

iQIYI (IQ US)

Inline 1Q26 results; solid progress on new growth engines

iQiyi reported 1Q26 results: total revenue declined by 13% YoY and 8% QoQ to RMB6.23bn, in line with Bloomberg consensus and our estimate; non-GAAP net loss was RMB234mn, down from net income of RMB308mn in 1Q25 due to operating deleverage, in line with consensus/our estimate. Looking into 2Q26E, we expect total revenue to recover by 2% QoQ to RMB6.35bn, primarily driven by the sequential growth of online advertising and content distribution revenue. We slightly trim our FY26-FY28 total revenue forecast by 1-2% in view of the relatively slow recovery of membership business. We lower our target price to US\$1.58 based on 0.40x FY26E PS (previously US\$1.80 based on 0.45x FY26E PS). That said, we expect its business fundamentals and valuation to gradually recover, as its new growth initiatives bear fruit in mid-to-long term (e.g. AI, overseas and IP-related businesses). Maintain BUY.

- Expect QoQ revenue recovery in 2Q26E.** By segment in 1Q26: 1) membership services revenue declined by 5% YoY, but grew by 2% QoQ to RMB4.20bn primarily thanks to strong viewership performance of *Pursuit of Jade* (逐玉) and *How Dare You* (成何体统); 2) online advertising revenue decreased by 7% YoY and 8% QoQ to RMB1.24bn, mainly due to seasonality and lack of popular variety shows; 3) content distribution revenue dropped by 43% YoY and 54% QoQ to RMB359mn, as iQiyi adjusted its content distribution strategy with less content distributed to other channels; 4) others revenue declined by 49% YoY and 22% QoQ to RMB427mn. For 2Q26E, we estimate total revenue to decrease by 4% YoY but recover by 2% QoQ to RMB6.35bn, with membership/online advertising revenue down by 0%/2% YoY respectively.
- Solid progress on new growth engines.** iQiyi continued to make progress on new growth initiatives. 1) Overseas membership revenue was up by over 40% YoY in 1Q26, supported by iQiyi's differentiated offerings of premium Asian content. The company also expanded into new markets like the Middle East and Latin America, in addition to Southeast Asia. 2) IP-based consumer products delivered solid performance in 1Q26, driven by the strong sales of collectible cards of hit titles like *Pursuit of Jade*. 3) NaDou Pro, iQiyi's AI-powered content production platform, has attracted over 10,000 active creators since its launch in Apr. The platform saw rapidly growing token consumption, which can create monetization opportunities in the long term, in our view.
- Leveraging AI to improve efficiency.** iQiyi gross margin declined by 8.8ppt YoY and 4.9ppt QoQ to 15.9% in 1Q26, mainly due to content investment and operating deleverage. Non-GAAP operating margin also dropped by 8.8ppt YoY to -2.4% in 1Q26. The company leveraged AI to improve its own content production efficiency, launching over 3,000 AI-generated micro dramas in 1Q26. Besides, we expect the enhanced content production and review efficiency to gradually improve iQiyi's profitability and cash flow generation.

Earnings Summary

| (YE 31 Dec) | FY24A | FY25A | FY26E | FY27E | FY28E |
|------------------------------|---------|--------|--------|--------|---------|
| Revenue (RMB mn) | 29,225 | 27,291 | 25,891 | 26,669 | 27,714 |
| Adjusted net profit (RMB mn) | 1,512.2 | 280.6 | (38.1) | 777.8 | 1,240.7 |
| EPS (Adjusted) (RMB) | 1.57 | 0.29 | (0.04) | 0.81 | 1.29 |
| Consensus EPS (RMB) | 1.57 | 0.29 | 0.28 | 0.78 | 1.43 |
| P/S (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | US\$1.58 |
| (Previous TP) | US\$1.80 |
| Up/Downside | 39.8% |
| Current Price | US\$1.13 |

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 1,090.7 |
| Avg 3 mths t/o (US\$ mn) | 6.9 |
| 52w High/Low (US\$) | 2.79/1.11 |
| Total Issued Shares (mn) | 965.2 |

