

iQIYI (IQ US)

Membership and ad businesses remain under pressure; eye on short-drama development

We expect iQiyi's 4Q24E total revenue to decline by 14% YoY to RMB6.6bn, largely in line with our previous expectation and consensus. The decrease was primarily due to the light content slate in Oct 2024 and the decline in revenue from barter transactions (minor impact on gross profit); but overall content performance started to recover after the launch of several key dramas like *Wo Shi Xing Jing* in Nov. We forecast non-GAAP operating profit to grow by 7% QoQ to RMB395mn in 4Q24E, ahead of our previous expectation (RMB360mn) thanks to the stringent content cost control. Looking into 2025, we expect the competition in online video sector to remain intense, and this led us to be more conservative on the future revenue and earnings recovery. We trim FY25-26 total revenue forecasts by 7-10% and lower our target price to US\$3.00 based on 12x FY25E PE (previous: US\$4.50 on 15x FY25 PE). Maintain BUY.

- Content performance started to recover from November onwards.** By segment: 1) we estimate membership revenue to decline by 15% YoY and 6% QoQ to RMB4.1bn in 4Q24E. Overall content performance started to recover after the launch of several key dramas such as *Wo Shi Xing Jing* and *Let Wind Goes By* in Nov and Dec 2024, which should support the revenue growth in 1Q25; 2) we forecast online advertising revenue to decrease by 13% YoY but grow by 7% QoQ to RMB1.4bn in 4Q24E. The QoQ growth was primarily driven by the growth in brand advertising, which benefited from the launch of several key dramas and the increase in ad spending from certain international brands; 3) we forecast content distribution revenue to drop by 20% YoY to RMB404mn in 4Q24E, mainly due to the decline in revenue from barter transactions, which has minor impact on the earnings front.
- Update on mini-drama ecosystem development.** In 4Q24, iQiyi upgraded its iQiyi Light App to focus on mini-drama content and advertising monetization. Although mini drama is yet to have meaningful financial impact, the company has already started to capture user mind share by offering quality mini-drama content. Net revenue of *Original Sin (原罪)*, one of the most popular short dramas on iQiyi, has surpassed RMB24mn. iQiyi also announced cooperation with Hongguo (a leading short-drama platform) to co-produce more quality short dramas in the future.
- Expect QoQ OPM expansion in 4Q24E.** We forecast iQiyi's GPM to improve by 2ppts QoQ to 24.0% in 4Q24E, primarily due to fewer barter transactions and effective content cost control. We expect opex as % of total revenue to be up by 1.1ppts QoQ to 19.8% in 4Q24, mainly attributable to the operating deleverage and increased marketing spending on certain key dramas. Overall, we expect non-GAAP OPM to expand by 0.9ppts QoQ to 6.0% in 4Q24. iQiyi's current valuation of 8x FY25E PE offers ample safety margin versus peers' average (23x). Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	29,231	30,011	31,079
Gross margin (%)	23.0	27.5	24.8	25.5	26.7
Adjusted net profit (RMB mn)	1,284.0	2,838.3	1,491.5	1,796.9	2,272.1
EPS (Adjusted) (RMB)	1.52	2.98	1.56	1.88	2.38
Consensus EPS (RMB)	1.52	2.98	1.71	1.85	2.40
P/S (x)	0.5	0.4	0.4	0.4	0.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$3.00
(Previous TP)	US\$4.50
Up/Downside	61.3%
Current Price	US\$1.86

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Stock Data

Mkt Cap (US\$ mn)	1,790.2
Avg 3 mths t/o (US\$ mn)	35.8
52w High/Low (US\$)	5.79/1.83
Total Issued Shares (mn)	962.5

Source: FactSet

Shareholding Structure

Baidu	45.4%
PAG	11.9%

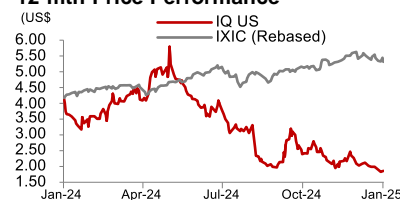
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-11.0%	-5.7%
3-mth	-24.1%	-26.8%
6-mth	-50.4%	-51.8%

