

iQIYI (IQ US)

Looking into 2Q23E rich pipeline

IQ delivered upbeat 1Q23 results, with rev +15% YoY (5% above consensus) and adj. NP at RMB940mn (82% above consensus). The breakthrough of *The Knockout* boosted subs up to 128.9mn in 1Q23, with net adds of 17mn. 2Q23E subs members might see a slight sequential decline (forecasting at 112mn) for soft seasonality, but we expect upcoming rich pipeline to support subs momentum in summer holiday and 2H23E (e.g. *Story of Kunning Palace*, *The Demon Hunter's Romance*). Ads might see a gradual recovery from 2Q23E (forecasting rev +17% YoY), with rising budget from multiple verticals (e.g. FMCG, ecommerce). We expect 2Q23E rev to accelerate to +17% YoY, with non-GAAP OP at RMB710mn. We keep FY23-25E earnings forecast unchanged, with DCF-based TP at US\$8.6.

- **Eye-catching 1Q23 on breakthrough of *The Knockout* (狂飆).** Total rev accelerated to +14.7% YoY in 1Q23 (5% above consensus), primarily on strong subs (+24% YoY) and ads resuming growth (+5% YoY). GPM came out at 28.7% (vs. consensus of 27.7%), with content cost at RMB4.2bn. Non-GAAP OP was 1.0bn (above our estimate of RMB800mn), while adj. NP recorded at RMB940mn, significantly above consensus by 82%.
- **Looking into 2Q23E rich pipeline.** With wide popularity of *The Knockout*, subs surged to 128.9mn in 1Q23, with net adds of 17mn (largely above our estimates of 11mn). 2Q23E subs might see a sequential decline for 1Q strong seasonality, but we expect the trend will be well anticipated by the market. We suggest to look into its rich pipeline in 2Q23E and summer holiday (e.g. *Story of Kunning Palace* <宁安如梦>, *The Demon Hunter's Romance* <无忧渡>, *Destined* <长风渡>), to boost 3Q23E subs growth. Coupled with stable ARM QoQ in 2Q23E, we forecast 2Q23E subs rev +14% YoY.
- **Ads recovery in sight.** Ads resumed positive growth in 1Q23E, 4% ahead of our estimates. Looking ahead, we expect ads to see a gradual recovery from 2Q23E, and accelerate to +17% YoY for low base and more variety shows. By segment, brand ads saw mild growth in Apr and May from multiple verticals (e.g. FMCG, retail, entertainment, healthcare, etc), and 2H23E could step into a decent growth trajectory. 2Q would be a peak season for FMCG, food & beverage, and IQ might benefit from upcoming 618 promotions with rising ads budget. For performance-based ads, online services, game, ecommerce, travel verticals performed well in 2Q23E.
- **Maintain BUY.** We keep FY23-25E earnings forecast unchanged, with DCF-based TP at US\$8.6 (implying 24x/17x FY23/24E P/E), largely in line with Netflix and Mango's multiple. Key catalysts: 1) key dramas to be launched in 2-3Q23E; and 2) ads recovery from 2Q23E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	30,554	28,998	31,841	33,799	35,152
YoY growth (%)	2.9	(5.1)	9.8	6.1	4.0
Adj. net income (RMB mn)	(4,549)	1,266	2,289	3,234	3,696
Adj. EPS (RMB)	(5.6)	1.5	2.4	3.4	3.9
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS (RMB)	NA	0.3	1.4	2.5	4.2
P/E (x)	NA	25.2	15.7	11.2	9.8
P/S (x)	1.6	1.2	1.1	1.1	1.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$8.6
(Previous TP	US\$8.6)
Up/Downside	+56%
Current Price	US\$5.5

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Stock Data

Mkt Cap (US\$ mn)	5,413
Avg 3 mths t/o (US\$ mn)	82.07
52w High/Low (US\$)	7.99/ 1.65
Total Issued Shares (mn)	522
Source:	Bloomberg