Source: FactSet

Shareholding Structure

| | |
|-------|-------|
| Baidu | 45.1% |
| PAG | 12.2% |

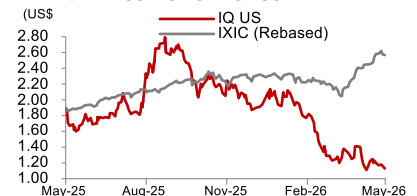
Source: Company data

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -19.9% | -24.8% |
| 3-mth | -36.2% | -44.5% |
| 6-mth | -49.6% | -56.4% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: iQiyi: forecast revision

| RMBbn | Current | | | Previous | | | Change (%) | | |
|---------------------|---------|-------|-------|----------|-------|-------|------------|----------|----------|
| | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E |
| Revenue | 25.9 | 26.7 | 27.7 | 26.2 | 27.2 | 28.3 | -1.4% | -2.1% | -2.1% |
| Gross profit | 4.8 | 5.7 | 6.3 | 5.3 | 6.0 | 6.5 | -8.3% | -5.6% | -2.9% |
| Operating profit | 0.1 | 0.9 | 1.5 | 0.3 | 1.0 | 1.4 | -63.4% | -6.4% | 2.7% |
| Non-GAAP net profit | (0.0) | 0.8 | 1.2 | 0.2 | 0.9 | 1.2 | NA | -8.7% | -0.3% |
| Non-GAAP EPS (RMB) | (0.0) | 0.8 | 1.3 | 0.2 | 0.9 | 1.3 | NA | -8.8% | -0.4% |
| Gross margin | 18.6% | 21.3% | 22.9% | 20.1% | 22.2% | 23.1% | -1.4 ppt | -0.8 ppt | -0.2 ppt |
| Operating margin | 0.4% | 3.4% | 5.3% | 1.2% | 3.6% | 5.0% | -0.8 ppt | -0.2 ppt | 0.2 ppt |
| Non-GAAP net margin | -0.1% | 2.9% | 4.5% | 0.8% | 3.1% | 4.4% | -1.0 ppt | -0.2 ppt | 0.1 ppt |

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

| RMBbn | CMBIGM | | | Consensus | | | Diff (%) | | |
|---------------------|--------|-------|-------|-----------|-------|-------|----------|----------|----------|
| | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E | FY26E | FY27E | FY28E |
| Revenue | 25.9 | 26.7 | 27.7 | 26.2 | 27.2 | 28.4 | -1.2% | -2.1% | -2.4% |
| Gross profit | 4.8 | 5.7 | 6.3 | 5.4 | 6.1 | 6.7 | -11.0% | -6.3% | -5.7% |
| Operating profit | 0.1 | 0.9 | 1.5 | 0.3 | 0.8 | 1.4 | -60.3% | 8.7% | 2.2% |
| Non-GAAP net profit | (0.0) | 0.8 | 1.2 | 0.3 | 0.8 | 1.3 | NA | -5.8% | -4.0% |
| Non-GAAP EPS (RMB) | (0.0) | 0.8 | 1.3 | 0.3 | 0.8 | 1.4 | NA | 3.3% | -9.8% |
| Gross margin | 18.6% | 21.3% | 22.9% | 20.7% | 22.3% | 23.7% | -2.1 ppt | -1.0 ppt | -0.8 ppt |
| Operating margin | 0.4% | 3.4% | 5.3% | 1.1% | 3.1% | 5.0% | -0.7 ppt | 0.3 ppt | 0.2 ppt |
| Non-GAAP net margin | -0.1% | 2.9% | 4.5% | 1.0% | 3.0% | 4.6% | -1.2 ppt | -0.1 ppt | -0.1 ppt |

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$1.58 per share, based on 0.4x FY26E PS. Our target PS multiple is at a discount to the sector average (4x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

| P/S valuation | |
|---------------------------|-------|
| 2026E Sales per ADS (CNY) | 26.8 |
| Target 2026E PS (x) | 0.40 |
| Target Price (CNY) | 10.73 |
| Target Price (US\$) | 1.58 |

Source: Company data, CMBIGM estimates

Note: CNY/USD = 6.8

Figure 4: Global streaming platforms

| Companies | Ticker | Price (LC) | PE (x) | | PS (x) | | EPS CAGR 25-27E |
|----------------|---------|------------|-------------|-------------|------------|------------|-----------------|
| | | | 2026E | 2027E | 2026E | 2027E | |
| Netflix Inc | NFLX US | 87.0 | 24.6 | 22.6 | 7.1 | 6.4 | 13% |
| Disney | DIS US | 102.7 | 15.1 | 13.8 | 1.7 | 1.7 | 6% |
| Spotify | SPOT US | 436.9 | 29.1 | 23.8 | 4.0 | 3.5 | 13% |
| TME | TME US | 8.5 | 8.9 | 8.1 | 2.5 | 2.3 | 10% |
| Average | | | 19.4 | 17.1 | 3.8 | 3.5 | |

