

iQIYI (IQ US)

Moving into 2021 rich content pipeline

iQIYI delivered in-line 4Q20 results, with rev -0.5% YoY (in line with consensus) and net loss beat. 1Q21E rev guidance beat 0.7%. Subs might see sequential growth in 1Q21E for blockbuster content release, while soft in 2Q21E with moderate content, in our view. In the long run, we keep bullish on its subs momentum and ads recovery, backed by rich content pipeline, price hike, and improving ads sentiment. We slightly lifted its rev by 0.4%/1.7% in FY21/22E with better margin, thus setting a higher DCF-based TP of US\$30.2.

- **4Q20 in line.** 4Q20 rev was RMB7.5bn, -0.5% YoY, in line with consensus. GAAP net loss narrowed 37.9% YoY to RMB1.5bn, vs. consensus -RMB1.8bn. Margin surprised on well-managed content cost. We expect content cost to be flat in 1Q21E and content cost/rev ratio to decrease to 65% in FY21E. 1Q21E rev guidance came in at RMB7.07-7.53bn, -8% to -2% YoY, with midpoint 0.7% above consensus.
- **Rich content pipeline to drive 2021 subs.** iQIYI's subscribers -4.9% YoY to 101.7mn in 4Q20, mainly due to content delay (film and drama supply) since COVID-19. Mgmt are positive on subs outlook in 2021, for rich high-quality content pipeline, coupled with eye-catching CNY movies (to be released in iQiyi later). 1Q21E content pipeline might bring subs upside, such as *My heroic Husband* <赘婿>, *Youth With You Season 3* <青春3>. Mgmt expected limited adverse effect with Android price hikes thanks to good retention rate for existing Android subs (with guaranteed price promotion) and new subs. 4Q20/2020 monthly ARPU +1.8%/+5.9% YoY to RMB12.4 /RMB13.3. We forecast its subs rev to grow sequentially in 1Q21E. We are bullish on ARPU's further upside, backed by rich content pipeline (esp. innovative drama series and blockbuster variety show), previous price hike, and fewer discount.
- **Ads recovery on track.** Online ads +1.0% QoQ/ -1.3% YoY, recovering sequentially. No. of branding advertisers recovered to almost 2019 level. We expect ads to see double-digit YoY growth in 1Q21E (stable QoQ), with ads sentiment rebound and high-quality content release since mid 4Q20.
- **Maintain BUY.** To reflect solid topline recovery and margin trend, we slightly lifted its rev by 0.4%/1.7% in FY21/22E, with higher TP of US\$30.2 (4.4x/3.8x FY21/22E P/S) from US\$23.2. The stock is trading at 3.6x/3.1x FY21/22E P/S, not demanding in our view. We expect subs to recover moderately in 2H21E, and price hikes to unlock long-term potential.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	28,994	29,707	32,538	37,111	41,543
YoY growth (%)	16.0	2.5	9.5	14.1	11.9
Adj. net income (RMB mn)	(8,765)	(5,516)	(4,210)	(987)	1,783
Adj. EPS (RMB)	(12.0)	(7.4)	(5.5)	(1.3)	2.3
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(5.6)	(2.0)	(0.9)
P/E (x)	NA	NA	NA	NA	NA
P/B (x)	4.0	3.9	3.6	3.1	2.8
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(105)	(75)	(90)	(48)	2
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$30.2
(Previous TP	US\$23.2)
Up/Downside	+18.0%
Current Price	US\$25.6

China Internet Sector

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Stock Data

Mkt Cap (US\$ mn)	19,789
Avg 3 mths t/o (US\$ mn)	249.61
52w High/Low (US\$)	28.03/ 14.51
Total Issued Shares (mn)	377

