

IQIYI (IQ US)

Moving into 3Q23E strong pipeline

Despite soft season and content delay, we expect IQ to deliver in-line 2Q23E, with rev +17% YoY (subs/ads +15%/25% YoY) and adj. OP at RMB783mn (OPM at 10%). IQ outperformed than peers in Jun & Jul, backed by popularity of Destined <长风渡> (viewership mkt share at 20%-30%). After subs sequential decline in 2Q23E, we expect strong summer content to boost 3Q23E momentum (e.g. upcoming Mysterious Lotus Casebook). We are positive on IQ's rising subs and ARM in 2H23E (with membership structure optimization), and kept cautiously optimistic on its ads recovery with higher budget from multiple verticals after reopening. We keep our earnings forecast barely changed, with TP at US\$8.6.

- **Expecting 2Q23E largely in-line.** We expect rev to accelerate to +17% YoY in 2Q23E (in line with consensus), primarily on solid subs rev (+15% YoY) and ads stronger growth (+25% YoY, vs. prior +17%). GPM would be largely in-line with previous guidance (at 26%), with content cost at RMB4.1bn, in our estimates. We forecast non-GAAP OP at RMB783mn (OPM at 10%, vs. prior RMB710mn), while adj. NP at RMB447mn. Mgmt kept full-year guidance unchanged (forecasting topline/bottom line +12%/81% YoY).
- **Rich pipeline in summer holiday to boost 3Q23E subs momentum.** Despite soft season and content delay, 2Q23E subs rev would grow steadily, with rising ARM (+1.7% YoY, +3% QoQ) and muted subs (at 111mn, -17.5mn QoQ). Looking ahead, we expect 2H23E to see both ramp-up of subs and ARM, backed by membership structure optimization and strong summer content. Destined <长风渡>, IQ's first hot title in summer, ranked TOP1 in terms of viewership after its launch on 18 Jun. with market share of 20%-30% (vs. Tencent video's The Longest Promise <玉骨遥> at ~15%). We expect Destined to boost 3Q23E subs sequential growth. to contribute higher net adds than New Life begins <卿卿日常>. On top of that, key modern dramas (e.g. The Lost 11th Floor <消失的十一层> (9 Jul). Imperfect Victim <不完美受害人> (17 Jul)) and upcoming Mysterious Lotus Casebook <莲花楼> would bring further upside.
- **Better-than-feared ads recovery.** Ads would accelerate to +25% YoY in 2Q23E (vs. +4% YoY in 1Q23) for low base, more variety shows and rising budget from multiple verticals (e.g. ecommerce). By segment, performance-based ads would grow faster than brand ads. We kept cautiously optimistic on 2H23E ads trend, with beneficiary of reopening, algorithm optimization and operation enhancement in key verticals.
- **Maintain BUY.** We keep FY23-25E earnings forecast barely unchanged, with DCF-based TP at US\$8.6 (implying 24x/17x FY23/24E P/E), in line with Netflix and Mango's multiple. Key catalysts: 1) key dramas to be launched in 2H23E; and 2) decent ads recovery.

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|--------------------------|---------|--------|--------|--------|--------|
| Revenue (RMB mn) | 30,554 | 28,998 | 32,387 | 34,604 | 35,978 |
| YoY growth (%) | 2.9 | (5.1) | 11.7 | 6.8 | 4.0 |
| Adj. net income (RMB mn) | (4,549) | 1,266 | 2,293 | 3,239 | 3,712 |
| Adj. EPS (RMB) | (5.6) | 1.5 | 2.4 | 3.4 | 3.9 |
| YoY growth (%) | NA | NA | 81.2 | 41.2 | 14.6 |
| Consensus EPS (RMB) | NA | NA | 2.1 | 3.2 | 4.2 |
| P/E (x) | NA | 25.6 | 15.9 | 11.3 | 9.9 |
| P/S (x) | 1.2 | 1.3 | 1.1 | 1.1 | 1.0 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|----------|
| Target Price | US\$8.6 |
| (Previous TP | US\$8.6) |
| Up/Downside | +59% |
| Current Price | US\$5.4 |

China Internet Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (US\$ mn) | 5,413 |
| Avg 3 mths t/o (US\$ mn) | 61.48 |
| 52w High/Low (US\$) | 7.99/ 1.65 |
| Total Issued Shares (mn) | 522 |
| Source: Bloomberg | |

Shareholding Structure

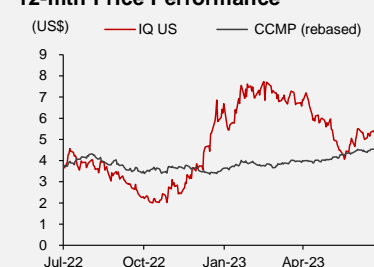
| | |
|-------------------|-------|
| Oasis Management | 4.51% |
| Goldman Sachs | 4.46% |
| Bank of America | 4.17% |
| Source: Bloomberg | |

