

iQIYI (IQ US)

Mild recovery with better margin ahead

Despite macro uncertainty, we keep positive on iQIYI's long-term subs trend and margin improvement, backed by its unique original content and valuable IP. 4Q22E would be a solid quarter, with rising subs and gradual ads recovery (supported by hit dramas *New Life Begins* <卿卿日常> and several well-anticipated titles). We expect positive profit to continue ahead, with disciplined ROI-driven investment. Stock should react positive if CB financial pressure (in Apr 2023) to relieve. We forecast iQIYI to deliver 6%/91 topline/bottom line CAGR during FY22-24E. Resume with BUY with DCF-based TP at US\$4.1.

- **Strong content pipeline to support subs momentum.** iQIYI excelled itself with exclusive original content in both popular dramas and variety shows. It bore fruits from recent dramas (e.g. the popularity of *Love between fairy and devil* <苍兰诀>), which boosted its subs up to 101mn (net adds of 10.6mn) in 3Q22. We expect subs sequential growth to continue in 4Q22E, backed by rich pipeline (e.g. *Wild Bloom* <风吹半夏>, *Unchained Love* <浮图缘>). Its costume drama *New Life Begins* <卿卿日常> (launched on 10 Nov) outperformed with 35% share in terms of aggregate views (Top 1, based on Enlightent data), further supporting 4Q22E recovery. We expect its subs rev +10%/+8% YoY in 4Q22/FY23E, with ramp-up of both subs and ARM. ARM should see upside from: 1) rising TV members (with higher price); and 2) diverse & premium content to drive stronger monetization.
- **Expect ads recovery in 4Q22E & 1Q23E, while consistent rebound needs more time.** Given challenging macro and competition, ads would still bear short-term pressure. However, we expect ads sequential growth ahead in 4Q22E (forecasting +6% QoQ, -21% YoY), with richer content to release and enriched ads formats. Looking ahead, we expect its ads rev to deliver low single digit YoY growth in FY23/24E.
- **Continuous margin improvement with cost discipline.** We see high visibility for iQIYI to improve its profitability in the long run, for aggressive cost control, price hike and operating leverage. Mgmt. has upgraded its priority on margin expansion with "calm growth", focusing on core biz and higher-ROI projects. We expect iQIYI to achieve non-GAAP OPM at 9% in FY24E (non-GAAP OP at RMB2.9bn), with GPM up to 25%.
- **Maintain BUY.** We set our DCF-based TP at **US\$4.1** (implying **0.8x** FY23E P/S, 21.6x FY23E P/E), below industry average of 2.3x FY23E P/S. Waiting for more catalysts from: 1) hit dramas to be launched; and 2) CB deal to close.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	29,707	30,554	28,729	30,492	32,075
YoY growth (%)	2.5	2.9	(6.0)	6.1	5.2
Adj. net income (RMB mn)	(5,476)	(4,549)	480	1,198	1,824
Adj. EPS (RMB)	(7.4)	(5.6)	0.6	1.4	2.1
YoY growth (%)	NA	NA	NA	1.3	0.5
Consensus EPS (RMB)	NA	NA	0.4	1.0	1.7
P/E (x)	NA	NA	34.2	14.6	9.7
P/S (x)	0.6	0.6	0.6	0.6	0.5
Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$4.1
Up/Downside	+36.7%
Current Price	US\$3.0

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Stock Data

Mkt Cap (US\$ mn)	2,558
Avg 3 mths t/o (US\$ mn)	31.56
52w High/Low (US\$)	6.42/ 1.65
Total Issued Shares (mn)	427
Source: Bloomberg	

Shareholding Structure

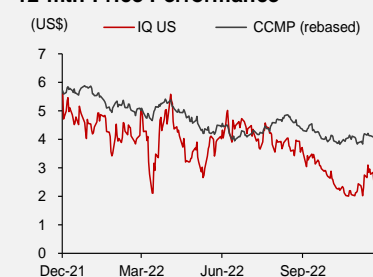
Oasis Management	5.51%
Bank of America	5.20%
Goldman Sachs	4.74%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	44.9%	40.3%
3-mth	-16.3%	-13.3%
6-mth	-25.4%	-21.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Strong content to boost membership rebound

Subs momentum to continue for strong pipeline in 4Q22E and FY23E.

Subs delivered eye-catching growth in 3Q22 (up to 101mn, +10.6mn QoQ), for its blockbuster drama series *Love between fairy and devil* <苍兰诀> to offset 2Q22 soft deferred rev. *Love between fairy and devil* <苍兰诀> | Esther Yu x Dylan Wang delivered eye-catching performance in 3Q22, ranked TOP1 in terms of viewership and topic popularity in highly-competitive summer (surpassed Tencent video's *Love Like The Galaxy* <星汉灿烂> and YouKu's *Immortal Samsara* <沉香如屑>).

Figure 1: Eye-catching performance of *Love between fairy and devil* <苍兰诀> in 3Q22



