

iQIYI (IQ US)

Improving profitability with solid guidance

iQIYI (IQ) delivered better-than-feared 4Q23 results with inline topline and upbeat margin. Looking into 1Q24E, we expect both revenue and earnings to see sequential growth, with solid ARM trend. We keep confident on IQ's previous FY24E OP target (at RMB5bn), with disciplined content cost and ARM expansion. Given already-low expectation and clear profitability improvement, there will be limited downside risk for its stock price, in our view. We focus on the upcoming pipeline, including Gu Zhou, etc. We lifted FY24-25E earnings forecast by 6.4%-8.5%, with unchanged TP at US\$8.6 (16x FY24E P/E).

- Margin beat again with in-line topline.** IQ reported better-than-feared 4Q23 results with in-line revenue (+1.5% YoY) and upbeat adj.NP at RMB 682mn, 29%/4% ahead of consensus/our estimates. Membership +1.4% YoY (in-line), driven by rising ARM (+13% YoY to RMB15.98) offset by subs volatility due to delay of certain dramas. Ads decelerated to +6.2% YoY (in line, vs. +34% YoY in 3Q23), mainly on tough comps while bolstered by brand ads. Adj. NPM reached 8.9%, exceeding consensus/our estimates by 2.2pts/0.3pts, due to enhanced content strategy and operation efficiency. During 4Q23, IQ bought back US\$31mn of 4% convertible senior notes due 2026, and we expect it to continuously deleverage in 2024E.
- Expecting sequential growth in 1Q24E, with solid pipeline ahead.** We expect 1Q24E revenue to be RMB7.85bn, +2% QoQ (-6% YoY for tough comps). Subs revenue may keep stable QoQ, supported by solid ARM (stable or sequential growth) with enhanced package and diversified benefits. Ads continue to grow at MSD YoY, backed by performance-based ads. We forecast content distribution revenue to see low-teens growth YoY, after reclassification. Given less variety show and films to be launched in 1Q24E, we expect content cost to decline 5% YoY. Opex would be stable QoQ, in our estimates. As such, we expect 1Q24E non-GAAP OP at RMB840mn (non-GAAP OPM at 11%) and adj. net profit at RMB550mn. IQ launched series of hot titles in Jan & Feb (e.g. Always on the Move (南来北往)), despite fierce competition. We suggest to look into its rich pipeline, including Fox Spirit Matchmaker (狐妖小红娘) and Gu Zhou (孤舟), etc.
- Confident on margin expansion in FY24E.** We reiterate our confidence in IQ's margin improvement, forecasting its non-GAAP OP to be intact at RMB5bn in FY24E. Factoring in interest and tax difference, we model bottom line at RMB3.71bn in FY24E. For conservative estimate, we forecast IQ's topline +8.8% YoY, in which ARM expansion will continue.
- Maintain BUY.** To reflect solid margin outlook, we lifted FY24-25E earnings forecast by 6.4%-8.5%. Maintain BUY with DCF-based TP of US\$8.6.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	34,663	37,706	39,960
YoY growth (%)	(5.1)	9.9	8.8	8.8	6.0
Adjusted net profit (RMB mn)	1,266	2,811	3,714	4,154	4,543
Diluted EPS (RMB)	1.5	3.2	3.8	4.3	4.7
YoY growth (%)	NA	122.1	32.1	11.9	9.4
Consensus EPS (RMB)	NA	2.7	3.3	3.8	3.4
P/E (x)	17.6	8.2	6.9	6.2	5.7
P/S (x)	0.9	0.8	0.7	0.7	0.6
ROE (%)	(1)	22	26	24	20
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$8.60
(Previous TP)	US\$8.60
Up/Downside	134.3%
Current Price	US\$3.67

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Stock Data

Mkt Cap (US\$ mn)	1,566.4
Avg 3 mths t/o (US\$ mn)	32.5
52w High/Low (US\$)	7.70/3.17
Total Issued Shares (mn)	426.8

Source: FactSet

Shareholding Structure

FIL Ltd	5.4%
Goldman Sachs Group Inc	5.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.6%	3.6%
3-mth	-18.3%	-27.5%
6-mth	-27.2%	-36.3%