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	29.2	30.0	31.1	30.2	32.5	34.3	-3.4%	-7.6%	-9.4%
Gross Profit	7.2	7.7	8.3	7.5	8.7	9.5	-2.9%	-12.3%	-12.8%
Operating Profit	1.8	2.2	2.7	2.0	3.0	3.5	-9.1%	-26.5%	-23.0%
Non-GAAP net profit	1.5	1.8	2.3	1.8	2.3	2.8	-17.8%	-23.5%	-17.4%
Non-GAAP EPS (RMB)	1.6	1.9	2.4	1.9	2.3	2.6	-14.5%	-18.0%	-8.9%
Gross Margin	24.8%	25.5%	26.7%	24.7%	26.9%	27.7%	0.1 ppt	-1.4 ppt	-1.0 ppt
Operating Margin	6.2%	7.2%	8.7%	6.6%	9.1%	10.2%	-0.4 ppt	-1.9 ppt	-1.5 ppt
Non-GAAP net margin	5.2%	6.0%	7.3%	6.1%	7.2%	8.0%	-0.9 ppt	-1.2 ppt	-0.7 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	29.2	30.0	31.1	29.2	29.8	31.1	0.0%	0.8%	-0.1%
Gross Profit	7.2	7.7	8.3	7.1	7.5	8.2	1.9%	2.5%	1.3%
Operating Profit	1.8	2.2	2.7	1.8	2.2	2.6	2.5%	0.3%	1.8%
Non-GAAP net profit	1.5	1.8	2.3	1.7	1.9	2.3	-8.4%	-3.4%	0.9%
Non-GAAP EPS (RMB)	1.6	1.8	2.3	1.7	1.8	2.4	-8.9%	-0.1%	-3.0%
Gross Margin	24.8%	25.5%	26.7%	24.3%	25.1%	26.3%	0.5 ppt	0.4 ppt	0.4 ppt
Operating Margin	6.2%	7.2%	8.7%	6.0%	7.3%	8.5%	0.2 ppt	0.0 ppt	0.2 ppt
Non-GAAP net margin	5.2%	6.0%	7.3%	5.7%	6.2%	7.2%	-0.5 ppt	-0.3 ppt	0.1 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$3.00 per share based on 12x 2025E P/E. Our target PE multiple is at a discount to the sector average (23x), 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)	1.84
Target 2025E PE	12.0
Target price (CNY)	22.12
Target price (US\$)	3.00

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	848.3	42.7	35.8	29.5	9.3	8.3	7.5	33%
Disney	DIS US	108.2	21.8	20.1	17.6	2.1	2.1	2.0	19%
Spotify	SPOT US	490.7	NA	NA	40.4	6.1	5.3	4.7	NA
TME	TME US	10.5	16.8	13.1	11.6	4.7	4.3	3.9	22%
Average			27.1	23.0	24.8	5.6	5.0	4.5	

