

iQIYI (IQ US)

2Q25E preview: total revenue under pressure but earnings outlook intact

We expect iQiyi 2Q25E total revenue to decrease by 11%/8% YoY/QoQ to RMB6.62bn, 8% below Bloomberg consensus estimate, mainly due to: 1) delay of certain TV dramas; 2) weaker-than-expected performance-based ad business amid soft sentiment; and 3) the decline in content distribution revenue. That said, we expect non-GAAP operating profit of RMB26mn in 2Q25E, which is largely in line with our previous expectation, as the company has maintained prudent control in content costs and opex. iQiyi continues to invest in mini dramas and has achieved early success in certain self-produced mini dramas, but it still takes time for mini dramas to make meaningful revenue contribution, in our view. Overall, we lower FY25-27E total revenue forecast by 1-2% on softer-than-expected membership & ad businesses. We lower our target price to US\$2.25 based on 13x 3Q25-2Q26E non-GAAP EPS (previous: US\$2.45 based on 13x 3Q25-2Q26E non-GAAP EPS). Maintain BUY.

■ **Membership and advertising businesses under pressure.** By segment: 1) we expect membership revenue to drop by 9%/7% YoY/QoQ to RMB4.1bn in 2Q25E, below our previous expectation, mainly due to delay of certain dramas. Nonetheless, certain quality dramas to be launched in 3Q25, such as *ZhaoXueLu*, *This Thriving Land* and *Calming Waves*, may support its revenue recovery. 2) We expect online advertising revenue to decline by 13/4% YoY/QoQ to RMB1.3bn in 2Q25E, mainly due to the soft performance-based ads. iQiyi saw relatively soft advertiser sentiment during the 618 shopping festival this year compared to last year, but brand ad business was more resilient and grew QoQ in 2Q25, mainly due to several popular variety shows such as *The King of Comedy Season 2* and *The Rap of China 2025*. 3) We expect content distribution revenue to decrease by 30% QoQ in 2Q25E, primarily due to the decline in barter transactions.

■ **Investing in quality mini dramas.** The company continues to invest in mini dramas and has achieved early success in certain self-produced mini dramas. *What a Scandal*, a mini-drama produced by iQiyi, topped Maoyan's Mini Drama Chart on the first day of its launch (28 Jun). Looking ahead, iQiyi will continue to invest in quality mini dramas through both licensing and self-production, which shall further improve its mini drama ecosystem and bring incremental revenue in the long term.

■ **Expect sequential decline in OPM due to operating leverage.** We expect non-GAAP OPM to drop from 6.4% in 1Q25 to 0.4% in 2Q25E, primarily due to operating leverage. While the company maintains prudent cost control, it also continues to invest in mini dramas. Thus, we expect overall content costs to remain stable QoQ and total opex to decrease by 3% QoQ in 2Q25E.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	32,018	29,225	27,873	28,515	29,040
YoY growth (%)	10.4	(8.7)	(4.6)	2.3	1.8
Gross margin (%)	27.8	24.9	22.7	25.1	26.1
Adjusted net profit (RMB mn)	2,984.1	1,512.2	733.1	1,525.0	1,767.9
EPS (Adjusted) (RMB)	3.13	1.57	0.76	1.59	1.82
Consensus EPS (RMB)	3.13	1.57	0.67	1.47	2.16
P/S (x)	0.4	0.5	0.5	0.5	0.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$2.25
(Previous TP) US\$2.45)
Up/Downside 14.8%
Current Price US\$1.96

China Internet

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Ye TAO, CFA
franktao@cmbi.com.hk

Joanna Ma
(852) 3761 8838
joannama@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,884.4
Avg 3 mths t/o (US\$ mn)	14.5
52w High/Low (US\$)	3.50/1.53
Total Issued Shares (mn)	961.4