Source: FactSet

12-month Price Performance

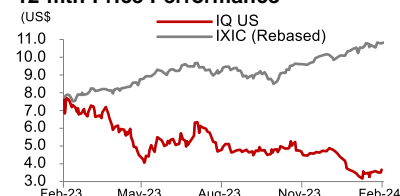


Figure 1: 4Q23 financial review

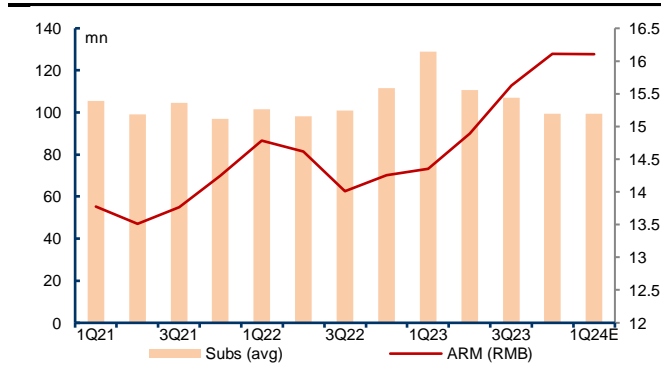
RMB mn	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	7,471	7,593	8,349	7,802	8,015	7,706	-3.9%	1.5%	7,678	0%	7,669	0%
Operating profit	310	784	859	610	747	774	3.6%	-1.3%	733	6%	739	5%
Net profit	(396)	304	618	365	476	466	-2.0%	53.2%	441	6%	432	8%
Adj. net profit	187	856	940	595	622	682	9.6%	-20.4%	530	29%	656	4%
EPS (RMB)	0.22	0.98	0.97	0.61	0.64	0.70	9.9%	-28.9%	0.62	13%	0.67	5%
Margin (%)												
Gross margin	23.6%	28.9%	28.7%	26.0%	27.1%	28.2%			28.3%		26.9%	
Operating margin	4.1%	10.3%	10.3%	7.8%	9.3%	10.0%			9.5%		9.6%	
Adj. net margin	2.5%	11.3%	11.3%	7.6%	7.8%	8.9%			6.9%		8.6%	
Growth (%)												
Revenue (YoY)	-1.6%	2.8%	14.7%	17.2%	7.3%	1.5%			1.1%		1.0%	
Revenue (QoQ)	12.2%	1.6%	10.0%	-6.5%	2.7%	-3.9%			-4.2%		-4.3%	
Operating profit	NA	NA	819.2%	385.3%	141.1%	-1.3%			-6.5%		-5.7%	
Adj. net profit	NA	NA	479.3%	659.9%	232.3%	-20.4%			-38.2%		-23.4%	

Source: Company data, Bloomberg, CMBIGM estimates

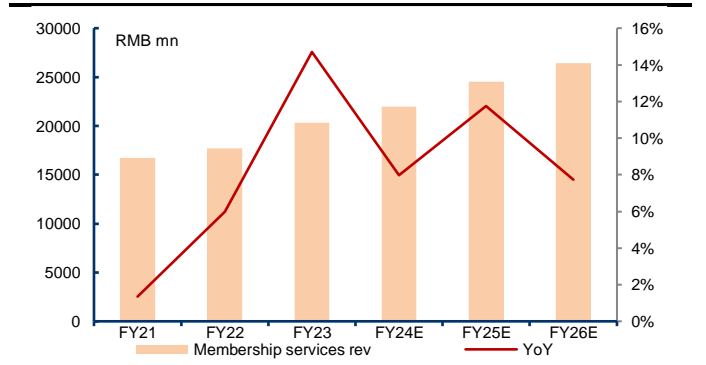
Figure 2: 4Q23 revenue breakdown

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	QoQ	YoY
Revenue (RMB mn)	7,471	7,593	8,349	7,802	8,015	7,706	-3.9%	1.5%
Membership Services	4,211	4,744	5,547	4,947	5,012	4,809	-4.0%	1.4%
Online Advertising	1,247	1,553	1,404	1,495	1,674	1,651	-1.4%	6.2%
Content Distribution	730	635	727	553	526	506	-3.8%	-20.3%
Others	1,284	661	670	807	803	741	-7.7%	12.1%

