

# iQIYI (IQ US)

## Increased mini-drama investment weighs on 1Q25E earnings

We expect iQiyi 1Q25E total revenue to decline by 11% YoY but increase by 7% QoQ to RMB7.08bn, in line with Bloomberg consensus estimate; and 1Q25E non-GAAP operating income to grow by 6% QoQ to RMB430mn, below consensus estimate of RMB597mn, as iQiyi stepped up content and marketing investment in mini dramas. Supported by the stepped-up investment, mini dramas have become iQiyi's top-three content category in terms of mobile user time spend, but we expect it still takes time for mini dramas to make meaningful revenue contribution. Overall, we maintain our FY25-27E total revenue forecast largely unchanged, but trim our FY25-27E non-GAAP net income forecast to RMB1.4/1.6/1.8bn (previous: RMB1.5/1.7/1.9bn) in view of the increased investment in mini dramas. We lower our target price to US\$2.60 based on 13x FY25E PE (previous: US\$2.80 on 13x FY25E PE). Maintain BUY.

- **Inline membership business while ad business was impacted by macro uncertainty in 1Q25.** By segment, 1) we forecast membership revenue to decline by 8% YoY but grow by 7% QoQ to RMB4.4bn in 1Q25E, largely in line with consensus and our previous expectation, thanks to the solid performance of key titles like *Drifting Away*. Several quality dramas are lined up for launch in 2Q25E, including *The Demon Hunter's Romance* and *Jie Ming Er Sheng*. 2) We expect online advertising revenue to decline by 13% YoY and 10% QoQ in 1Q25E, below our previous expectation as the macro uncertainty weighed on advertiser sentiment and impacted brand ad revenue growth. 3) We expect content distribution & others revenue to increase by 28% QoQ in 1Q25E, ahead of our previous estimate, mainly due to the earlier-than-expected launch of a TV drama and the better-than-expected performance of a new game title.
- **Stepping up investment in mini dramas.** In 1Q25, iQiyi stepped up investment in mini-drama content and promotion. The company has revamped *iQiyi Light* app, which will focus on short & mini dramas in the future. Mini dramas have become iQiyi's top-three content category in terms of user time spend and viewership on mobile devices. And iQiyi has also improved the ad monetization infrastructure for the mini-drama ecosystem, which we expect to gradually drive ad revenue growth of iQiyi.
- **Expect non-GAAP OPM to remain steady QoQ in 1Q25E.** We expect iQiyi GPM to decline from 24.5% in 4Q24 to 24.1% in 1Q25E, mainly due to increased content investment in mini dramas. We forecast S&M expenses to grow by 11% YoY and 9% QoQ in 1Q25E, as iQiyi increased marketing spending on mini dramas and the new game titles. Overall, we expect non-GAAP OPM to remain stable QoQ at 6.1% in 1Q25E, as the increased content & marketing spending is offset by the operating leverage.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	32,018	29,225	28,507	28,978	29,397
YoY growth (%)	10.4	(8.7)	(2.5)	1.7	1.4
Gross margin (%)	27.8	24.9	24.8	25.3	26.0
Adjusted net profit (RMB mn)	2,984.1	1,512.2	1,417.2	1,612.3	1,823.5
EPS (Adjusted) (RMB)	3.13	1.57	1.47	1.68	1.88
Consensus EPS (RMB)	3.13	1.57	1.81	2.30	2.91
P/S (x)	0.4	0.4	0.4	0.4	0.4

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$2.60  
(Previous TP) US\$2.80  
**Up/Downside** 57.6%  
**Current Price** US\$1.65

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### Stock Data

Mkt Cap (US\$ mn)	1,588.1
Avg 3 mths t/o (US\$ mn)	64.2
52w High/Low (US\$)	5.79/1.53
Total Issued Shares (mn)	962.5

Source: FactSet

### Shareholding Structure

Baidu	45.1%
PAG	12.2%

Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-33.7%	-27.5%
3-mth	-14.9%	2.5%
6-mth	-30.1%	-21.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts update and valuation

Figure 1: iQiyi: forecast revision

RMBbn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	28.5	29.0	29.4	28.6	29.1	29.5	-0.3%	-0.4%	-0.4%
Gross profit	7.1	7.3	7.6	7.2	7.4	7.7	-1.1%	-1.1%	-1.1%
Operating profit	1.7	1.9	2.2	2.0	2.2	2.5	-14.8%	-13.4%	-12.1%
Non-GAAP net profit	1.4	1.6	1.8	1.5	1.7	1.9	-7.9%	-7.1%	-6.4%
Non-GAAP EPS (RMB)	1.5	1.7	1.9	1.6	1.8	2.0	-7.9%	-7.1%	-6.4%
Gross margin	24.8%	25.3%	26.0%	25.0%	25.5%	26.2%	-0.2 ppt	-0.2 ppt	-0.2 ppt
Operating margin	5.8%	6.6%	7.5%	6.8%	7.6%	8.5%	-1.0 ppt	-1.0 ppt	-1.0 ppt
Non-GAAP net margin	5.0%	5.6%	6.2%	5.4%	6.0%	6.6%	-0.4 ppt	-0.4 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

