

iQIYI (IQ US)

Weather short-term headwinds in 2Q24; eyes on 2H24E recovery

iQiyi will report 2Q24 results on 22 August. We forecast 2Q24 total revenue to decline by 5% YoY to RMB7.4bn, due to underperformance of certain drama series and a YoY decline in the number of variety shows. We expect non-GAAP operating profit to drop by 36% YoY to RMB503mn on operating deleverage, despite largely flattish content costs and operating expenses YoY. Nonetheless, we expect total revenue and profit to gradually recover in 2H24, driven by the quality content pipeline. In view of the intense competition and softer-than-expected performance of certain content, we lower FY24-26E non-GAAP net income forecast to RMB2.8/3.3/4.0bn (previous: RMB3.7/4.2/4.5bn). Our target price is US\$6.40 based on 16x FY24E PE (previous: US\$8.6 on 16x FY24E PE). We transfer coverage with a BUY rating.

- **Membership business under pressure in 2Q24.** We forecast membership revenue to decline by 8% YoY to RMB4.5bn in 2Q24E, primarily due to softer-than-expected performance of certain drama series and loss of market share to competitors' highly anticipated content. According to Enlighten, iQiyi's viewership share among the top 20 drama series declined from 39% in 1H23 to 18% in 1H24. Looking ahead, we forecast membership revenue to recover sequentially in 3Q24E, driven by a quality content pipeline including *Horror Stories of Tang Dynasty II*, *Si Hai Chong Ming*, and *Xiao Fu*.
- **Advertising revenue to decline on fewer variety shows in 2Q24.** We expect advertising revenue to drop by 4% YoY to RMB1.4bn in 2Q24E. Brand advertising revenue may have declined YoY in 2Q24E, primarily attributable to fewer variety shows in 2Q24 versus 2Q23; while performance ad revenue continued to deliver steady YoY growth, driven by increased ad budget in key verticals such as e-commerce and games. For 3Q24E, with the launch of several highly anticipated variety shows such as *Tenday (十天之后回到现实)* and *The King of Stand-up Comedy (喜剧之王单口季)*, we expect online advertising revenue to recover to positive YoY growth in 3Q24E.
- **Maintain BUY.** iQiyi remains prudent on content investment and operating expenses, and we forecast total costs and operating expenses to be flattish YoY in 2Q24E. However, the decline in revenue shall weigh on short-term margin, and we estimate GPM/non-GAAP OPM to decline by 2.4/3.3ppt YoY to 23.6/6.8% in 2Q24E. That said, as revenue growth recovers on a higher-quality content pipeline in 2H24E, we still expect FY24 full-year non-GAAP OPM to improve by 1.1ppt YoY to 12.5%.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	31,045	33,142	35,421
YoY growth (%)	(5.1)	9.9	(2.6)	6.8	6.9
Gross margin (%)	23.0	27.5	28.2	30.0	31.4
Adjusted net profit (RMB mn)	1,284.0	2,838.3	2,825.7	3,347.9	3,980.6
YoY growth (%)	na	121.0	(0.4)	18.5	18.9
EPS (Adjusted) (RMB)	1.52	2.98	2.90	3.37	3.93
Consensus EPS (RMB)	1.52	2.98	2.71	3.50	3.81
P/S (x)	0.8	0.7	0.7	0.7	0.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$6.40
 (Previous TP) US\$8.60
Up/Downside 104.5%
Current Price US\$3.13

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Stock Data

Mkt Cap (US\$ mn)	3,003.8
Avg 3 mths t/o (US\$ mn)	10.8
52w High/Low (US\$)	6.34/3.06
Total Issued Shares (mn)	959.7
Source: FactSet	

Shareholding Structure

Baidu	45.4%
PAG	11.9%

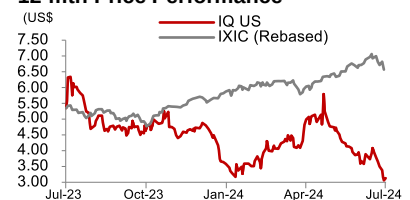
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-18.1%	-16.0%
3-mth	-37.3%	-42.4%
6-mth	-11.3%	-21.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: iQiyi: forecast revision