Source: Bloomberg, CMBIGM

Note: data as of 15 May

Financial Summary

| INCOME STATEMENT | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 32,018 | 29,225 | 27,291 | 25,891 | 26,669 | 27,714 |
| Cost of goods sold | (23,102) | (21,954) | (21,542) | (21,063) | (20,977) | (21,374) |
| Gross profit | 8,916 | 7,272 | 5,749 | 4,828 | 5,692 | 6,340 |
| Operating expenses | (5,781) | (5,460) | (5,520) | (4,712) | (4,774) | (4,878) |
| SG&A expense | (4,014) | (3,682) | (3,857) | (3,188) | (3,231) | (3,274) |
| R&D expense | (1,767) | (1,778) | (1,663) | (1,524) | (1,543) | (1,603) |
| Operating profit | 3,135 | 1,811 | 229 | 116 | 918 | 1,463 |
| Share of (losses)/profits of associates/JV | (51) | 18 | (4) | (4) | (4) | (4) |
| EBIT | 3,084 | 1,829 | 225 | 112 | 914 | 1,458 |
| Interest income | 257 | 272 | 334 | 334 | 334 | 334 |
| Interest expense | (1,130) | (1,062) | (910) | (793) | (764) | (764) |
| Foreign exchange gain/loss | (105) | (97) | 246 | 0 | 0 | 0 |
| Other income/expense | 73 | (90) | 45 | 0 | 0 | 0 |
| Pre-tax profit | 2,178 | 852 | (60) | (347) | 484 | 1,029 |
| Income tax | (80) | (61) | (145) | (26) | (73) | (154) |
| After tax profit | 2,098 | 791 | (204) | (373) | 412 | 874 |
| Minority interest | 27 | 27 | 2 | 1 | 0 | 0 |
| Net profit | 2,071 | 764 | (206) | (374) | 412 | 874 |
| Adjusted net profit | 2,984 | 1,512 | 281 | (38) | 778 | 1,241 |
| BALANCE SHEET | | | | | | |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 12,635 | 9,527 | 10,290 | 11,224 | 12,184 | 13,471 |
| Cash & equivalents | 4,435 | 3,530 | 4,354 | 4,582 | 5,374 | 6,443 |
| Restricted cash | 6 | 0 | 23 | 23 | 23 | 23 |
| Account receivables | 2,169 | 2,191 | 2,523 | 2,165 | 2,157 | 2,166 |
| Prepayment | 2,794 | 2,193 | 2,406 | 2,283 | 2,351 | 2,444 |
| Other current assets | 3,231 | 1,613 | 984 | 2,171 | 2,279 | 2,396 |
| Non-current assets | 31,959 | 36,233 | 36,391 | 39,989 | 39,868 | 40,213 |
| PP&E | 864 | 878 | 903 | 1,393 | 1,413 | 1,445 |
| Right-of-use assets | 684 | 610 | 490 | 490 | 490 | 490 |
| Deferred income tax | 0 | 24 | 21 | 21 | 21 | 21 |
| Investment in JVs & assos | 2,261 | 2,108 | 1,773 | 1,773 | 1,773 | 1,773 |
| Intangibles | 310 | 290 | 217 | 1,268 | 1,396 | 1,532 |
| Goodwill | 3,821 | 3,821 | 3,821 | 3,276 | 3,276 | 3,276 |
| Other non-current assets | 24,020 | 28,503 | 29,166 | 31,769 | 31,499 | 31,676 |
| Total assets | 44,594 | 45,761 | 46,682 | 51,213 | 52,052 | 53,685 |
| Current liabilities | 22,342 | 21,477 | 22,067 | 21,374 | 21,441 | 21,839 |
| Short-term borrowings | 3,572 | 3,787 | 2,493 | 2,493 | 2,493 | 2,493 |
| Account payables | 5,671 | 6,482 | 6,652 | 6,421 | 6,395 | 6,516 |
| Other current liabilities | 10,129 | 8,053 | 10,075 | 9,779 | 9,883 | 10,111 |
| Lease liabilities | 101 | 97 | 84 | 84 | 84 | 84 |
| Accrued expenses | 2,869 | 3,058 | 2,762 | 2,597 | 2,586 | 2,635 |
| Non-current liabilities | 10,068 | 10,909 | 11,306 | 11,306 | 11,306 | 11,306 |
| Long-term borrowings | 98 | 1,037 | 3,369 | 3,369 | 3,369 | 3,369 |
| Convertible bonds | 8,144 | 8,351 | 6,712 | 6,712 | 6,712 | 6,712 |
| Other non-current liabilities | 1,826 | 1,522 | 1,225 | 1,225 | 1,225 | 1,225 |
| Total liabilities | 32,409 | 32,387 | 33,373 | 32,680 | 32,747 | 33,145 |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital surplus | 54,971 | 55,624 | 56,026 | 60,895 | 61,255 | 61,615 |
| Retained earnings | (44,573) | (43,809) | (44,016) | (44,896) | (44,485) | (43,610) |
| Other reserves | 1,688 | 1,551 | 1,306 | 2,543 | 2,543 | 2,543 |
| Total shareholders equity | 12,087 | 13,365 | 13,316 | 18,541 | 19,313 | 20,548 |
| Minority interest | 98 | 8 | (8) | (8) | (8) | (8) |
| Total equity and liabilities | 44,594 | 45,761 | 46,682 | 51,213 | 52,052 | 53,685 |