Source: Endata, CMBIGM

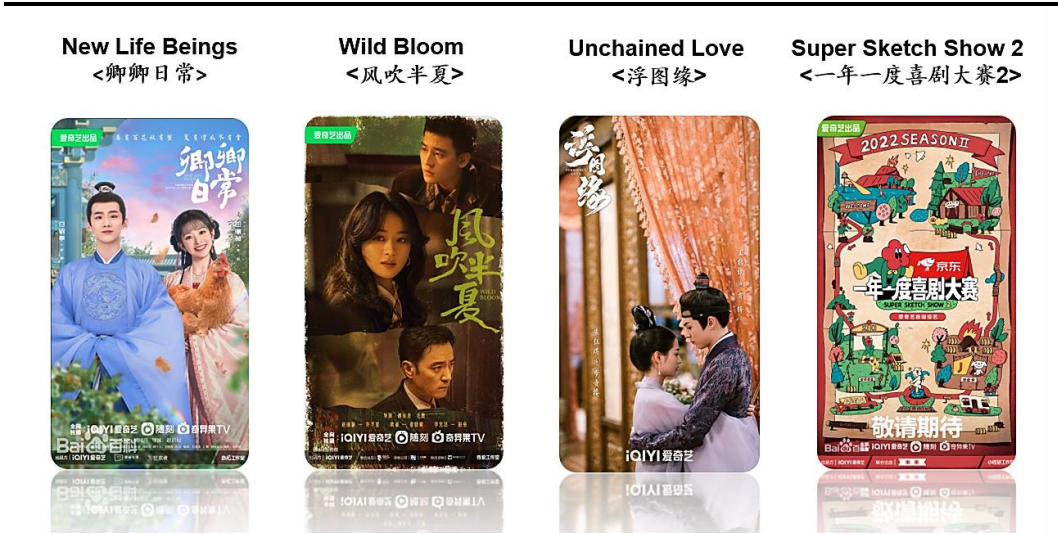
Figure 2: Top dramas ranked by viewership index/V30 per drama/ viewership in 3Q22

Ranking	Title	Viewership index	Platform(s)	Ranking	Title	V30 per drama (mn)	Launched Date	Platform(s)
1	Love Between Fairy and Devil (苍兰诀)	701	iQIYI	1	Love Between Fairy and Devil (苍兰诀)	53.8	8/7/2022	iQIYI
2	Crime and Punishment (罪罚)	686	iQIYI	2	Love like the galaxy (星汉灿烂·月升沧海)	43.4	7/5/2022	腾讯视频
3	Love like the galaxy (星汉灿烂·月升沧海)	647	腾讯视频	3	Immortal Samsara (沉香如屑·沉香重华)	30.6	7/20/2022	优酷
4	Thousand years for you (请君)	599	iQIYI	4	Being a Hero (冰雨火)	28.4	8/11/2022	优酷
5	Immortal Samsara (沉香如屑·沉香重华)	589	优酷	5	Rose War (玫瑰之战)	28.1	8/8/2022	iQIYI 腾讯视频
6	Being a Hero (冰雨火)	581	优酷					
7	The Heart of Genius (天才基本法)	567	iQIYI					
8	Ode to Joy 3 (欢乐颂3)	466	腾讯视频					
9	Rose War (玫瑰之战)	426	iQIYI 腾讯视频					
10	Twenty Your Life on 2 (二十不惑2)	391	iQIYI 腾讯视频					

Ranking	Title	Effective viewership (bn)	Launched Date	Platform(s)
1	Love like the galaxy (星汉灿烂·月升沧海)	3.01	7/5/2022	腾讯视频
2	Love Between Fairy and Devil (苍兰诀)	2.22	8/7/2022	iQIYI
3	Immortal Samsara (沉香如屑·沉香重华)	2.02	7/20/2022	优酷
4	Crime and Punishment (罪罚)	1.88	8/25/2022	iQIYI
5	Rose War (玫瑰之战)	1.20	8/8/2022	iQIYI 腾讯视频

Source: Endata, Enlightent data, CMBIGM

We expect 4Q22E subs sequential growth to continue, with highly anticipated drama series (e.g. *Wild Bloom* <风吹半夏> | *Zhao Liying* 赵丽颖, *Unchained Love* <浮图缘> | Dylan Wang) and variety show (e.g. *Super Sketch Show 2* <一年一度喜剧大赛2>). Its costume drama *New Life Begins* <卿卿日常> (launched on 10 Nov) outperformed with 35% market share in terms of aggregate views (Top 1, based on Enlightent data), further supporting 4Q22E momentum.

Figure 3: Key content title in 4Q22E

Source: Company data, CMBIGM

Backed by its high-quality in-house studio and fully-fledged ecosystem, we expect iQIYI's richer content pipeline in 2022-2023E (200+) to provide high visibility to its user expansion and subscription growth. Looking ahead, iQIYI would diversify its content category into romance and comedy, in order to cater to tightening regulation and different user preferences.

Figure 4: iQIYI's key drama series pipeline in 4Q22E and FY23E

Title	Producer	Genre
Rock it, Mon <摇滚狂花> launched on 11 Oct	iQIYI, Perfect World Pictures	Life
Helloe my love <芳心荡漾> launched on 26 Oct	iQIYI, Five Pictures	Romance
New Life Beings <卿卿日常> launched on 10 Nov	iQIYI, New Classics Media (新丽)	Historical
Lesson in Love <第九节课> to be launched on 11 Dec	iQIYI, SEG	Romance
A Cat and a Fish <骑着鱼的猫>	iQIYI	Romance
Wild Bloom <风吹半夏>	iQIYI, SEG	Life
Arrogant Lady <千金莫嚣张>	iQIYI	Romance
The Knockout <狂飙>	iQIYI, Liubai Entertainment	Crime
Fligh to you <向风而行>	iQIYI, HuaCe Film&TV	Life
Take us home <龙城>	iQIYI	Romance
Rock it, Mon <摇滚狂花>	iQIYI, Perfect World Pictures	Life
The magical women <灿烂的转身>	iQIYI, Lian Rui Pictures	Romance
Bionic <仿生人间>	iQIYI	Sci-Fi
Road Back Home <回来的女儿>	iQIYI, MingRun Entertainment	Crime
Under the microscope <显微镜下的大明>	iQIYI, Liubai Entertainment	Historical
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
The Gate of Renewal <云裳传>	iQIYI, Youth Hello	Wuxia
Mo Bai <墨白>	iQIYI	Romance
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
First love you <初次爱你>	iQIYI	Romance