Shareholding Structure

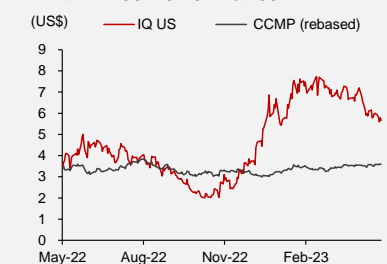
Oasis Management	4.51%
Goldman Sachs	4.46%
Bank of America	4.17%
Source:	Bloomberg

Share Performance

	Absolute	Relative
1-mth	-17.5%	-18.6%
3-mth	-22.3%	-24.3%
6-mth	112.8%	93.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 1Q23 financial review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY	Consensus	Diff %
Revenue	7,968	7,608	7,589	7,389	7,277	6,657	7,471	7,593	8,349	10.0%	14.7%	7,984	5%
Operating profit	(1,014)	(1,122)	(1,368)	7,389	93	126	310	784	859	9.6%	819.2%	730	18%
Net profit	(1,267)	(1,397)	(1,730)	(1,776)	169	(214)	(396)	304	618	103.2%	265.5%	405	53%
Adj. net profit	(1,021)	(1,065)	(1,400)	(1,002)	162	78	187	856	940	9.7%	479.3%	515	82%
EPS (RMB)	(1.29)	(1.34)	(1.75)	(1.25)	0.20	0.09	0.22	0.98	0.97	-0.9%	392.5%	0.56	73%
Margin (%)													
Gross margin	10.8%	9.7%	7.4%	11.9%	18.0%	21.2%	23.6%	28.9%	28.7%			27.7%	
Operating margin	-12.7%	-14.7%	-18.0%	100.0%	1.3%	1.9%	4.1%	10.3%	10.3%			9.1%	
Adj. net margin	-12.8%	-14.0%	-18.4%	-13.6%	2.2%	1.2%	2.5%	11.3%	11.3%			6.5%	
Growth (%)													
Revenue (YoY)	4.2%	2.7%	5.6%	-0.9%	-8.7%	-12.5%	-1.6%	2.8%	14.7%			9.7%	
Revenue (QoQ)	6.8%	-4.5%	-0.3%	-2.6%	-1.5%	-8.5%	12.2%	1.6%	10.0%			5.1%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	







Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 1Q23 revenue breakdown

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ	YoY
Revenue (RMB mn)	7,968	7,608	7,589	7,389	7,277	6,657	7,471	7,593	8,349	10.0%	14.7%
Membership Services	4,312	3,993	4,288	4,121	4,471	4,285	4,211	4,744	5,547	16.9%	24.1%
Online Advertising	1,917	1,825	1,660	1,665	1,337	1,194	1,247	1,553	1,404	-9.6%	5.0%
Content Distribution	779	688	627	762	626	479	730	635	727	14.6%	16.2%
Others	961	1,102	1,013	842	842	698	1,284	661	670	1.4%	-20.4%

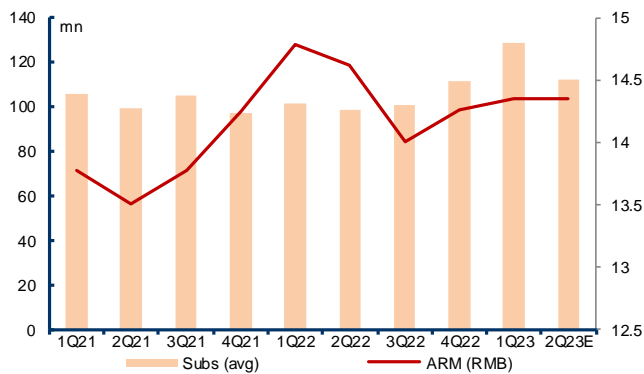
Source: Company data

Figure 3: Key premium dramas to be launched in 2Q23 & 3Q23E

Story of Kunming Palace 《宁安如梦》 张凌赫 白鹿	Destined 《长风渡》 白敬亭 宋轶	The Demon Hunter's Romance 《无忧渡》 任嘉伦 宋祖儿	My Journey to You 《云之羽》 虞书欣 张凌赫	A Journey to Love 《一念关山》 刘诗诗 刘宇宁	The seventh generation 《七时吉祥》 杨超越 丁禹兮
					