RMBbn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	28.5	29.0	29.4	29.3	30.4	31.7	-2.6%	-4.6%	-7.3%
Gross Profit	7.1	7.3	7.6	7.5	8.0	8.6	-5.0%	-8.3%	-11.6%
Operating Profit	1.7	1.9	2.2	2.1	2.6	3.0	-22.5%	-26.7%	-27.2%
Non-GAAP net profit	1.4	1.6	1.8	1.7	2.1	2.5	-16.0%	-23.0%	-28.0%
Non-GAAP EPS (RMB)	1.5	1.7	1.9	1.8	2.3	2.9	-19.6%	-28.0%	-35.5%
Gross Margin	24.8%	25.3%	26.0%	25.5%	26.3%	27.2%	-0.6 ppt	-1.0 ppt	-1.3 ppt
Operating Margin	5.8%	6.6%	7.5%	7.3%	8.6%	9.5%	-1.5 ppt	-2.0 ppt	-2.0 ppt
Non-GAAP net margin	5.0%	5.6%	6.2%	5.8%	6.9%	8.0%	-0.8 ppt	-1.3 ppt	-1.8 ppt

Source: CMBIGM estimates, Bloomberg

## Valuation

We value iQiyi at US\$2.60 per share based on 13x 2025E P/E. Our target PE multiple is at a discount to the sector average (30x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	2025E
2025E Non-GAAP EPADS (RMB)	1.46
Target 2025E PE	13.0
Target Price (CNY)	18.97
Target Price (US\$)	2.60

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	961.6	48.5	38.7	31.7	10.6	9.3	8.3	35%
Disney	DIS US	82.8	16.7	15.2	13.8	1.6	1.6	1.5	18%
Spotify	SPOT US	563.1	NA	49.5	38.1	7.1	5.6	4.8	NA
TME	TME US	12.3	19.3	16.7	14.1	5.4	5.0	4.5	20%
<b>Average</b>			<b>28.2</b>	<b>30.0</b>	<b>24.4</b>	<b>6.2</b>	<b>5.4</b>	<b>4.8</b>	

Source: Bloomberg, CMBIGM

Note: data as of 16 Apr

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,998	32,018	29,225	28,507	28,978	29,397
Cost of goods sold	(22,319)	(23,102)	(21,954)	(21,426)	(21,649)	(21,765)
Gross profit	6,678	8,916	7,272	7,081	7,329	7,632
Operating expenses	(5,366)	(5,781)	(5,460)	(5,416)	(5,419)	(5,438)
SG&A expense	(3,467)	(4,014)	(3,682)	(3,625)	(3,655)	(3,708)
R&D expense	(1,899)	(1,767)	(1,778)	(1,792)	(1,763)	(1,730)
Operating profit	1,312	3,135	1,811	1,664	1,910	2,193
Share of (losses)/profits of associates/JV	(213)	(51)	18	18	18	18
EBIT	1,099	3,084	1,829	1,682	1,928	2,211
Interest income	70	257	272	299	299	299
Interest expense	(715)	(1,130)	(1,062)	(995)	(995)	(995)
Foreign exchange gain/loss	(168)	(105)	(97)	0	0	0
Other income/expense	(319)	73	(90)	0	0	0
Pre-tax profit	(34)	2,178	852	987	1,232	1,516
Income tax	(84)	(80)	(61)	(89)	(148)	(227)
After tax profit	(118)	2,098	791	898	1,085	1,288
Minority interest	18	27	27	0	0	0
Net profit	(136)	2,071	764	898	1,085	1,288
Adjusted net profit	1,284	2,984	1,512	1,417	1,612	1,824
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	13,786	12,635	9,527	11,896	13,412	15,135
Cash & equivalents	7,098	4,435	3,530	4,964	6,372	8,002
Restricted cash	14	6	0	0	0	0
Account receivables	2,403	2,169	2,191	2,048	2,003	1,951
Prepayment	2,603	2,794	2,193	2,139	2,174	2,206
Other current assets	1,668	3,231	1,613	2,745	2,862	2,977
Non-current assets	32,263	31,959	36,233	37,890	38,174	38,394
PP&E	1,105	864	878	1,389	1,420	1,453
Right-of-use assets	674	684	610	610	610	610
Deferred income tax	0	0	24	24	24	24
Investment in JVs & assos	2,454	2,261	2,108	2,108	2,108	2,108
Intangibles	437	310	290	1,153	1,297	1,444
Goodwill	3,826	3,821	3,821	3,276	3,276	3,276
Other non-current assets	23,768	24,020	28,503	29,330	29,438	29,479
Total assets	46,048	44,594	45,761	49,787	51,586	53,530
Current liabilities	28,130	22,342	21,477	20,323	20,516	20,643
Short-term borrowings	3,348	3,572	3,787	3,787	3,787	3,787
Account payables	5,993	5,671	6,482	5,931	5,992	6,024
Other current liabilities	16,059	10,129	8,053	7,867	7,971	8,051
Lease liabilities	104	101	97	97	97	97
Accrued expenses	2,626	2,869	3,058	2,642	2,669	2,683
Non-current liabilities	11,575	10,068	10,909	10,909	10,909	10,909
Long-term borrowings	0	98	1,037	1,037	1,037	1,037
Convertible bonds	9,568	8,144	8,351	8,351	8,351	8,351
Other non-current liabilities	2,007	1,826	1,522	1,522	1,522	1,522
Total liabilities	39,705	32,409	32,387	31,232	31,425	31,552
Share capital	1	1	1	1	1	1
Capital surplus	50,886	54,971	55,624	59,428	59,949	60,479
Retained earnings	(46,499)	(44,573)	(43,809)	(43,425)	(42,340)	(41,052)
Other reserves	1,863	1,688	1,551	2,543	2,543	2,543
Total shareholders equity	6,251	12,087	13,366	18,547	20,153	21,970
Minority interest	93	98	8	8	8	8
Total equity and liabilities	46,048	44,594	45,761	49,787	51,586	53,530