Song of the moon <月歌行>	iQIYI, Yide Culture	Historical
The Emperor's Love <傾城亦清歡>	iQIYI	Historical
The Comic Bang <開畫! 少女漫>	iQIYI	Romance
Good Women <女人萬歲>	iQIYI	Life
Our Life <我們的日子>	iQIYI	Life
I am criminal police <我是刑警>	iQIYI	Crime
Road to home <歸路>	iQIYI	Romance
Echo <回響>	iQIYI, Force Culture	Romance
Forbidden Love <浮圖緣>	iQIYI	Romance
The disappeared 11th floor <消失的十一層>	iQIYI, Force Culture	Crime
Meet me in your sound <月幻森林>	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 <七時吉祥>	iQIYI, Stellar	Historical
Life <人生路遙>	iQIYI	Life
The Mutations <天啓異聞錄>	iQIYI	Historical
New York Mission 2 <唐人街探案 2>	iQIYI	Crime
Tiger Crane <虎鶴妖師錄>	iQIYI, Youyaoqi	Historical
Hua Jie <花戒>	iQIYI	Historical
Jiu Xiao Han Ye Nuan <九霄寒夜暖>	iQIYI	Romance
Chinese Paladin 4 <仙劍奇俠傳 4>	iQIYI	Historical
The Lord of Losers S2 <破事精英 2>	iQIYI	Life
Moses on the Plain <平原上的摩西>	iQIYI (Light on Series)	Crime
The Demon Hunter's Romance <無憂渡>	iQIYI	Romance
Fox Spirit Matchmaker <狐妖小紅娘>	iQIYI, Tencent Pictures, Stellar	Historical
Changfengdu <長風渡>	iQIYI, Liehuo Film (烈火影業) Shengge Film (盛閣影視)	Historical
Story of Kunming Palace <寧安如夢>	iQIYI	Historical
Imperfect Victim <不完美受害人>	Haohan (浩瀚影視), iQIYI	Crime
A Journey to Love <一念關山>	iQIYI	Romance

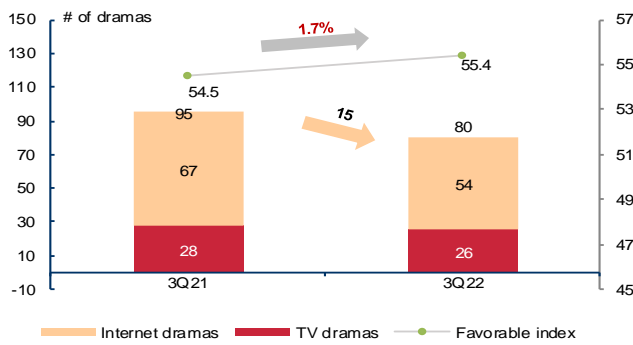
Source: Company data, CMBIGM

Figure 5: iQIYI's key variety show pipeline in 4Q22E and FY23E

Title	Producer	Genre
Super Sketch Show 2 <一年一度喜劇大賽 2>	iQIYI, MEWE (米未傳媒)	Comedy
Action.2 <开拍吧 2>	iQIYI	Talent show
5H S3 <哈哈哈哈哈 3>	iQIYI, Tencent Video	Comedy
The Secret X S2 <机智的恋爱 2>	iQIYI, Yunyun Film	Romance
Be with you <我的小尾巴 3>	iQIYI	Talent show
Glory is back <登场了! 大山西>	iQIYI, Zhiliaoqingnian (知了青年)	Culture
Hello Dad <幸会啊, 老爸>	iQIYI	Talent show
MBIT Social Lab <MBTI 社交实验室>	iQIYI	Talent show
Love across the Sea <漂洋过海来看你>	iQIYI, The Better Life (沐之时光)	Romance
Our folk music <我们的民谣 2022>	iQIYI	Music
MeMoon Singer <元宇宙唱将>	iQIYI, iFish	Music
Music Camplus <音乐野生活>	iQIYI	Talent show
She know all <看穿一切的她>	iQIYI	Romance