Source: Company data, CMBIGM estimates

Figure 3: Quarterly subs estimates

Source: Company data, CMBIGM estimates

Figure 4: Yearly subs revenue estimates

Source: Company data, CMBIGM estimates

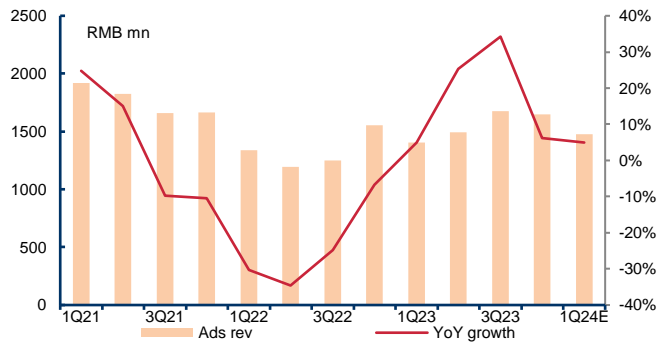
Figure 5: iQIYI's key drama series pipeline in FY24-25E

Type	Titles	Chines Titles	Genre	Staring	Launch date
National Drama/ 国民大戏	The water of river	大河之水	Suspense	聂远、杨蓉	2024
	The unique girl	独一无二的地	Romance	张云龙、宋伊人、毛林林	2024
	Gold Trio	老家伙	Life	张国立、王刚、张铁林	2024
	Yong couple	小夫妻	Life	殷桃、郭京飞、齐溪	2024
	Soldiers from the wind	兵自风中来	Military	欧豪、蓝盈莹、刘怡君	2024
	The Comic Bang	开画！少女漫	Romance	沈月、王敬轩、赵弈钦	2024
	Men in love	请和这样的我恋爱吧	Romance	代旭、刘畅、孙嘉灵	2024
	I am criminal police	我是刑警	Crime	于和伟、李春嫒、刘泊潇	TBC
	City of city	城中之城	Modern	白宇帆、于和伟、夏梦	2Q24
	My Altay	我的阿勒泰	Life	马伊琍、周依然、于适	1Q24

	The white olive tree	白色橄欖樹	Ro	陈哲远、梁洁	2Q24
	Beautiful lie	你的谎言也动听	Life	陈星旭、张予曦	4Q24
	Northward	北上	Modern	白鹿、欧豪	2024
	Ray of sunshine	橙色光芒	Modern	谭卓、高叶、刘奕君	2024
	Created in China	艰难的制造	History	高露、刘奕君、朱雨辰	2024
	Watchman	守城者	Crime	陈小春、李治廷、韩雪	2Q24
	Headwinds	迎风	Life	孙千、翟子路、刘琳	2024
	The elephant is right here	消失的大象	Modern	李九霄、蒋龙、马吟吟	2024
	Meet me in your sound	幻乐森林	Costume	许佳琪、魏哲鸣、吴希泽	2024
	The Demon Hunter's Romance	无忧渡	Romance	任嘉伦、宋祖儿	4Q23
Oriental Fantasy/ 东方幻想	Fox Spirit Matchmaker	狐妖小红娘月红篇	Costume	杨幂、龚俊、郭晓婷	2024
	Fox Spirit Matchmaker	狐妖小红娘竹业篇	Costume	刘诗诗、张云龙	2024
	My life is a thief	柳叶摘星辰	Costume	唐晓天、庄达菲、林枫松	TBC
	Love in the desert	漠风吟	Romance	哈妮克孜、方逸伦	4Q24
	New York Mission2	唐人街探案2	Crime	邱泽、尚语贤、张钧甯	2024
	Back for you	漫影寻踪	Romance	杨颖、王安宇、匡牧野	2024
	Ball Lightning	球状闪电	Sci-fi	童谣、王安宇、杨立新	1Q24
	Rident2	三叉戟2	Crime	陈建斌、董勇、郝平	1Q24
Legend of Justice/ 正义传奇	Square Pavilion	四方馆	Costume	檀健次、周依然、杜淳	3Q24
	In the name of the brother	哈尔滨一九四四	History	张子贤、梁元晖、王鹤润	3Q24
	Stealing time	黄雀	Crime	郭京飞、秦岚	4Q24
	Dark night and dawn	暗夜与黎明	Crime	陈哲远、聂远、邢菲	2024
	Cat and Thief	斗贼	Crime	黄景瑜、修睿	TBC
Annual Joy Party/ 一年一度欢乐会	Annual Joy Party	一年一度欢乐会	Comedy	张哲华、土豆、张小婉	1Q24
	The limbo	二十一天	Suspense	欧豪、张雪迎、姜武	2024
Light On/ 迷雾剧场	Interlaced scenes	交错的情景	Suspense	马伊琍、佟大为、高至霆	2024
	Tell no one	不可告人	Suspense	欧豪、李一桐	2024
	Lost in the shadows	看不见影子的少年	Suspense	张颂文、荣梓杉、成泰燊	1Q24
	The sundown	乌云之上	Suspense	孙俪、罗晋、丁冠森	2024