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(34)	2,178	852	987	1,232	1,516
Depreciation & amortization	13,655	14,091	18,005	17,804	16,838	16,268
Tax paid	(84)	(80)	(61)	(89)	(148)	(227)
Change in working capital	(14,493)	(13,358)	(12,274)	(14,292)	(12,749)	(12,164)
Others	885	666	(4,412)	1,058	522	529
<b>Net cash from operations</b>	<b>(71)</b>	<b>3,497</b>	<b>2,110</b>	<b>5,468</b>	<b>5,694</b>	<b>5,921</b>
<b>Investing</b>						
Capital expenditure	(270)	(105)	(441)	(431)	(438)	(444)
Others	536	(1,635)	(2,003)	(3,810)	(3,848)	(3,848)
<b>Net cash from investing</b>	<b>266</b>	<b>(1,740)</b>	<b>(2,445)</b>	<b>(4,240)</b>	<b>(4,286)</b>	<b>(4,292)</b>
<b>Financing</b>						
Net borrowings	7,726	9,049	422	0	0	0
Others	(3,257)	(13,334)	(1,792)	0	0	0
<b>Net cash from financing</b>	<b>4,469</b>	<b>(4,285)</b>	<b>(1,370)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,075	7,862	5,427	3,737	4,964	6,372
Exchange difference	122	92	15	0	0	0
<b>Cash at the end of the year</b>	<b>7,862</b>	<b>5,427</b>	<b>3,737</b>	<b>4,964</b>	<b>6,372</b>	<b>8,002</b>
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Revenue	(5.1%)	10.4%	(8.7%)	(2.5%)	1.7%	1.4%
Gross profit	119.6%	33.5%	(18.4%)	(2.6%)	3.5%	4.1%
Operating profit	na	138.9%	(42.2%)	(8.1%)	14.8%	14.8%
EBIT	na	180.6%	(40.7%)	(8.0%)	14.6%	14.7%
Net profit	na	na	(63.1%)	17.5%	20.8%	18.8%
Adj. net profit	na	132.4%	(49.3%)	(6.3%)	13.8%	13.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Gross profit margin	23.0%	27.8%	24.9%	24.8%	25.3%	26.0%
Operating margin	4.5%	9.8%	6.2%	5.8%	6.6%	7.5%
Adj. net profit margin	4.4%	9.3%	5.2%	5.0%	5.6%	6.2%
Return on equity (ROE)	(2.3%)	22.6%	6.0%	5.6%	5.6%	6.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.1)	0.1	(0.0)	(0.1)	(0.1)
Current ratio (x)	0.5	0.6	0.4	0.6	0.7	0.7
Receivable turnover days	30.2	24.7	27.4	26.2	25.2	24.2
Payable turnover days	98.0	89.6	107.8	101.0	101.0	101.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
P/E	ns	5.5	15.2	12.9	10.7	9.1
P/E (diluted)	ns	5.7	15.3	13.0	10.8	9.1
P/B	1.6	0.9	0.9	0.6	0.6	0.5

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

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