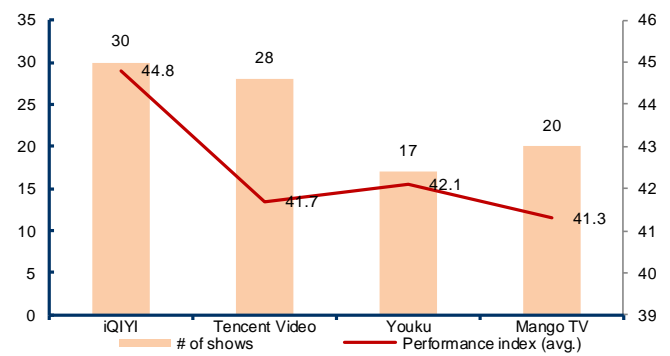
Source: Company data, CMBIGM

Figure 6: No. of dramas in 3Q22 vs. 3Q21



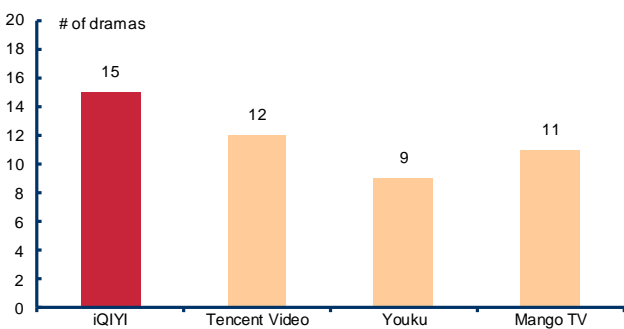
Source: Endata

Figure 7: No. of dramas across platforms in 3Q22



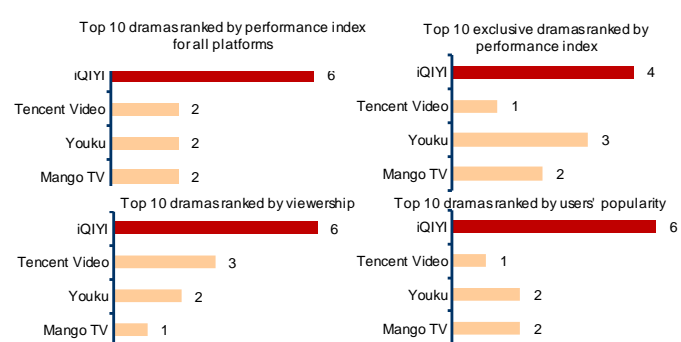
Source: Endata

Figure 8: No. of exclusive dramas by platform in 3Q22



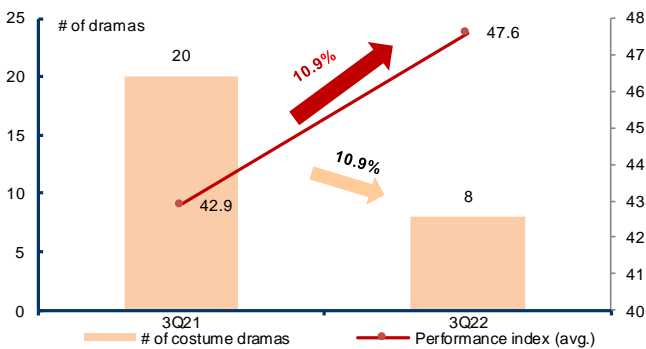
Source: Endata

Figure 9: Rankings by # of dramas in 3Q22



Source: Endata

Figure 10: No. of costume dramas in 3Q22



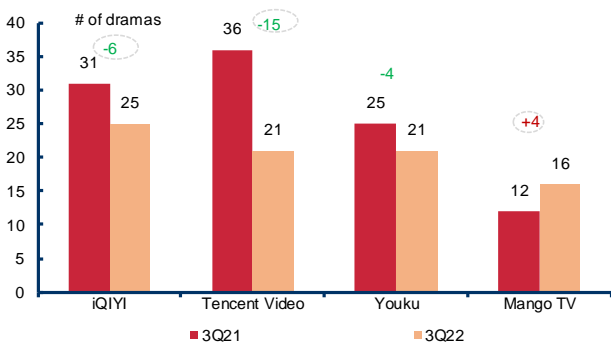
Source: Endata

Figure 11: Top 5 costume dramas in 3Q22

Ranking	Title	Performance index	Platform(s)
1	Love Between Fairy and Devil (苍兰诀)	80.3	iQIYI
5	Love like the galaxy (星汉灿烂·月升沧海)	72.7	Tencent Video
7	Immortal Samsara (沉香如屑·沉香重华)	67.4	Youku
12	Lost Track of Time (覆流年)	61.8	Mango TV
24	Fei Hu Wai Zhuan (飞狐外传)	53.7	Tencent Video

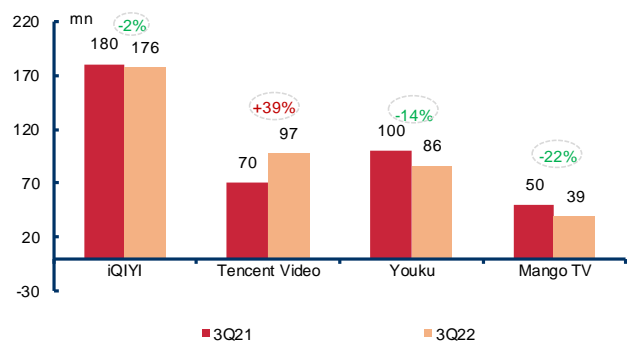
Source: Endata

Figure 12: No. of new variety shows across platforms



Source: Enlightent data

Figure 13: The effective viewership of new variety shows across platforms

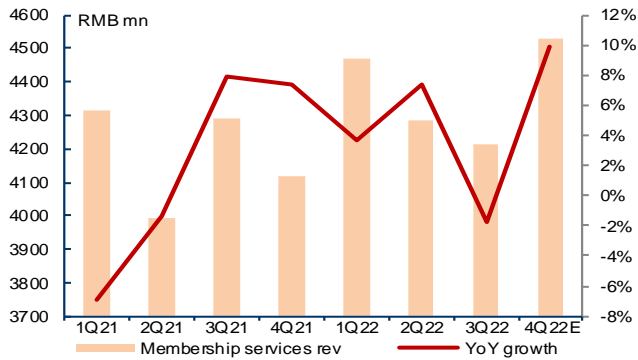


Source: Enlightent data

ARM still in growth trajectory with pricing hike and stronger monetization.

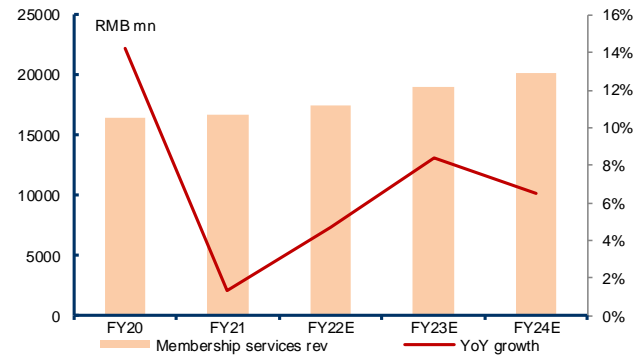
3Q22 ARM grew 2% YoY, backed by previous price hike. We expect further ARM upside, with: 1) rising TV members (with higher price); 2) diverse & premium content to improve member retention; and 3) wider benefits to strengthen monetization. Coupled with subs sequential growth ahead, we expect membership rev to grow 10%/8% YoY in 4Q22E/FY23E.