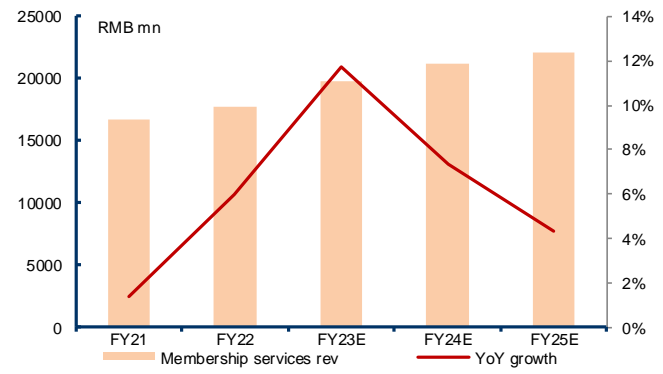
Source: Company data, CMBIGM

Figure 4: Quarterly subs estimates



Source: Company data, CMBIGM estimates

Figure 5: Yearly subs rev estimates



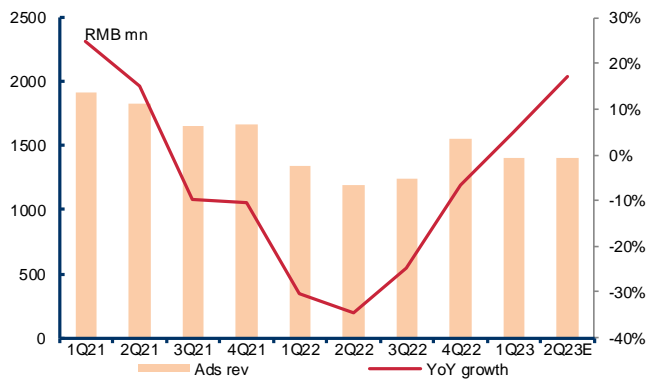
Source: Company data, CMBIGM estimates

Figure 6: iQIYI's key drama series pipeline in FY23E

Title	Producer	Genre
A Cat and a Fish <骑着鱼的猫>	iQIYI	Romance
Bionic <仿生人间>	iQIYI	Sci-Fi
Special Lady <陌上人如玉>	iQIYI, Chinese Miracle	Romance
My wife is a thief <柳叶摘星辰>	iQIYI, Rising Star	Romance
Grandma's New World <外婆的新世界>	iQIYI, Radiant Pictures, Ten Space	Life
Hua Xi Ji <花溪记>	iQIYI	Romance
The Lotus Casebook <莲花楼>	iQIYI	Romance
Back for you <漫影寻踪>	iQIYI	Romance
Rising with the wind <我要逆风去>	iQIYI, Stellar	Romance
The Comic Bang <开画！少女漫>	iQIYI	Romance
I am criminal police <我是刑警>	iQIYI	Crime
The disappeared 11th floor <消失的十一层>	iQIYI, Force Culture	Crime
Meet me in your sound <幻乐森林>	iQIYI	Historical
Golden Trio <老家伙>	iQIYI, Shandong Film & TV Production	Life
Hello Life <你好生活>	iQIYI, HuangCheng Pictures	Life
The seventh generation <七时吉祥>	iQIYI, Stellar	Historical
The Mutations <天启异闻录>	iQIYI	Historical
New York Mission 2 <唐人街探案 2>	iQIYI	Crime
Tiger Crane <虎鹤妖师录>	iQIYI, Youyaoqi	Historical
Hua Jie <花戒>	iQIYI	Historical
Chinese Paladin 4 <仙剑奇侠传 4>	iQIYI	Historical
The Demon Hunter's Romance <无忧渡>	iQIYI	Romance
Fox Spirit Matchmaker <狐妖小红娘>	iQIYI, Tencent Pictures, Stellar	Historical
Destined <长风渡>	iQIYI, Liehuo Film (烈火影业) Shengge Film (盛阁影视)	Historical
Story of Kunning Palace <宁安如梦>	iQIYI	Historical
Imperfect Victim <不完美受害人>	Haohan (浩瀚影视), iQIYI	Crime
A Journey to Love <一念关山>	iQIYI	Romance