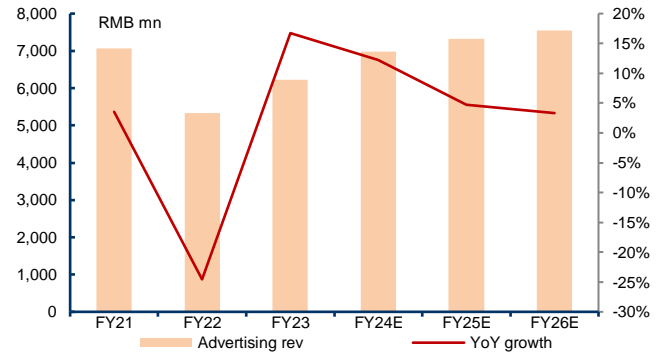
Source: Company data, CMBIGM

Figure 6: iQIYI's quarterly ads revenue estimates



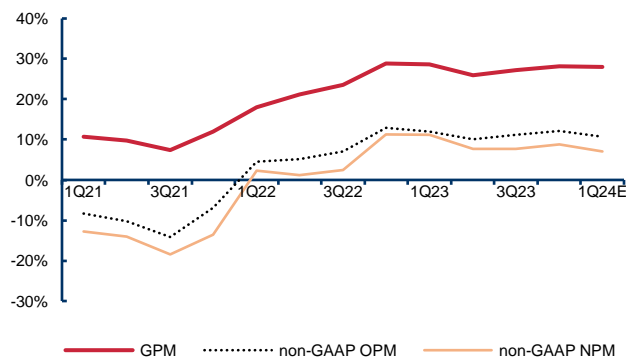
Source: Company data, CMBIGM estimates

Figure 7: iQIYI's yearly ads revenue estimates



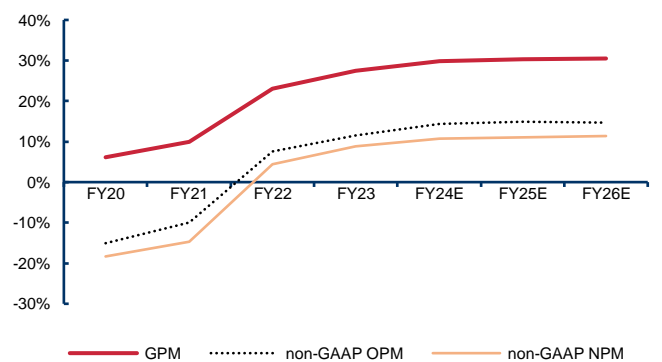
Source: Company data, CMBIGM estimates

Figure 8: iQIYI's quarterly margin estimates



Source: Company data, CMBIGM estimates

Figure 9: iQIYI's yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 10: DCF valuation

DCF valuation (RMB mn)										
	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	4,961	5,618	5,883	7,016	8,042	9,072	9,947	10,892	11,873	12,941
Tax	(362)	(613)	(546)	(693)	(840)	(987)	(1,110)	(1,089)	(1,187)	(1,294)
D&A	13,947	15,054	16,341	17,157	17,680	18,214	18,753	19,690	20,675	21,709
Working capital	(14,185)	(15,094)	(16,383)	(17,365)	(17,902)	(18,387)	(18,951)	(19,899)	(20,894)	(21,938)
CAPEX	(936)	(1,067)	(1,115)	(1,151)	(1,163)	(1,165)	(1,173)	(1,231)	(1,280)	(1,332)
FCF	3,425	3,897	4,179	4,963	5,817	6,746	7,467	8,364	9,186	10,086
FCF Growth		14%	7%	19%	17%	16%	11%	12%	10%	10%
Terminal Value										108,034
PV (FCF+ Terminal Value)	3,041	3,073	2,926	3,086	3,212	3,307	3,250	3,233	3,153	36,002

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	64,283
minus: Net cash	6,002
minus: Minority Interest	0
Equity Value	58,281
Shares (mn)	947
Target Price (US\$) based on DCF	8.6