Figure 14: Quarterly membership services estimates



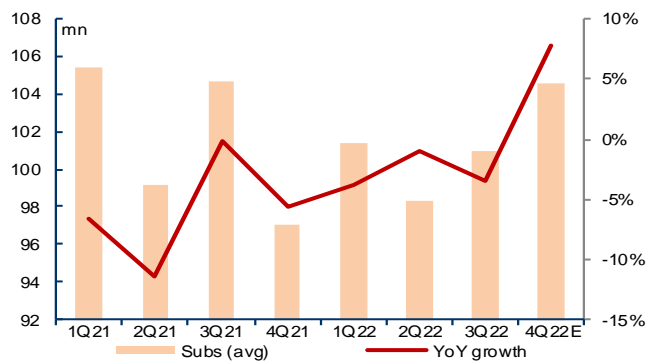
Source: Company data, CMBIGM estimates

Figure 15: Yearly membership services estimates



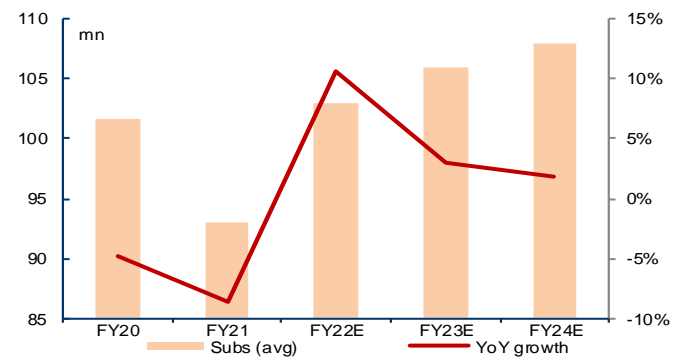
Source: Company data, CMBIGM estimates

Figure 16: Quarterly subs estimates



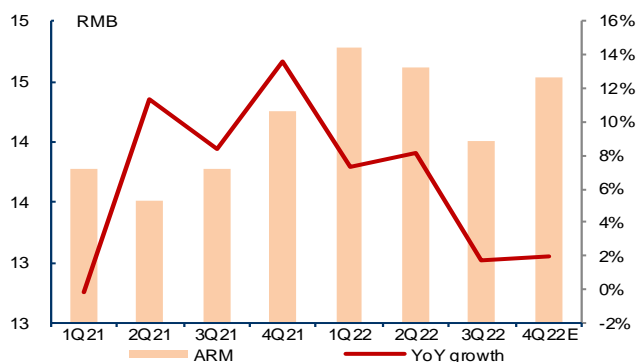
Source: Company data, CMBIGM estimates

Figure 17: Yearly subs rev estimates



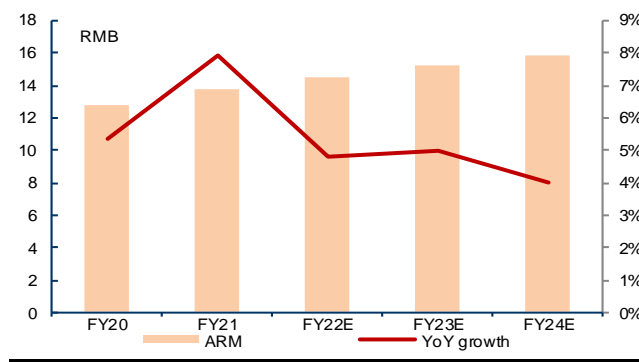
Source: Company data, CMBIGM estimates

Figure 18: Quarterly ARM estimates



Source: Company data, CMBIGM estimates

Figure 19: Yearly ARM estimates

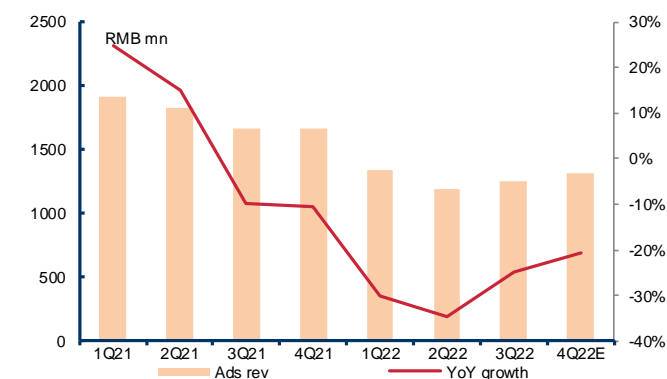


Source: Company data, CMBIGM estimates

Ads to recover in 4Q22E & 1Q23E, although consistent recovery takes time

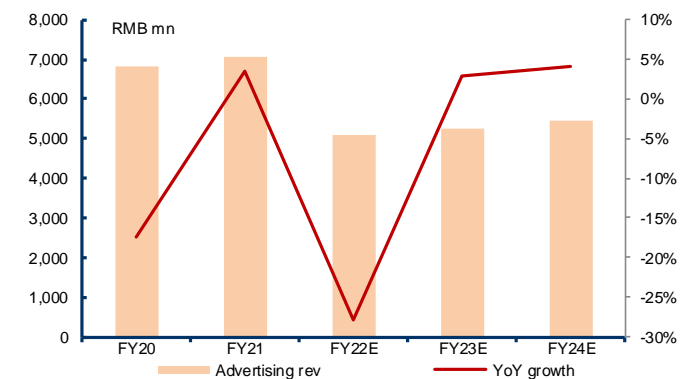
Although iQIYI ads declined 25% YoY in 3Q22, it achieved sequential growth (+4% QoQ) after 2Q22 trough, with ecommerce ads recovery to offset challenging macro. Strong performance of *Love between fairy and devil* should support ads momentum, but ads recovery typically lagged behind subs for brand advertising share lose (to performance ads) and tightening regulations on ads formats. Looking ahead, we expect ads sequential growth to continue in 4Q22E (forecasting +6% QoQ, -21% YoY), with richer content to release. We forecast its ads rev to deliver low single digit YoY growth in FY23/24E.