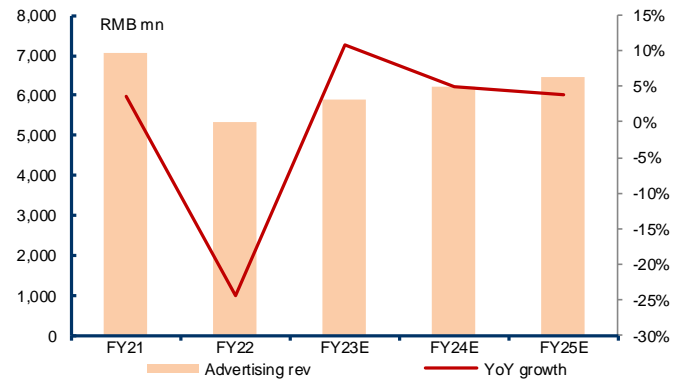
Source: Company data, CMBIGM

Figure 7: iQIYI's quarterly ads rev estimates



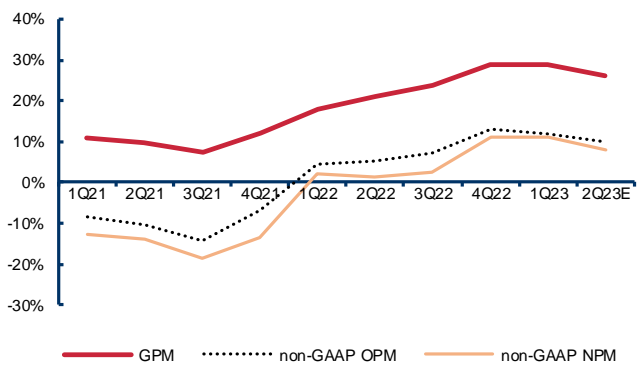
Source: Company data, CMBIGM estimates

Figure 8: iQIYI's yearly ads rev estimates



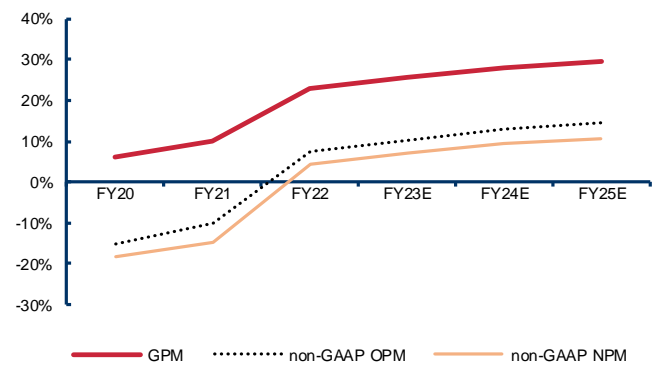
Source: Company data, CMBIGM estimates

Figure 9: Quarterly margin estimates



Source: Company data, CMBIGM estimates

Figure 10: Yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 11: DCF Valuation