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	9.7	8.5	7.8	6.7	6.0
	2.0%	10.0	8.7	8.1	6.8	6.1
	2.5%	10.4	9.0	8.3	7.0	6.2
	3.0%	10.8	9.3	8.6	7.2	6.4
	3.5%	11.3	9.7	8.8	7.4	6.5
	4.0%	11.9	10.1	9.2	7.6	6.7
	4.5%	12.5	10.5	9.5	7.8	6.9

Source: CMBIGM estimates

Figure 11: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	34,663	37,706	39,960	33,648	35,952	37,889	3.0%	4.9%	5.5%
Gross profit	10,357	11,451	12,183	9,755	10,798	11,682	6.2%	6.0%	4.3%
Operating profit	4,301	4,902	5,124	3,898	4,548	4,735	10.4%	7.8%	8.2%
Adj. net profit	3,714	4,154	4,543	2,938	3,536	3,616	26.4%	17.5%	25.6%
EPS (RMB)	3.85	4.28	4.66	3.35	3.75	3.37	14.9%	14.2%	38.2%
Gross margin	29.9%	30.4%	30.5%	29.0%	30.0%	30.8%	+0.9ppts	+0.3ppts	-0.3ppts
Operating margin	12.4%	13.0%	12.8%	11.6%	12.7%	12.5%	+0.8ppts	+0.3ppts	+0.3ppts
Net margin	10.7%	11.0%	11.4%	8.7%	9.8%	9.5%	+2.0ppts	+1.2ppts	+1.8ppts

Source: Bloomberg, CMBIGM estimates

Figure 12: Earnings revision

RMB mn, Dec-YE	CMBIGM			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	34,663	37,706	39,960	33,687	35,110	N.A.	2.9%	7.4%	N.A.
Gross Profit	10,357	11,451	12,183	9,870	10,810	N.A.	4.9%	5.9%	N.A.
Operating Profit	4,301	4,902	5,124	3,952	4,649	N.A.	8.8%	5.4%	N.A.
Adj. net profit	3,714	4,154	4,543	3,424	3,903	N.A.	8.5%	6.4%	N.A.
EPS (RMB)	3.85	4.28	4.66	3.60	4.08	N.A.	7.0%	5.0%	N.A.
Gross Margin	29.9%	30.4%	30.5%	29.3%	30.8%	N.A.	+0.6ppts	-0.4ppts	N.A.
Operating Margin	12.4%	13.0%	12.8%	11.7%	13.2%	N.A.	+0.7ppts	-0.2ppts	N.A.
Net Margin	10.7%	11.0%	11.4%	10.2%	11.1%	N.A.	+0.6ppts	-0.1ppts	N.A.

Source: Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks: 1) key content launch delays; 2) regulatory uncertainty; 3) slower-than-expected ads recovery due to macro uncertainty; and 4) competition from short-form video (SFV).