Note: data as of 15 Jan

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	29,231	30,011	31,079
Cost of goods sold	(27,513)	(22,319)	(23,102)	(21,989)	(22,348)	(22,793)
Gross profit	3,041	6,678	8,770	7,242	7,663	8,286
Operating expenses	(7,520)	(5,366)	(5,781)	(5,439)	(5,494)	(5,597)
SG&A expense	(4,725)	(3,467)	(4,014)	(3,658)	(3,726)	(3,827)
R&D expense	(2,795)	(1,899)	(1,767)	(1,781)	(1,768)	(1,769)
Operating profit	(4,479)	1,312	2,989	1,803	2,169	2,690
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	41	41	41
EBIT	(4,926)	1,099	2,938	1,844	2,210	2,730
Interest income	119	70	257	257	257	257
Interest expense	(1,350)	(715)	(1,130)	(1,052)	(1,124)	(1,124)
Foreign exchange gain/loss	55	(168)	(105)	(110)	0	0
Other income/expense	90	(319)	73	(89)	0	0
Pre-tax profit	(6,012)	(34)	2,033	850	1,343	1,863
Income tax	(97)	(84)	(80)	(64)	(121)	(186)
After tax profit	(6,109)	(118)	1,953	786	1,222	1,677
Minority interest	61	18	27	27	0	0
Net profit	(6,170)	(136)	1,925	759	1,222	1,677
Adjusted net profit	(4,487)	1,284	2,838	1,492	1,797	2,272
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	12,635	26,176	27,648	29,335
Cash & equivalents	2,997	7,098	4,435	17,500	18,836	20,318
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,016	1,988	1,973
Prepayment	3,267	2,603	2,794	2,563	2,631	2,725
Other current assets	2,435	1,668	3,231	4,091	4,186	4,313
Non-current assets	30,948	32,263	31,959	22,257	22,865	23,817
PP&E	1,345	1,105	864	1,362	1,399	1,443
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	1,010	1,162	1,321
Goodwill	3,888	3,826	3,821	3,276	3,276	3,276
Other non-current assets	21,196	23,768	24,020	13,664	14,083	14,832
Total assets	42,472	46,048	44,594	48,433	50,513	53,151
Current liabilities	22,476	28,130	22,342	21,559	21,847	22,217
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,551	5,642	5,754
Other current liabilities	6,119	16,059	10,129	9,624	9,777	9,981
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,711	2,755	2,810
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	31,627	31,915	32,285
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,638	59,208	59,799
Retained earnings	(47,164)	(46,499)	(44,573)	(44,473)	(43,251)	(41,574)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
Total shareholders equity	5,585	6,251	12,087	16,709	18,501	20,768
Minority interest	88	93	98	98	98	98
Total equity and liabilities	42,473	46,049	44,595	48,434	50,514	53,152

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	850	1,343	1,863
Depreciation & amortization	16,766	13,655	14,091	5,893	5,328	5,150
Tax paid	(97)	(84)	(80)	(64)	(121)	(186)
Change in working capital	(17,586)	(14,493)	(13,358)	9,294	(1,324)	(1,381)
Others	977	885	666	1,085	570	590
Net cash from operations	(5,952)	(71)	3,352	17,058	5,796	6,037
Investing						
Capital expenditure	(401)	(270)	(105)	(442)	(453)	(469)
Others	1,663	536	(1,635)	(4,419)	(4,006)	(4,086)
Net cash from investing	1,262	266	(1,740)	(4,860)	(4,460)	(4,556)
Financing						
Net borrowings	5,069	7,726	9,049	0	0	0
Others	(8,029)	(3,257)	(13,334)	27	0	0
Net cash from financing	(2,959)	4,469	(4,285)	27	0	0
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,862	5,281	17,506	18,843
Exchange difference	(217)	122	92	0	0	0
Cash at the end of the year	3,075	7,862	5,281	17,506	18,843	20,324
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	(8.3%)	2.7%	3.6%
Gross profit	66.8%	119.6%	31.3%	(17.4%)	5.8%	8.1%
Operating profit	na	na	127.8%	(39.7%)	20.3%	24.0%
EBIT	na	na	167.4%	(37.2%)	19.8%	23.6%
Net profit	na	na	na	(60.6%)	61.1%	37.2%
Adj. net profit	na	na	121.0%	(47.5%)	20.5%	26.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	24.8%	25.5%	26.7%
Operating margin	(14.7%)	4.5%	9.4%	6.2%	7.2%	8.7%
Adj. net profit margin	(14.7%)	4.4%	8.9%	5.1%	6.0%	7.3%
Return on equity (ROE)	(82.5%)	(2.3%)	21.0%	5.3%	6.9%	8.5%
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)	(0.8)	(0.8)
Current ratio (x)	0.5	0.5	0.6	1.2	1.3	1.3
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	6.8	17.1	10.6	7.8
P/E (diluted)	ns	ns	6.9	17.5	10.9	7.9
P/B	1.9	1.8	1.1	0.8	0.7	0.6

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

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