DCF valuation (RMB mn)										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	3,271	4,402	5,054	5,867	6,773	7,708	8,546	9,404	10,251	11,071
Tax	(100)	(254)	(479)	(501)	(617)	(750)	(871)	(989)	(1,025)	(1,107)
D&A	13,292	13,605	14,018	14,607	15,107	15,559	16,022	16,495	17,319	18,185
Working capital	(9,873)	(13,800)	(14,182)	(14,697)	(15,236)	(15,714)	(16,137)	(16,644)	(17,476)	(18,350)
CAPEX	(892)	(913)	(995)	(1,031)	(1,065)	(1,080)	(1,080)	(1,092)	(1,147)	(1,193)
FCF	5,699	3,040	3,417	4,244	4,962	5,723	6,480	7,174	7,922	8,606
FCF Growth		-47%	12%	24%	17%	15%	13%	11%	10%	9%
Terminal Value										92,183
PV (FCF+ Terminal Value)	5,699	2,700	2,694	2,972	3,085	3,159	3,177	3,123	3,062	34,595

Assumptions	
WACC	12.6%
Tax rate	15.0%
Risk free rate	3.6%
Beta	1.10
Market risk return	11.8%
Terminal growth rate	3.0%

Equity Value	
PV	64,265
minus: Net cash	8,475
minus: Minority Interest	0
Equity Value	55,790
Shares (mn)	947
Target Price (US\$) based on DCF	8.6

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	9.5	8.4	7.8	6.7	6.1
	2.0%	9.9	8.7	8.1	6.9	6.2
	2.5%	10.2	9.0	8.3	7.1	6.4
	3.0%	10.7	9.3	8.6	7.3	6.5
	3.5%	11.1	9.6	8.8	7.5	6.7
	4.0%	11.7	10.0	9.2	7.7	6.8
	4.5%	12.3	10.4	9.5	7.9	7.0

Source: CMBIGM estimates

Figure 12: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,841	33,799	35,152	32,006	34,684	37,312	-0.5%	-2.6%	-5.8%
Gross Profit	8,124	9,521	10,373	8,856	10,252	11,631	-8.3%	-7.1%	-10.8%
Operating Profit	2,320	3,392	4,004	2,745	3,911	4,783	-15.5%	-13.3%	-16.3%
Adj. net profit	2,289	3,234	3,696	2,187	3,317	4,271	4.6%	-2.5%	-13.5%
EPS (RMB)	2.42	3.4	3.86	2.31	3.46	4.18	4.6%	-1.8%	-7.5%
Gross Margin	25.50%	28.20%	29.50%	27.70%	29.60%	31.20%	-2.2ppts	-1.4ppts	-1.7ppts
Operating Margin	7.30%	10.00%	11.40%	8.60%	11.30%	12.80%	-1.3ppts	-1.2ppts	-1.4ppts
Net Margin	7.20%	9.60%	10.50%	6.80%	9.60%	11.40%	+0.4ppts	+0.0ppts	-0.9ppts

Source: CMBIGM estimates, Bloomberg

Figure 13: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,841	33,799	35,152	31,841	33,799	35,152	0.0%	0.0%	0.0%
Gross Profit	8,124	9,521	10,373	8,124	9,521	10,373	0.0%	0.0%	0.0%
Operating Profit	2,320	3,392	4,004	2,320	3,392	4,004	0.0%	0.0%	0.0%
Adj. net profit	2,289	3,234	3,696	2,289	3,234	3,696	0.0%	0.0%	0.0%
EPS (RMB)	2.42	3.40	3.86	2.42	3.40	3.86	0.0%	0.0%	0.0%
Gross Margin	25.5%	28.2%	29.5%	25.5%	28.2%	29.5%	0.0ppts	0.0ppts	0.0ppts
Operating Margin	7.3%	10.0%	11.4%	7.3%	10.0%	11.4%	0.0ppts	0.0ppts	0.0ppts
Net Margin	7.2%	9.6%	10.5%	7.2%	9.6%	10.5%	0.0ppts	0.0ppts	0.0ppts