Source: FactSet

Shareholding Structure

Baidu	45.1%
PAG	12.2%

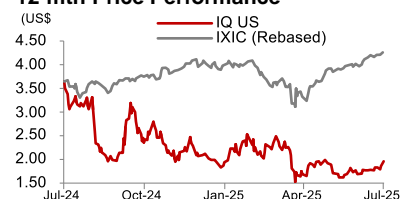
Source: Company data

Share Performance

	Absolute	Relative
1-mth	16.0%	8.5%
3-mth	18.8%	-7.4%
6-mth	1.0%	-5.1%

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	27.9	28.5	29.0	28.5	29.0	29.4	-2.2%	-1.5%	-1.1%
Gross profit	6.3	7.2	7.6	6.6	7.5	7.7	-4.2%	-4.0%	-1.2%
Operating profit	0.8	1.8	2.1	0.9	1.8	2.1	-6.1%	-3.1%	-1.9%
Non-GAAP net profit	0.7	1.5	1.8	0.7	1.5	1.8	-0.1%	-1.5%	-0.5%
Non-GAAP EPS (RMB)	0.8	1.6	1.8	0.8	1.6	1.8	-0.1%	-1.5%	-0.5%
Gross margin	22.7%	25.1%	26.1%	23.1%	25.8%	26.1%	-0.5 ppt	-0.7 ppt	0.0 ppt
Operating margin	3.0%	6.2%	7.2%	3.1%	6.3%	7.3%	-0.1 ppt	-0.1 ppt	-0.1 ppt
Non-GAAP net margin	2.6%	5.3%	6.1%	2.6%	5.3%	6.0%	0.1 ppt	0.0 ppt	0.0 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	27.9	28.5	29.0	28.9	30.0	31.0	-3.7%	-4.9%	-6.3%
Gross profit	6.3	7.2	7.6	6.6	7.4	8.2	-4.6%	-2.8%	-7.0%
Operating profit	0.8	1.8	2.1	0.9	1.6	2.4	-3.9%	10.5%	-11.1%
Non-GAAP net profit	0.7	1.5	1.8	0.6	1.4	2.0	21.0%	9.4%	-11.7%
Non-GAAP EPS (RMB)	0.8	1.6	1.8	0.7	1.5	2.2	12.6%	6.9%	-15.9%
Gross margin	22.7%	25.1%	26.1%	22.9%	24.6%	26.3%	-0.2 ppt	0.5 ppt	-0.2 ppt
Operating margin	3.0%	6.2%	7.2%	3.0%	5.4%	7.6%	0.0 ppt	0.9 ppt	-0.4 ppt
Non-GAAP net margin	2.6%	5.3%	6.1%	2.1%	4.6%	6.5%	0.5 ppt	0.7 ppt	-0.4 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$2.25 per share based on 13x 3Q25-2Q26E non-GAAP EPS. Our target PE multiple is at a discount to the sector average (33x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	
3Q25-2Q26E Non-GAAP EPADS	1.25
Target PE	13.0
Target Price (CNY)	16.22
Target Price (US\$)	2.25

Source: Company data, CMBIGM estimates

Figure 4: Global streaming platforms

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
Netflix Inc	NFLX US	1274.2	49.8	40.9	12.2	10.9	37%
Disney	DIS US	122.2	21.4	19.7	2.3	2.2	19%
Spotify	SPOT US	720.9	NA	51.1	NA	6.4	NA
TME	TME US	22.4	27.1	24.5	8.0	7.2	22%
Average			32.7	34.0	7.5	6.7	