Figure 20: iQIYI's quarterly ads rev estimates



Source: Company data, CMBIGM estimates

Figure 21: iQIYI's yearly ads rev estimates



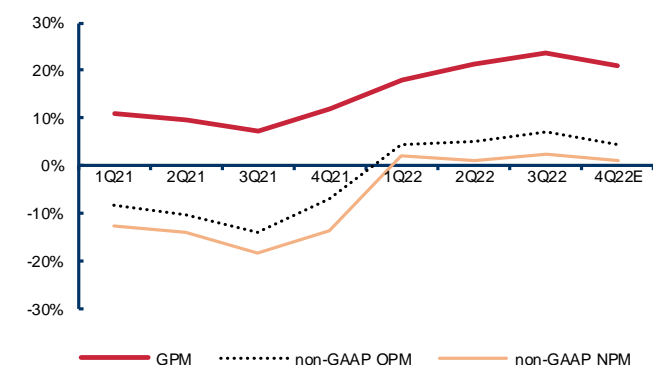
Source: Company data, CMBIGM estimates

Better margin outlook with aggressive cost control

iQIYI cost discipline continued, with non-GAAP OPM at 7.1% in 3Q22 (+2ppts QoQ). GPM came in at 24%, +2.4ppts QoQ, on lower-than-expected content cost for drama series delay. We expect 2H22E to achieve non-GAAP OP at RMB843mn (+26% HoH), with ROI-driven content investment and S&M.

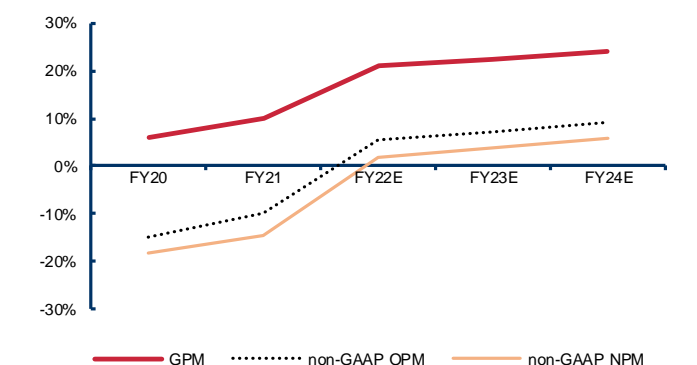
We see high visibility for iQIYI to improve its profitability in the long run, for content cost control, price hike and operating leverage. Mgmt. has upgraded its priority on margin expansion with "calm growth", focusing on investing core biz and higher-ROI projects. We expect iQIYI to achieve non-GAAP OPM at 9% in FY24E (non-GAAP OP at RMB2.9bn), with GPM up to 25%.

Figure 22: Quarterly margin estimates



Source: Company data, CMBIGM estimates

Figure 23: Yearly margin estimates



Source: Company data, CMBIGM estimates

Valuation attractive at historical trough

We resumed coverage with BUY rating, with DCF-based TP of **US\$4.1**, implying **0.8x** FY23E P/S, **21.6x** FY23E P/E. Despite calm growth for subs fluctuation and ads headwinds, we keep confident on iQIYI's long-term sub trend and ads recovery, backed by its vibrant original content pipeline. iQIYI's positive price drivers and catalysts would originate from: 1) hit dramas in 4Q22E to be launched; 2) ads recovery in sight; 3) subs to pick up; and 4) margin improvement. On top of that, we expect iQIYI to benefit from sector re-rating (potential reopening expectation) and regulation easing ahead.

We use DCF valuation as our primary method since it is suitable to apply DCF valuation to internet companies with healthy cash flows in the long run. Assuming a WACC of 13% and a terminal growth rate of 3%, our estimated TP is **US\$4.1**, representing **0.8x** FY23E P/S, **21.6x** FY23E P/E.

Figure 24: DCF Valuation

DCF valuation (RMB mn)										
	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(3,027)	1,537	2,180	2,937	3,637	4,190	4,888	5,547	6,221	6,919
Tax	(97)	(110)	(100)	(200)	(250)	(236)	(387)	(485)	(586)	(684)
D&A	16,766	16,411	13,301	13,828	14,357	14,992	15,504	15,963	16,435	16,918
Working capital	(17,586)	(15,071)	(13,632)	(14,076)	(14,669)	(15,213)	(15,775)	(16,271)	(16,717)	(17,241)
CAPEX	(401)	(833)	(854)	(866)	(948)	(975)	(1,002)	(1,009)	(1,007)	(1,017)
FCF	(4,344)	1,934	895	1,623	2,126	2,757	3,228	3,745	4,346	4,895
FCF Growth		-145%	-54%	81%	31%	30%	17%	16%	16%	13%
Terminal Value										52,430
PV (FCF+ Terminal Value)	(4,344)	1,934	795	1,280	1,489	1,714	1,782	1,836	1,892	22,159

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	34,880
minus: Net cash	9,676
minus: Minority Interest	0
Equity Value	25,204
Shares (mn)	857
Target Price (US\$) based on DCF	4.1

		WACC				
		11%	12%	13%	14%	15%
Growth	1.5%	4.7	4.0	3.6	3.0	2.6
	2.0%	4.9	4.2	3.8	3.1	2.7
	2.5%	5.1	4.3	3.9	3.2	2.7
	3.0%	5.4	4.6	4.1	3.3	2.8
	3.5%	5.7	4.8	4.3	3.4	3.0
	4.0%	6.1	5.1	4.5	3.6	3.1
	4.5%	6.5	5.4	4.8	3.8	3.2

Source: CMBIGM estimates

Figure 25: CMBIGM estimates vs consensus

RMB mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	28,729	30,492	32,075	28,737	30,509	32,097	0.0%	-0.1%	-0.1%
Gross Profit	6,048	6,850	7,755	5,909	6,891	7,858	2.3%	-0.6%	-1.3%
Operating Profit	655	1,245	1,954	577	1,446	2,121	13.6%	-13.9%	-7.9%
Adj. net profit	498	1,198	1,824	130	898	1,452	283.4%	33.4%	25.6%
Adj. EPS (RMB)	0.58	1.36	2.06	0.37	1.00	1.71	58.9%	35.6%	20.3%
Gross Margin	21.1%	22.5%	24.2%	20.6%	22.6%	24.5%	+0.5ppts	-0.1ppts	-0.3ppts
Operating Margin	2.3%	4.1%	6.1%	2.0%	4.7%	6.6%	+0.3ppts	-0.7ppts	-0.5ppts
Adj. net margin	1.7%	3.9%	5.7%	0.5%	2.9%	4.5%	+1.3ppts	+1.0ppts	+1.2ppts

Source: CMBIGM estimates, Bloomberg

As a crosscheck, we selected 4 entertainment giants, 8 subs peers and 5 ads peers for comparison. The industry multiple is **2.3x** FY23E P/S, largely higher than our DCF-based multiple.