RMBbn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	31.0	33.1	35.4	34.7	37.7	40.0	-10.4%	-12.1%	-11.4%
Gross profit	8.8	9.9	11.1	10.4	11.5	12.2	-15.4%	-13.1%	-8.8%
Operating profit	3.2	4.1	5.0	4.3	4.9	5.1	-24.9%	-15.4%	-2.2%
Non-GAAP net profit	2.8	3.3	4.0	3.7	4.2	4.5	-23.9%	-19.4%	-12.4%
Non-GAAP EPS (RMB)	2.9	3.4	3.9	3.9	4.3	4.7	-24.5%	-21.2%	-15.6%
Gross margin	28.2%	30.0%	31.4%	29.9%	30.4%	30.5%	-1.7 ppt	-0.3 ppt	0.9 ppt
Operating margin	10.4%	12.5%	14.1%	12.4%	13.0%	12.8%	-2.0 ppt	-0.5 ppt	1.3 ppt
Non-GAAP net margin	9.1%	10.1%	11.2%	10.7%	11.0%	11.4%	-1.6 ppt	-0.9 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

RMBbn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	31.0	33.1	35.4	31.9	33.7	35.6	-2.7%	-1.8%	-0.6%
Gross profit	8.8	9.9	11.1	9.0	9.9	10.7	-2.4%	0.1%	4.3%
Operating profit	3.2	4.1	5.0	3.4	4.1	4.5	-5.0%	0.2%	10.5%
Non-GAAP net profit	2.8	3.3	4.0	2.6	3.3	3.7	10.7%	2.1%	8.0%
Non-GAAP EPS (RMB)	2.9	3.4	3.9	2.7	3.5	3.8	7.3%	-3.6%	3.3%
Gross margin	28.2%	30.0%	31.4%	28.1%	29.5%	29.9%	0.1 ppt	0.6 ppt	1.5 ppt
Operating margin	10.4%	12.5%	14.1%	10.6%	12.3%	12.7%	-0.2 ppt	0.3 ppt	1.4 ppt
Non-GAAP net margin	9.1%	10.1%	11.2%	8.0%	9.7%	10.3%	1.1 ppt	0.4 ppt	0.9 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value iQiyi at US\$6.40 per share based on 16x 2024E P/E. Our target PE multiple is at a discount to the sector average (25x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	2024E
2024E Non-GAAP EPADS (RMB)	2.90
Target 2024E PE	16.0
Target Price (RMB)	46.48
Target Price (US\$)	6.40

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	631.4	33.0	27.6	23.1	7.0	6.2	5.6	31%
Disney	DIS US	89.9	18.8	16.6	14.7	1.8	1.7	1.6	19%
Spotify	SPOT US	321.9	NA	37.0	29.4	3.8	3.3	2.9	NA
TME	TME US	14.1	22.8	18.6	16.0	6.1	5.4	4.9	21%
Average			24.9	24.9	20.8	4.7	4.2	3.8	