| CASH FLOW | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|-------------------------------------|----------------|----------------|--------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 2,178 | 852 | (60) | (347) | 484 | 1,029 |
| Depreciation & amortization | 14,091 | 13,625 | 13,264 | 17,532 | 16,636 | 15,945 |
| Tax paid | (80) | (61) | (145) | (26) | (73) | (154) |
| Change in working capital | (13,358) | (12,359) | (13,053) | (13,645) | (12,479) | (11,902) |
| Others | 666 | 53 | 99 | 894 | 360 | 360 |
| Net cash from operations | 3,497 | 2,110 | 106 | 4,408 | 4,929 | 5,278 |
| Investing | | | | | | |
| Capital expenditure | (105) | (173) | (125) | (391) | (403) | (419) |
| Others | (1,635) | (2,272) | (203) | (3,791) | (3,734) | (3,790) |
| Net cash from investing | (1,740) | (2,445) | (327) | (4,182) | (4,137) | (4,209) |
| Financing | | | | | | |
| Net borrowings | 9,049 | 4,953 | 5,077 | 0 | 0 | 0 |
| Others | (13,334) | (6,323) | (4,013) | 1 | 0 | 0 |
| Net cash from financing | (4,285) | (1,370) | 1,064 | 1 | 0 | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 7,098 | 4,435 | 3,530 | 4,354 | 4,582 | 5,374 |
| Exchange difference | 92 | 15 | (55) | 0 | 0 | 0 |
| Others | (228) | 785 | 37 | 0 | 0 | 0 |
| Cash at the end of the year | 4,435 | 3,530 | 4,354 | 4,582 | 5,374 | 6,443 |
| GROWTH | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
| YE 31 Dec | | | | | | |
| Revenue | 10.4% | (8.7%) | (6.6%) | (5.1%) | 3.0% | 3.9% |
| Gross profit | 33.5% | (18.4%) | (20.9%) | (16.0%) | 17.9% | 11.4% |
| Operating profit | 138.9% | (42.2%) | (87.3%) | (49.4%) | 691.5% | 59.3% |
| EBIT | 180.6% | (40.7%) | (87.7%) | (50.4%) | 718.6% | 59.6% |
| Net profit | na | (63.1%) | na | na | na | 112.4% |
| Adj. net profit | 132.4% | (49.3%) | (81.4%) | na | na | 59.5% |
| PROFITABILITY | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 27.8% | 24.9% | 21.1% | 18.6% | 21.3% | 22.9% |
| Operating margin | 9.8% | 6.2% | 0.8% | 0.4% | 3.4% | 5.3% |
| Adj. net profit margin | 9.3% | 5.2% | 1.0% | (0.1%) | 2.9% | 4.5% |
| Return on equity (ROE) | 22.6% | 6.0% | (1.5%) | (2.3%) | 2.2% | 4.4% |
| GEARING/LIQUIDITY/ACTIVITIES | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | (0.1) | 0.1 | 0.1 | 0.1 | 0.0 | (0.0) |
| Current ratio (x) | 0.6 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 |
| Receivable turnover days | 24.7 | 27.4 | 33.7 | 30.5 | 29.5 | 28.5 |
| Payable turnover days | 89.6 | 107.8 | 112.7 | 111.3 | 111.3 | 111.3 |
| VALUATION | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
| YE 31 Dec | | | | | | |
| P/E | 3.5 | 9.7 | ns | ns | 18.0 | 8.5 |
| P/E (diluted) | 3.6 | 9.8 | ns | ns | 18.0 | 8.5 |
| P/B | 0.6 | 0.6 | 0.6 | 0.4 | 0.4 | 0.4 |

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

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