Netflix and Mango could be the most comparable one, for the similar business. Currently, Netflix and Mango's FY23E P/S was 3.3x, FY23E P/E was 21x, both above our TP-based multiple. Since Netflix is a clear leader in global market and 98% rev mix from subs, market might prefer to value iQIYI with a multiple at a discount of Netflix. iQIYI is now trading at 0.6x FY23E P/S (or 14.6x FY23E P/E) with attractive valuation. And we think our TP is not demanding for iQIYI, since: 1) iQIYI excelled itself with high-quality original content creation, data analytics to better target user preference and valuable IP reserve; and 2) it would deliver higher earnings CAGR (91% in FY22-24E, vs. 15% for industrial average). Its potential hit drama, ads recovery and subs pick-up would bring further upside, if executed well.

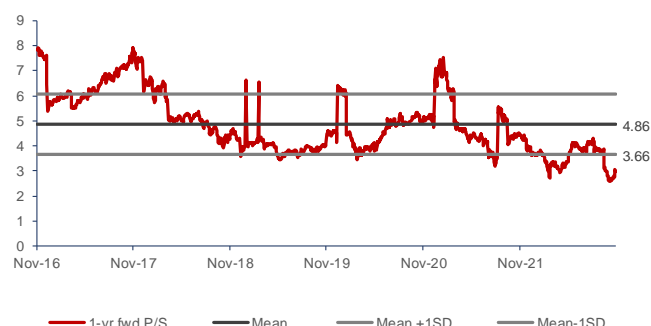
Figure 26: Valuation comps

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			EV/EBIT			FY22-24 EPS CAGR
							FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
iQIYI	IQ US	2,558	USD	3	BUY	4	NA	22.1	12.7	0.6	0.6	0.6	42.1	23.4	15.8	210%
Internet giants																
Tencent	700 HK	366,036	HKD	298	BUY	402	22.4	18.5	15.8	4.7	4.3	3.8	17.3	15.5	13.5	18%
Alibaba	BABA US	231,818	USD	88	BUY	159	11.8	10.3	9.2	1.9	1.7	1.5	12.5	10.5	8.9	13%
Disney	DIS US	178,475	USD	98	NA	NA	24.3	18.7	16.0	2.0	1.8	1.7	18.1	15.1	13.2	25%
Netflix	NFLX US	135,967	USD	306	NA	NA	26.6	25.0	19.7	4.3	4.0	3.6	26.6	23.8	19.0	12%
Average							19.5	15.9	13.7	3.2	2.9	2.7	18.6	16.2	13.6	17%
VAS & Subscribers																
Mango	300413 CH	7,014	CNY	26	NA	NA	23.3	19.6	16.9	3.4	3.0	2.6	18.7	15.7	13.7	17%
Bilibili	BILI US	6,943	USD	17	BUY	21	NA	NA	NA	2.3	1.8	1.5	NA	NA	NA	NA
TME	TME US	12,030	USD	7	BUY	7	18.5	17.2	15.9	3.0	2.9	2.8	16.6	14.6	13.2	11%
Huya	HUYA US	654	USD	3	BUY	4	NA	NA	28.1	0.5	0.5	0.5	NA	NA	NA	NA
Douyu	DOYU US	416	USD	1	NA	NA	NA	39.1	21.2	0.4	0.4	0.4	NA	NA	NA	NA
Momo	MOMO US	1,137	USD	6	HOLD	14	4.8	4.4	4.2	0.7	0.6	0.6	0.3	0.3	0.2	8%
YY	YY US	2,159	USD	30	BUY	50	12.9	12.1	10.5	0.9	0.8	0.8	NA	NA	NA	17%
China Literature	772 HK	3,657	HKD	28	NA	NA	19.6	16.3	14.1	3.1	2.8	2.6	20.3	13.0	11.1	18%
Average							15.8	13.9	13.8	1.8	1.6	1.5	14.0	10.9	9.6	14%
Advertising																
Baidu	BIDU US	37,527	USD	109	BUY	193	13.6	12.1	10.3	2.2	1.9	1.8	11.5	10.4	8.7	13%
Weibo	WB US	3,771	USD	16	BUY	20	7.6	7.0	6.5	2.0	2.0	1.8	6.5	6.1	5.3	9%
Facebook	META US	313,148	USD	118	NA	NA	11.7	13.6	12.1	2.7	2.6	2.3	9.5	10.9	9.1	10%
Snapchat	SNAP US	16,631	USD	10	NA	NA	72.4	58.9	26.4	3.6	3.3	2.8	NA	NA	56.4	98%
Twitter	TWTR US	41,094	USD	54	NA	NA	NA	NA	NA	7.8	7.0	6.0	NA	NA	NA	10%
Average							11.0	10.9	9.6	2.6	2.4	2.2	9.2	9.1	7.7	11%
Average							15.4	13.6	12.4	2.5	2.3	2.1	13.9	12.1	10.3	14%