Source: Bloomberg

Shareholding Structure

Morgan Stanley	60.1%
Hillhouse Capital Advisors	10.3%
Goldman Sachs	6.7%

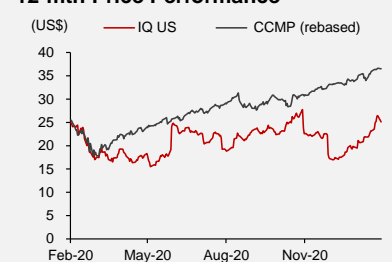
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	27.1%	17.6%
3-mth	-9.6%	-23.2%
6-mth	30.4%	2.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 4Q20 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY	Consensus	Diff %
Revenue	6,990	7,110	7,397	7,497	7,650	7,412	7,188	7,458	3.8%	-0.5%	7,463	-0.1%
Operating profit	(2,026)	(1,872)	(2,832)	(2,529)	(2,242)	(1,282)	(1,210)	(1,307)	8.1%	-48.3%	(1,571)	NA
Net profit	(1,814)	(2,327)	(3,688)	(2,495)	(2,876)	(1,444)	(1,176)	(1,549)	31.7%	-37.9%	(1,824)	NA
Adj. net profit	(1,508)	(1,962)	(3,394)	(1,901)	(2,482)	(956)	(829)	(1,249)	50.6%	-34.3%	(1,610)	NA
EPS (RMB)	(17.64)	(22.54)	(35.28)	(3.43)	(3.92)	(1.96)	(1.61)	(2.10)	30.4%	-38.8%	(2.16)	NA
Margin (%)												
Gross margin	-4.1%	1.8%	-10.5%	-5.6%	-3.3%	7.8%	11.5%	9.0%			6.8%	
Operating margin	-29.0%	-26.3%	-38.3%	-33.7%	-29.3%	-17.3%	-16.8%	-17.5%			-21.0%	
Adj. net margin	-21.6%	-27.6%	-45.9%	-25.4%	-32.4%	-12.9%	-11.5%	-16.8%			-21.6%	
Growth (%)												
Revenue (YoY)	43.3%	15.2%	7.0%	6.7%	9.4%	4.2%	-2.8%	-0.5%			-0.5%	
Revenue (QoQ)	-0.5%	1.7%	4.0%	1.3%	2.0%	-3.1%	-3.0%	3.8%			3.8%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 2: 4Q20 revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
Revenue (RMB mn)	6,990	7,110	7,397	7,497	7,650	7,412	7,188	7,458	3.8%	-0.5%
Membership Services	3,445	3,412	3,717	3,861	4,634	4,046	3,976	3,835	-3.5%	-0.7%
Online Advertising	2,119	2,201	2,067	1,883	1,537	1,586	1,840	1,859	1.0%	-1.3%
Other	983	979	932	874	876	919	980	960	-2.0%	9.7%
Content Distribution	443	518	680	878	603	861	392	804	105.0%	-8.4%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	32,538	37,111	41,543	32,850	37,436	41,705	-1.0%	-0.9%	-0.4%
Gross Profit	3,973	7,255	9,918	3,621	6,329	9,341	9.7%	14.6%	6.2%
Operating Profit	(4,345)	(1,193)	1,397	(4,420)	(1,530)	620	NA	NA	125.3%
Adj. net profit	(4,210)	(987)	1,783	(4,593)	(1,658)	228	NA	NA	681.4%
EPS (RMB)	(5.50)	(1.28)	2.29	(5.58)	(1.96)	(0.89)	NA	NA	-358.5%
Gross Margin	12.2%	19.5%	23.9%	11.0%	16.9%	22.4%	+1.2ppts	+2.6ppts	+1.5ppts
Operating Margin	-13.4%	-3.2%	3.4%	-13.5%	-4.1%	1.5%	+0.1ppts	+0.9ppts	+1.9ppts
Net Margin	-12.9%	-2.7%	4.3%	-14.0%	-4.4%	0.5%	+1.0ppts	+1.8ppts	+3.7ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	32,538	37,111	41,543	32,395	36,473	NA	0.4%	1.7%	NA
Gross Profit	3,973	7,255	9,918	3,930	6,859	NA	1.1%	5.8%	NA
Operating Profit	(4,345)	(1,193)	1,397	(4,352)	(1,445)	NA	NA	NA	NA
Adj. net profit	(4,210)	(987)	1,783	(4,223)	(1,264)	NA	NA	NA	NA
EPS (RMB)	(5.50)	(1.28)	2.29	(5.58)	(1.65)	NA	NA	NA	NA
Gross Margin	12.2%	19.5%	23.9%	12.1%	18.8%	NA	+0.1ppts	+0.7ppts	NA
Operating Margin	-13.4%	-3.2%	3.4%	-13.4%	-4.0%	NA	+0.1ppts	+0.7ppts	NA
Net Margin	-12.9%	-2.7%	4.3%	-13.0%	-3.5%	NA	+0.1ppts	+0.8ppts	NA