Source: Company data, CMBIGM estimates

Figure 14: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
iQIYI	IQ US	5,257	USD	5.5	BUY	8.6	15.7	11.2	9.8	1.1	1.1	1.0	27%
Internet giants													
Tencent	700 HK	421,749	HKD	345	BUY	455	20.2	17.3	15.1	4.7	4.2	3.8	16%
Alibaba	BABA US	228,580	USD	88	BUY	154	11.8	10.2	9.1	1.8	1.7	1.5	12%
Disney	DIS US	169,684	USD	93	NA	NA	24.7	17.5	14.3	1.9	1.8	1.7	30%
Netflix	NFLX US	149,317	USD	336	NA	NA	28.8	22.8	18.9	4.4	3.9	3.5	27%
Average							18.9	15.0	12.8	3.2	2.9	2.6	21%
VAS & Subscribers													
Kuaishou	1024 HK	29,313	HKD	53	BUY	94	NA	22.8	11.5	1.9	1.6	1.4	292%
Mango	300413 CH	8,075	CNY	30	NA	NA	23.1	19.7	18.1	3.4	3.0	2.8	13%
Bilibili	BILI US	8,131	USD	20	BUY	30	NA	NA	49.6	2.3	1.9	1.7	NA
TME	TME US	13,660	USD	8	BUY	11	17.2	16.1	14.2	3.2	3.0	2.8	11%
Huya	HUYA US	825	USD	3	BUY	7	NA	59.8	30.5	0.7	0.7	0.6	NA
Douyu	DOYU US	337	USD	1	NA	NA	NA	NA	NA	0.4	0.4	0.4	NA
Momo	MOMO US	1,807	USD	10	HOLD	14	6.3	5.8	5.5	1.0	1.0	0.9	6%
YY	YY US	2,119	USD	30	BUY	46	15.0	11.3	9.3	0.9	0.8	0.7	26%
China Literature	772 HK	4,326	HKD	33	NA	NA	19.6	17.1	15.0	3.6	3.3	3.0	12%
Average							16.3	15.5	12.3	1.9	1.7	1.6	10%
Film, TV & IP													
Linmon Media	9857 HK	562	HKD	12	NA	NA	10.0	6.9	NA	2.1	1.6	NA	NA
Strawbear entertain	2125 HK	84	HKD	1	BUY	4	NA	NA	NA	NA	NA	NA	NA
Average							10.0	6.9	NA	2.1	1.6	NA	NA
Advertising													
Baidu	BIDU US	44,612	USD	128	BUY	196	13.8	12.0	10.4	2.3	2.1	1.9	32%
Weibo	WB US	4,002	USD	17	BUY	29	7.6	6.8	6.2	2.1	1.9	1.8	12%
Facebook	META US	612,134	USD	239	NA	NA	19.0	15.6	14.5	4.8	4.4	3.9	18%
Snapchat	SNAP US	13,935	USD	9	NA	NA	NA	NA	41.0	3.1	2.7	2.3	NA
Average							13.5	11.4	10.4	3.1	2.7	2.5	21%
Average							16.7	14.4	12.5	2.5	2.2	2.1	17%

Source: Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks may derive from: 1) key content delay; 2) regulatory uncertainty; 3) slower-than-expected ads recovery for macro uncertainty; and 4) competition from SFV.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	30,554	28,998	31,841	33,799	35,152
Membership services	16,714	17,711	19,789	21,246	22,164
Online advertising services	7,067	5,332	5,911	6,203	6,447
Content distribution	2,856	2,470	2,593	2,697	2,778
Others	3,918	3,485	3,547	3,652	3,764
COGS	(27,513)	(22,319)	(23,717)	(24,277)	(24,780)
Gross profit	3,041	6,678	8,124	9,521	10,373
S&M	(4,725)	(3,467)	(3,765)	(4,025)	(4,230)
Admin.Exp.					
R&D	(2,795)	(1,899)	(2,039)	(2,104)	(2,139)
Operating profit	(4,479)	1,312	2,320	3,392	4,004
Other income/(exp), net	(1,533)	(1,346)	(822)	(849)	(813)
Pre-tax Income	(6,012)	(34)	1,498	2,543	3,191
Income Tax	(97)	(84)	(100)	(254)	(479)
Net profit	(6,251)	(155)	1,398	2,289	2,712
Adj. net profit	(4,549)	1,266	2,289	3,234	3,696