Source: Bloomberg, CMBIGM estimates

Figure 27: IQ historical P/S

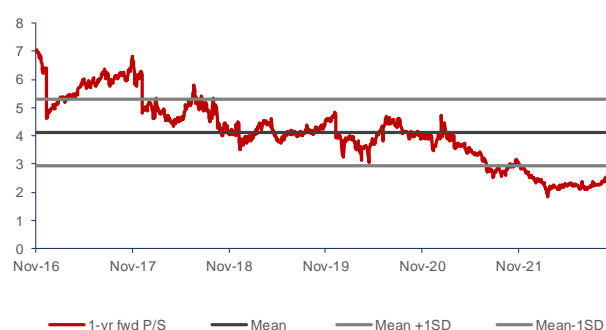
Source: Bloomberg, CMBIGM estimates

Figure 28: Core Internet historical P/S

Source: Bloomberg, CMBIGM estimates

Figure 29: Core Internet historical P/E

Source: Bloomberg, CMBIGM estimates

Figure 30: Entertainment historical P/S

Source: Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks may derive from: 1) key content delay; 2) regulation uncertainty; 3) slower-than-expected ads recovery for macro uncertainty; and 4) external financing need.

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	29,707	30,554	28,729	30,492	32,075
Membership services	16,491	16,714	17,497	18,970	20,203
Online advertising services	6,822	7,067	5,098	5,241	5,461
Content distribution	2,660	2,856	2,713	2,767	2,822
Others	3,734	3,918	3,422	3,514	3,588
COGS	(27,884)	(27,513)	(22,681)	(23,642)	(24,320)
Gross profit	1,823	3,041	6,048	6,850	7,755
S&M	(5,188)	(4,725)	(3,351)	(3,483)	(3,627)
Admin.Exp.					
R&D	(2,675)	(2,795)	(2,042)	(2,121)	(2,174)
Operating profit	(6,041)	(4,479)	655	1,245	1,954
Other income/(exp), net	(943)	(1,533)	(1,099)	(822)	(849)
Pre-tax Income	(6,984)	(6,012)	(444)	423	1,104
Income Tax	(23)	(97)	(110)	(100)	(200)
Net profit	(7,077)	(6,251)	(589)	323	904
Adj. net profit	(5,476)	(4,549)	480	1,198	1,824

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net income	(7,038)	(6,170)	(571)	323	904
D&A	17,196	16,766	16,411	13,301	13,828
Change in WC	(16,613)	(17,586)	(15,071)	(13,632)	(14,076)
Others	1,014	977	824	874	920
Operating CF	(5,442)	(6,013)	1,592	867	1,576
Capex	(392)	(401)	(833)	(854)	(866)
Purchase of long-term investments	(1,051)	(386)	-	-	-
Others	1,602	2,049	-	-	-
Investing CF	159	1,262	(833)	(854)	(866)
Equity raised	10	268	-	-	-
Change of Debts	(369)	259	-	1,647	(576)
Cash from CB raised	5,151	632	-	-	-
Others	4,582	(4,119)	1,899	-	-
Financing CF	9,374	(2,959)	1,899	1,647	(576)
Net change in cash	4,000	(7,927)	2,658	1,660	134
Cash (beg of yr)	6,910	10,941	3,075	5,733	7,393
FX	(91)	(217)	-	-	-
Cash (end of yr)	10,941	3,075	5,733	7,393	7,527

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	25,895	30,948	28,803	30,286	31,851
Fixed asset	1,393	1,345	1,577	1,810	2,019
Long-term investments	3,203	3,035	3,035	3,035	3,035
Licensed copyrights, net	6,435	7,258	6,517	6,869	7,156
Others	14,864	19,310	17,674	18,571	19,640
Current assets	22,290	11,524	13,885	15,664	15,909
Cash	10,915	2,997	5,655	7,315	7,449
Restricted cash	25	78	78	78	78
Short-term investments	3,358	1,348	1,348	1,348	1,348
Account receivable	3,344	2,748	2,741	2,867	2,972
Others	4,647	4,353	4,063	4,055	4,061
Current liabilities	24,855	22,476	20,541	22,605	22,591
Account payable	7,562	8,896	7,458	7,709	7,930
Customer advances and deferred revenue	3,445	3,485	3,420	3,630	3,818
Accrued liabilities	3,241	3,172	2,768	2,885	2,968
Short-term borrowings	2,966	4,118	4,118	5,765	5,188
Others	7,641	2,806	2,777	2,616	2,686
Non-current liabilities	13,887	14,323	14,323	14,323	14,323
Convertible senior notes	11,927	12,652	12,652	12,652	12,652
Others	1,960	1,670	1,670	1,670	1,670
MI	79	88	88	88	88
Total Equity	9,415	5,364	7,515	8,713	10,537
Shareholders' equity	9,336	5,276	7,427	8,625	10,449

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Membership services	55.5	54.7	60.9	62.2	63.0
Online advertising services	23.0	23.1	17.7	17.2	17.0
Content distribution	9.0	9.3	9.4	9.1	8.8
Others	12.6	12.8	11.9	11.5	11.2
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	2.5	2.9	(6.0)	6.1	5.2
Gross profit	(234.6)	66.8	98.9	13.3	13.2
EBIT	NA	NA	NA	90.0	56.9
Adj. net profit	NA	NA	NA	149.7	52.3
P&L ratios (%)					
Operating margin	(20.3)	(14.7)	2.3	4.1	6.1
Pre-tax margin	(23.5)	(19.7)	(1.5)	1.4	3.4
Adj. net margin	(18.4)	(14.9)	1.7	3.9	5.7
Effective tax rate	(0.1)	(0.3)	(0.4)	(0.3)	(0.6)
Returns (%)					
ROE	(73.9)	(106.0)	(5.7)	4.7	10.2
ROA	(11.4)	(10.7)	1.1	2.6	3.8
Per share					
EPS (RMB)	(7.36)	(5.64)	0.58	1.36	2.06
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	1.82	0.96	1.25	1.41	1.70

Source: Company data, CMBIGM estimates

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