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	34,663	37,706	39,960
Cost of goods sold	(27,513)	(22,319)	(23,102)	(24,307)	(26,255)	(27,778)
Gross profit	3,041	6,678	8,770	10,357	11,451	12,183
Operating expenses	(7,520)	(5,366)	(5,781)	(6,055)	(6,549)	(7,058)
SG&A expense	(4,725)	(3,467)	(4,014)	(4,244)	(4,602)	(5,034)
R&D expense	(2,795)	(1,899)	(1,767)	(1,811)	(1,947)	(2,024)
Operating profit	(3,027)	2,181	3,660	4,961	5,618	5,883
Interest income	119	70	257	65	67	80
Interest expense	(1,350)	(715)	(1,130)	(914)	(880)	(834)
Foreign exchange gain/loss	55	(168)	(105)	0	0	0
Other income/expense	90	(319)	73	0	0	0
Pre-tax profit	(6,012)	(34)	2,033	3,452	4,089	4,370
Income tax	(97)	(84)	(80)	(362)	(613)	(546)
Minority interest	61	18	27	0	0	0
Net profit	(6,170)	(136)	1,925	3,090	3,476	3,824
Adjusted net profit	(4,549)	1,266	2,811	3,714	4,154	4,543
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	21,161	23,589	26,609	29,492
Cash & equivalents	2,997	7,098	13,186	15,258	17,883	20,510
Restricted cash	78	14	14	14	14	14
Account receivables	2,748	2,403	2,997	3,212	3,443	3,594
Prepayment	3,267	2,603	3,154	3,229	3,313	3,342
Financial assets at FVTPL	1,348	818	818	818	818	818
Other current assets	1,087	850	991	1,058	1,139	1,216
Non-current assets	30,948	32,263	29,431	31,245	33,322	35,250
PP&E	1,345	1,105	1,838	2,082	2,315	2,424
Deferred income tax	31	0	0	0	0	0
Investment in JVs & assos	3,035	2,454	2,454	2,454	2,454	2,454
Intangibles	7,803	7,277	7,544	8,132	8,902	9,647
Goodwill	3,888	3,826	3,826	3,826	3,826	3,826
Other non-current assets	14,845	17,601	13,769	14,751	15,825	16,899
Total assets	42,472	46,048	50,592	54,834	59,931	64,743
Current liabilities	22,476	28,130	29,631	30,159	31,102	31,371
Short-term borrowings	4,118	3,348	4,687	4,218	3,796	3,037
Account payables	8,896	5,993	7,533	7,926	8,489	8,906
Other current liabilities	6,290	16,163	14,592	15,049	15,612	16,038
Accrued expenses	3,172	2,626	2,819	2,966	3,204	3,390
Non-current liabilities	14,323	11,575	11,575	11,575	11,575	11,575
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	12,652	9,568	9,568	9,568	9,568	9,568
Other non-current liabilities	1,670	2,007	2,007	2,007	2,007	2,007
Total liabilities	36,799	39,705	41,206	41,734	42,676	42,945
Share capital	0	0	0	0	0	0
Capital surplus	49,642	50,886	52,971	53,595	54,274	54,993
Retained earnings	(47,164)	(46,499)	(45,329)	(42,239)	(38,764)	(34,940)
Other reserves	2,709	1,863	2,709	2,709	2,709	2,709
Total shareholders equity	5,276	6,343	10,444	14,158	18,312	22,856
Total equity and liabilities	42,472	46,048	51,650	55,892	60,989	65,801

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	3,452	4,089	4,370
Depreciation & amortization	16,766	16,475	13,327	13,947	15,054	16,341
Change in working capital	(17,586)	(18,346)	(10,274)	(14,185)	(15,094)	(16,383)
Others	819	1,834	530	262	65	173
Net cash from operations	(6,013)	(71)	5,614	3,476	4,114	4,501
Investing						
Capital expenditure	(262)	(638)	(669)	(693)	(747)	(775)
Acquisition of subsidiaries/ investments	(386)	582	0	0	0	0
Net proceeds from disposal of short-term investments	(11,456)	0	0	0	0	0
Others	13,367	322	(223)	(243)	(320)	(340)
Net cash from investing	1,262	266	(892)	(936)	(1,067)	(1,115)
Financing						
Net borrowings	259	(240)	1,339	(469)	(422)	(759)
Proceeds from share issues	268	0	0	0	0	0
Others	(3,487)	4,709	27	0	0	0
Net cash from financing	(2,959)	4,469	1,366	(469)	(422)	(759)
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,112	13,200	15,271	17,897
Exchange difference	(217)	0	0	0	0	0
Cash at the end of the year	3,075	7,112	13,200	15,271	17,897	20,523
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	8.8%	8.8%	6.0%
Gross profit	66.8%	119.6%	31.3%	18.1%	10.6%	6.4%
Operating profit	na	na	67.8%	35.5%	13.2%	4.7%
Net profit	na	na	na	60.5%	12.5%	10.0%
Adj. net profit	na	na	122.1%	32.1%	11.9%	9.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	29.9%	30.4%	30.5%
Operating margin	(9.9%)	7.5%	11.5%	14.3%	14.9%	14.7%
Adj. net profit margin	(14.9%)	4.4%	8.8%	10.7%	11.0%	11.4%
Return on equity (ROE)	(84.4%)	(2.3%)	22.9%	25.1%	21.4%	18.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	3.5	1.6	0.6	0.2	0.0	(0.1)
Current ratio (x)	0.5	0.5	0.7	0.8	0.9	0.9
Receivable turnover days	36.4	34.7	33.0	32.7	32.2	32.1
Payable turnover days	109.2	132.8	117.5	116.1	114.1	114.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	18.3	8.2	7.4	6.7
P/E (diluted)	ns	16.5	12.4	6.9	6.2	5.7
P/B	13.4	3.3	3.4	1.8	1.4	1.1

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

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