Source: Bloomberg, CMBIGM

Note: data as of 26 Jul 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	31,045	33,142	35,421
Cost of goods sold	(27,513)	(22,319)	(23,102)	(22,288)	(23,193)	(24,316)
Gross profit	3,041	6,678	8,770	8,758	9,949	11,105
Operating expenses	(7,520)	(5,366)	(5,781)	(5,528)	(5,802)	(6,095)
SG&A expense	(4,725)	(3,467)	(4,014)	(3,777)	(3,998)	(4,238)
R&D expense	(2,795)	(1,899)	(1,767)	(1,752)	(1,804)	(1,857)
Operating profit	(4,479)	1,312	2,989	3,229	4,147	5,010
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	54	54	54
EBIT	(4,926)	1,099	2,938	3,283	4,201	5,064
Interest income	119	70	257	232	232	232
Interest expense	(1,350)	(715)	(1,130)	(1,124)	(1,124)	(1,124)
Foreign exchange gain/loss	55	(168)	(105)	0	0	0
Other income/expense	90	(319)	73	(79)	0	0
Pre-tax profit	(6,012)	(34)	2,033	2,311	3,308	4,172
Income tax	(97)	(84)	(80)	(160)	(562)	(834)
After tax profit	(6,109)	(118)	1,953	2,151	2,746	3,337
Minority interest	61	18	27	0	0	0
Net profit	(6,170)	(136)	1,925	2,151	2,746	3,337
Adjusted net profit	(4,487)	1,284	2,838	2,826	3,348	3,981
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	12,635	27,995	31,347	35,074
Cash & equivalents	2,997	7,098	4,435	19,037	22,047	25,380
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,141	2,195	2,249
Prepayment	3,267	2,603	2,794	2,722	2,906	3,105
Other current assets	2,435	1,668	3,231	4,088	4,193	4,333
Non-current assets	30,948	32,263	31,959	22,256	22,991	24,116
PP&E	1,345	1,105	864	1,375	1,430	1,497
Right-of-use assets	907	674	684	684	684	684
Deferred income tax	31	0	0	0	0	0
Investment in JVs & assos	3,035	2,454	2,261	2,261	2,261	2,261
Intangibles	545	437	310	1,023	1,196	1,384
Goodwill	3,888	3,826	3,821	3,276	3,276	3,276
Other non-current assets	21,196	23,768	24,020	13,638	14,143	15,014
Total assets	42,472	46,048	44,594	50,251	54,337	59,190
Current liabilities	22,476	28,130	22,342	21,958	22,702	23,580
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,627	5,855	6,139
Other current liabilities	6,119	16,059	10,129	9,912	10,315	10,771
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,748	2,859	2,998
Non-current liabilities	14,323	11,575	10,068	10,068	10,068	10,068
Long-term borrowings	0	0	98	98	98	98
Convertible bonds	12,652	9,568	8,144	8,144	8,144	8,144
Other non-current liabilities	1,670	2,007	1,826	1,826	1,826	1,826
Total liabilities	36,799	39,705	32,409	32,026	32,770	33,648
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,718	59,315	59,952
Retained earnings	(47,164)	(46,499)	(44,573)	(43,134)	(40,388)	(37,051)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
Total shareholders equity	5,585	6,251	12,087	18,127	21,470	25,445
Minority interest	88	93	98	98	98	98
Total equity and liabilities	42,473	46,049	44,595	50,252	54,338	59,191

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	2,311	3,308	4,172
Depreciation & amortization	16,766	13,655	14,091	5,878	5,363	5,326
Tax paid	(97)	(84)	(80)	(160)	(562)	(834)
Change in working capital	(17,586)	(14,493)	(13,358)	9,422	(1,103)	(1,135)
Others	977	885	666	1,166	597	638
Net cash from operations	(5,952)	(71)	3,352	18,616	7,602	8,166
Investing						
Capital expenditure	(401)	(270)	(105)	(469)	(501)	(535)
Others	1,663	536	(1,635)	(4,385)	(4,093)	(4,297)
Net cash from investing	1,262	266	(1,740)	(4,854)	(4,593)	(4,832)
Financing						
Net borrowings	5,069	7,726	9,049	0	0	0
Others	(8,029)	(3,257)	(13,334)	0	0	0
Net cash from financing	(2,959)	4,469	(4,285)	0	0	0
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,862	5,281	19,044	22,053
Exchange difference	(217)	122	92	0	0	0
Cash at the end of the year	3,075	7,862	5,281	19,044	22,053	25,386
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	(2.6%)	6.8%	6.9%
Gross profit	66.8%	119.6%	31.3%	(0.1%)	13.6%	11.6%
Operating profit	na	na	127.8%	8.0%	28.4%	20.8%
EBIT	na	na	167.4%	11.7%	27.9%	20.6%
Net profit	na	na	na	11.7%	27.6%	21.5%
Adj. net profit	na	na	121.0%	(0.4%)	18.5%	18.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	28.2%	30.0%	31.4%
Operating margin	(14.7%)	4.5%	9.4%	10.4%	12.5%	14.1%
Adj. net profit margin	(14.7%)	4.4%	8.9%	9.1%	10.1%	11.2%
Return on equity (ROE)	(82.5%)	(2.3%)	21.0%	14.2%	13.9%	14.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	(0.6)	(0.1)	(0.8)	(0.9)	(0.9)
Current ratio (x)	0.5	0.5	0.6	1.3	1.4	1.5
Receivable turnover days	32.8	30.2	24.8	25.2	24.2	23.2
Payable turnover days	118.0	98.0	89.6	92.1	92.1	92.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	11.2	10.3	8.2	6.9
P/E (diluted)	ns	ns	11.5	10.5	8.4	7.0
P/B	3.2	3.1	1.8	1.2	1.0	0.9

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

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