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	28,994	29,707	32,538	37,111	41,543
Membership services	14,436	16,491	17,822	20,734	23,409
Online advertising services	8,271	6,822	7,926	8,751	9,541
Content distribution	2,519	2,660	2,494	2,594	2,724
Others	3,768	3,734	4,295	5,033	5,869
COGS	(30,348)	(27,884)	(28,565)	(29,857)	(31,624)
Gross profit	(1,355)	1,823	3,973	7,255	9,918
S&M	(3,888)	(3,883)	(4,110)	(4,261)	(4,354)
Admin.Exp.	(1,348)	(1,350)	(1,389)	(1,195)	(1,150)
R&D	(2,667)	(2,697)	(2,819)	(2,993)	(3,018)
Operating profit	(9,258)	(6,107)	(4,345)	(1,193)	1,397
Other income/(exp), net	(967)	(943)	(1,117)	(1,228)	(1,253)
Pre-tax Income	(10,225)	(7,051)	(5,462)	(2,421)	144
Income Tax	(52)	(23)	(50)	(50)	(23)
Net profit	(10,325)	(7,045)	(5,512)	(2,471)	121
Adj. net profit	(8,765)	(5,516)	(4,210)	(987)	1,783

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(10,277)	(7,007)	(5,512)	(2,471)	121
D&A	17,169	15,650	13,658	13,228	12,388
Change in WC	(4,206)	-	(978)	(3,309)	(1,701)
Others	1,221	(14,054)	1,914	1,484	1,662
Operating CF	3,907	(5,411)	9,082	8,932	12,469
Capex	(12,831)	(11,194)	(15,453)	(11,295)	(14,509)
Purchase of long-term investments	(706)	(221)	-	-	-
Others	1,788	11,574	-	-	-
Investing CF	(11,750)	159	(15,453)	(11,295)	(14,509)
Equity raised	107	-	-	-	-
Change of Debts	350	765	4,000	1,000	-
Cash from CB raised	7,910	4,382	-	-	-
Others	(486)	4,227	-	-	-
Financing CF	7,880	9,374	4,000	1,000	-
Net change in cash	150	4,031	(2,371)	(1,363)	(2,040)
Cash (beg of yr)	6,760	6,910	10,941	8,570	7,207
FX	112	(91)	-	-	-
Cash (end of yr)	6,910	10,941	8,570	7,207	5,167

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	24,520	25,895	29,318	30,597	35,101
Fixed asset	1,754	1,393	2,173	2,499	2,879
Long-term investments	2,982	3,203	3,203	3,203	3,203
Licensed copyrights, net	6,287	6,435	8,137	10,057	11,361
Others	13,496	14,864	15,805	14,839	17,657
Current assets	20,273	22,290	20,642	20,513	19,137
Cash	5,935	10,915	8,545	7,182	5,142
Restricted cash	975	25	25	25	25
Short-term investments	4,579	3,358	3,358	3,358	3,358
Account receivable	3,628	3,344	3,729	4,152	4,534
Others	5,156	4,647	4,985	5,796	6,078
Current liabilities	20,173	24,855	30,025	32,162	33,507
Account payable	8,212	7,562	8,080	8,445	8,945
Customer advances and deferred revenue	3,081	3,445	3,773	4,303	4,817
Accrued liabilities	3,795	3,241	3,522	3,681	3,899
Short-term borrowings	2,618	2,966	6,966	7,966	7,966
Others	2,466	7,641	7,685	7,767	7,880
Non-current liabilities	14,904	13,887	13,887	13,887	13,887
Convertible senior notes	12,297	11,927	11,927	11,927	11,927
Others	2,608	1,960	1,960	1,960	1,960
MI	42	79	79	79	79
Total Equity	9,656	9,415	5,204	4,217	6,000
Shareholders' equity	9,613	9,336	5,125	4,138	5,921

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Membership services	49.8	55.5	54.8	55.9	56.3
Online advertising services	28.5	23.0	24.4	23.6	23.0
Content distribution	8.7	9.0	7.7	7.0	6.6
Others	13.0	12.6	13.2	13.6	14.1
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	16.0	2.5	9.5	14.1	11.9
Gross profit	(36.8)	(234.6)	117.9	82.6	36.7
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(31.9)	(20.6)	(13.4)	(3.2)	3.4
Pre-tax margin	(35.3)	(23.7)	(16.8)	(6.5)	0.3
Adj. net margin	(30.2)	(18.6)	(12.9)	(2.7)	4.3
Effective tax rate	0.5	0.3	0.9	2.1	(16.0)
Returns (%)					
ROE	(105.2)	(74.7)	(90.3)	(47.8)	2.1
ROA	(19.6)	(11.4)	(8.4)	(1.9)	3.3
Per share					
EPS (RMB)	(11.97)	(7.42)	(5.50)	(1.28)	2.29
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	9.49	14.80	11.19	9.31	6.64

Source: Company data, CMBIS estimates

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