,768	24,020	13,757	14,274	15,168
Total assets	42,472	46,048	44,594	49,189	52,443	56,092
Current liabilities	22,476	28,130	22,342	22,056	22,848	23,630
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,728	5,971	6,238
Other current liabilities	6,119	16,059	10,129	9,858	10,288	10,674
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,798	2,916	3,046
Non-current liabilities	14,323	11,575	10,068	10,068	10,068	10,068
Long-term borrowings	0	0	98	98	98	98
Convertible bonds	12,652	9,568	8,144	8,144	8,144	8,144
Other non-current liabilities	1,670	2,007	1,826	1,826	1,826	1,826
Total liabilities	36,799	39,705	32,409	32,124	32,916	33,698
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,672	59,258	59,876
Retained earnings	(47,164)	(46,499)	(44,573)	(44,249)	(42,371)	(40,123)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
Total shareholders equity	5,585	6,251	12,087	16,967	19,430	22,297
Minority interest	88	93	98	98	98	98
Total equity and liabilities	42,473	46,049	44,595	49,189	52,444	56,093

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	1,196	2,263	2,811
Depreciation & amortization	16,766	13,655	14,091	5,953	5,508	5,468
Tax paid	(97)	(84)	(80)	(160)	(385)	(562)
Change in working capital	(17,586)	(14,493)	(13,358)	9,547	(1,136)	(1,226)
Others	977	885	666	1,120	585	618
Net cash from operations	(5,952)	(71)	3,352	17,656	6,835	7,108
Investing						
Capital expenditure	(401)	(270)	(105)	(457)	(491)	(519)
Others	1,663	536	(1,635)	(4,497)	(4,197)	(4,407)
Net cash from investing	1,262	266	(1,740)	(4,954)	(4,688)	(4,926)
Financing						
Net borrowings	5,069	7,726	9,049	0	0	0
Others	(8,029)	(3,257)	(13,334)	0	0	0
Net cash from financing	(2,959)	4,469	(4,285)	0	0	0
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,862	5,281	17,983	20,129
Exchange difference	(217)	122	92	0	0	0
Cash at the end of the year	3,075	7,862	5,281	17,983	20,129	22,312
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	(5.0%)	7.4%	5.6%
Gross profit	66.8%	119.6%	31.3%	(13.5%)	16.9%	8.7%
Operating profit	na	na	127.8%	(29.7%)	46.2%	17.8%
EBIT	na	na	167.4%	(26.6%)	45.1%	17.5%
Net profit	na	na	na	(46.2%)	81.2%	19.7%
Adj. net profit	na	na	121.0%	(40.7%)	46.6%	16.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	25.1%	27.3%	28.1%
Operating margin	(14.7%)	4.5%	9.4%	6.9%	9.5%	10.6%
Adj. net profit margin	(14.7%)	4.4%	8.9%	5.6%	7.6%	8.4%
Return on equity (ROE)	(82.5%)	(2.3%)	21.0%	7.1%	10.3%	10.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	(0.6)	(0.1)	(0.8)	(0.8)	(0.8)
Current ratio (x)	0.5	0.5	0.6	1.2	1.3	1.3
Receivable turnover days	32.8	30.2	24.8	25.2	24.2	23.2
Payable turnover days	118.0	98.0	89.6	92.1	92.1	92.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	9.2	17.4	9.8	8.4
P/E (diluted)	ns	ns	9.4	17.8	10.0	8.5
P/B	2.6	2.5	1.5	1.1	0.9	0.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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