Source: Bloomberg, CMBIGM

Note: data as of 17 Jul

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,998	32,018	29,225	27,873	28,515	29,040
Cost of goods sold	(22,319)	(23,102)	(21,954)	(21,555)	(21,345)	(21,454)
Gross profit	6,678	8,916	7,272	6,318	7,170	7,586
Operating expenses	(5,366)	(5,781)	(5,460)	(5,491)	(5,389)	(5,489)
SG&A expense	(3,467)	(4,014)	(3,682)	(3,795)	(3,711)	(3,721)
R&D expense	(1,899)	(1,767)	(1,778)	(1,696)	(1,678)	(1,767)
Operating profit	1,312	3,135	1,811	827	1,781	2,098
Share of (losses)/profits of associates/JV	(213)	(51)	18	18	18	18
EBIT	1,099	3,084	1,829	845	1,799	2,115
Interest income	70	257	272	299	299	299
Interest expense	(715)	(1,130)	(1,062)	(951)	(922)	(922)
Foreign exchange gain/loss	(168)	(105)	(97)	140	0	0
Other income/expense	(319)	73	(90)	0	0	0
Pre-tax profit	(34)	2,178	852	333	1,175	1,492
Income tax	(84)	(80)	(61)	(102)	(141)	(224)
After tax profit	(118)	2,098	791	231	1,034	1,268
Minority interest	18	27	27	0	0	0
Net profit	(136)	2,071	764	231	1,034	1,268
Adjusted net profit	1,284	2,984	1,512	733	1,525	1,768
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	13,786	12,635	9,527	10,741	12,418	14,125
Cash & equivalents	7,098	4,435	3,530	3,896	5,448	7,045
Restricted cash	14	6	0	0	0	0
Account receivables	2,403	2,169	2,191	2,003	1,971	1,928
Prepayment	2,603	2,794	2,193	2,091	2,140	2,179
Other current assets	1,668	3,231	1,613	2,751	2,860	2,973
Non-current assets	32,263	31,959	36,233	38,149	37,972	38,166
PP&E	1,105	864	878	1,385	1,414	1,446
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	1,149	1,290	1,434
Goodwill	3,826	3,821	3,821	3,276	3,276	3,276
Other non-current assets	23,768	24,020	28,503	29,597	29,250	29,268
Total assets	46,048	44,594	45,761	48,890	50,390	52,291
Current liabilities	28,130	22,342	21,477	20,298	20,279	20,418
Short-term borrowings	3,348	3,572	3,787	3,787	3,787	3,787
Account payables	5,993	5,671	6,482	5,966	5,908	5,938
Other current liabilities	16,059	10,129	8,053	7,791	7,856	7,952
Lease liabilities	104	101	97	97	97	97
Accrued expenses	2,626	2,869	3,058	2,658	2,632	2,645
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	31,208	31,189	31,328
Share capital	0	0	0	0	0	0
Capital surplus	50,886	54,971	55,624	59,222	59,707	60,201
Retained earnings	(46,499)	(44,573)	(43,809)	(44,092)	(43,057)	(41,789)
Other reserves	1,863	1,688	1,551	2,543	2,543	2,543
Total shareholders equity	6,251	12,087	13,365	17,674	19,193	20,955
Minority interest	93	98	8	8	8	8
Total equity and liabilities	46,048	44,594	45,761	48,890	50,390	52,291

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(34)	2,178	852	333	1,175	1,492
Depreciation & amortization	13,655	14,091	13,625	17,946	16,873	16,045
Tax paid	(84)	(80)	(61)	(102)	(141)	(224)
Change in working capital	(14,493)	(13,358)	(12,359)	(14,571)	(12,607)	(11,970)
Others	885	666	53	999	485	494
Net cash from operations	(71)	3,497	2,110	4,605	5,784	5,837
Investing						
Capital expenditure	(270)	(105)	(173)	(421)	(431)	(439)
Others	536	(1,635)	(2,272)	(3,879)	(3,801)	(3,801)
Net cash from investing	266	(1,740)	(2,445)	(4,300)	(4,232)	(4,240)
Financing						
Net borrowings	7,726	9,049	4,953	0	0	0
Others	(3,257)	(13,334)	(6,323)	0	0	0
Net cash from financing	4,469	(4,285)	(1,370)	0	0	0
Net change in cash						
Cash at the beginning of the year	2,997	7,098	4,435	3,590	3,896	5,448
Exchange difference	122	92	15	0	0	0
Others	(686)	(228)	785	0	0	0
Cash at the end of the year	7,098	4,435	3,530	3,896	5,448	7,045
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(5.1%)	10.4%	(8.7%)	(4.6%)	2.3%	1.8%
Gross profit	119.6%	33.5%	(18.4%)	(13.1%)	13.5%	5.8%
Operating profit	na	138.9%	(42.2%)	(54.3%)	115.3%	17.8%
EBIT	na	180.6%	(40.7%)	(53.8%)	112.9%	17.6%
Net profit	na	na	(63.1%)	(69.8%)	347.7%	22.6%
Adj. net profit	na	132.4%	(49.3%)	(51.5%)	108.0%	15.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	23.0%	27.8%	24.9%	22.7%	25.1%	26.1%
Operating margin	4.5%	9.8%	6.2%	3.0%	6.2%	7.2%
Adj. net profit margin	4.4%	9.3%	5.2%	2.6%	5.3%	6.1%
Return on equity (ROE)	(2.3%)	22.6%	6.0%	1.5%	5.6%	6.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.1)	0.1	0.1	(0.0)	(0.1)
Current ratio (x)	0.5	0.6	0.4	0.5	0.6	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
YE 31 Dec						
P/E	ns	6.5	17.7	58.5	13.1	10.8
P/E (diluted)	ns	6.6	17.9	59.1	13.2	10.8
P/B	1.9	1.1	1.0	0.8	0.7	0.7

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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