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(6,170)	(136)	1,398	2,289	2,712
D&A	16,766	16,475	13,292	13,605	14,018
Change in WC	(17,586)	(18,346)	(9,873)	(13,800)	(14,182)
Others	977	1,937	891	946	984
Operating CF	(6,013)	(71)	5,708	3,040	3,532
Capex	(401)	(841)	(892)	(913)	(995)
Purchase of long-term investments	(386)	582	-	-	-
Others	2,049	525	-	-	-
Investing CF	1,262	266	(892)	(913)	(995)
Equity raised	268	-	-	-	-
Change of Debts	259	(240)	1,339	(469)	(422)
Cash from CB raised	632	5,222	-	-	-
Others	(4,119)	(513)	-	-	-
Financing CF	(2,959)	4,469	1,339	(469)	(422)
Net change in cash	(7,927)	4,664	6,156	1,658	2,115
Cash (beg of yr)	10,941	3,075	7,112	13,267	14,926
FX	(217)	-	-	-	-
Cash (end of yr)	3,075	7,112	13,267	14,926	17,041

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Non-current assets	30,948	32,263	29,412	30,890	32,364
Fixed asset	1,345	1,105	1,837	2,068	2,263
Long-term investments	3,035	2,454	2,454	2,454	2,454
Licensed copyrights, net	7,258	6,841	6,854	7,140	7,434
Others	19,310	21,864	18,267	19,229	20,213
Current assets	11,524	13,786	21,215	23,045	25,215
Cash	2,997	7,098	13,254	14,912	17,027
Restricted cash	78	14	14	14	14
Short-term investments	1,348	818	818	818	818
Account receivable	2,748	2,403	2,994	3,132	3,209
Others	4,353	3,453	4,135	4,168	4,146
Current liabilities	22,476	28,130	29,966	30,040	29,988
Account payable	8,896	5,993	7,734	7,917	8,012
Customer advances and deferred revenue	3,485	4,232	3,790	4,023	4,185
Accrued liabilities	3,172	2,626	2,894	2,962	3,024
Short-term borrowings	4,118	3,348	4,687	4,218	3,796
Others	2,806	11,931	10,861	10,919	10,971
Non-current liabilities	14,323	11,575	11,575	11,575	11,575
Convertible senior notes	12,652	9,568	9,568	9,568	9,568
Others	1,670	2,007	2,007	2,007	11,575
MI	88	93	93	93	93
Total Equity	5,364	6,436	10,236	13,471	17,166
Shareholders' equity	5,276	6,343	10,144	13,378	17,074

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Sales mix (%)					
Membership services	54.7	61.1	62.2	62.9	63.1
Online advertising services	23.1	18.4	18.6	18.4	18.3
Content distribution	9.3	8.5	8.1	8.0	7.9
Others	12.8	12.0	11.1	10.8	10.7
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	2.9	(5.1)	9.8	6.1	4.0
Gross profit	66.8	119.6	21.6	17.2	8.9
EBIT	NA	NA	76.7	46.2	18.0
Adj. net profit	NA	NA	80.8	41.3	14.3
P&L ratios (%)					
Operating margin	(14.7)	4.5	7.3	10.0	11.4
Pre-tax margin	(19.7)	(0.1)	4.7	7.5	9.1
Adj. net margin	(14.9)	4.4	7.2	9.6	10.5
Effective tax rate	(0.3)	(0.3)	(0.3)	(0.8)	(1.4)
Returns (%)					
ROE	(106.0)	(0.5)	16.5	20.6	19.9
ROA	(10.7)	2.7	4.5	6.0	6.4
Per share					
EPS (RMB)	(5.64)	1.50	2.42	3.40	3.86
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	0.96	1.00	1.54	2.02	2.56

Source: Company data, CMBIGM estimates

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