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 13.3% | -8.8% |
| 3-mth | -17.3% | -28.8% |
| 6-mth | -14.8% | -33.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2Q23E financial preview

| RMB mn | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23E | QoQ | YoY | Consensus | Diff % |
|-------------------|---------|---------|---------|-------|--------|-------|-------|-------|-------|--------|--------|-----------|--------|
| Revenue | 7,608 | 7,589 | 7,389 | 7,277 | 6,657 | 7,471 | 7,593 | 8,349 | 7,776 | -6.9% | 16.8% | 7,775 | 0% |
| Operating profit | (1,122) | (1,368) | 7,389 | 93 | 126 | 310 | 784 | 859 | 620 | -27.8% | 392.6% | 632 | -2% |
| Net profit | (1,397) | (1,730) | (1,776) | 169 | (214) | (396) | 304 | 618 | 292 | -52.8% | NA | 335 | -13% |
| Adj. net profit | (1,065) | (1,400) | (1,002) | 162 | 78 | 187 | 856 | 940 | 447 | -52.4% | 471.8% | 410 | 9% |
| EPS (RMB) | (1.34) | (1.75) | (1.25) | 0.20 | 0.09 | 0.22 | 0.98 | 0.97 | 0.46 | -52.6% | 411.6% | 0.41 | 13% |
| Margin (%) | | | | | | | | | | | | | |
| Gross margin | 9.7% | 7.4% | 11.9% | 18.0% | 21.2% | 23.6% | 28.9% | 28.7% | 26.0% | | | 26.3% | |
| Operating margin | -14.7% | -18.0% | 100.0% | 1.3% | 1.9% | 4.1% | 10.3% | 10.3% | 8.0% | | | 8.1% | |
| Adj. net margin | -14.0% | -18.4% | -13.6% | 2.2% | 1.2% | 2.5% | 11.3% | 11.3% | 5.8% | | | 5.3% | |
| Growth (%) | | | | | | | | | | | | | |
| Revenue (YoY) | 2.7% | 5.6% | -0.9% | -8.7% | -12.5% | -1.6% | 2.8% | 14.7% | 16.8% | | | 6.8% | |
| Revenue (QoQ) | -4.5% | -0.3% | -2.6% | -1.5% | -8.5% | 12.2% | 1.6% | 10.0% | -6.9% | | | 2.4% | |
| Operating profit | NA | NA | NA | NA | NA | NA | NA | NA | NA | | | NA | |
| Adj. net profit | NA | NA | NA | NA | NA | NA | NA | NA | NA | | | NA | |







Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: 2Q23E revenue breakdown

| | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23E | QoQ | YoY |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue (RMB mn) | 7,608 | 7,589 | 7,389 | 7,277 | 6,657 | 7,471 | 7,593 | 8,349 | 7,776 | -6.9% | 16.8% |
| Membership Services | 3,993 | 4,288 | 4,121 | 4,471 | 4,285 | 4,211 | 4,744 | 5,547 | 4,934 | -11.1% | 15.1% |
| Online Advertising | 1,825 | 1,660 | 1,665 | 1,337 | 1,194 | 1,247 | 1,553 | 1,404 | 1,487 | 6.0% | 24.6% |
| Content Distribution | 688 | 627 | 762 | 626 | 479 | 730 | 635 | 727 | 551 | -24.2% | 15.0% |
| Others | 1,102 | 1,013 | 842 | 842 | 698 | 1,284 | 661 | 670 | 803 | 19.8% | 15.0% |

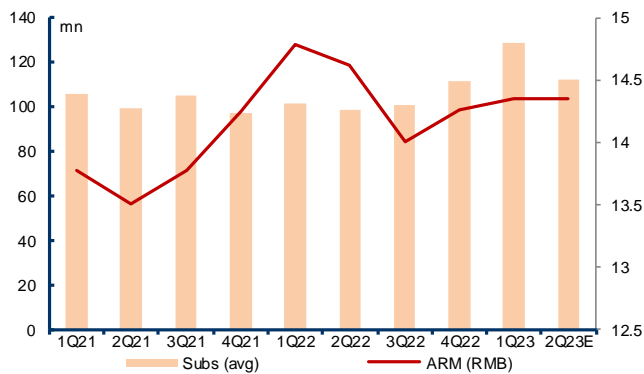
Source: Company data, CMBIGM estimates

Figure 3: Key premium dramas to be launched in 2H23E

| Story of Kunming Palace 《宁安如梦》 张凌赫 白鹿 | Mysterious Lotus Casebook 《莲花楼》 成毅 曾舜晞 | The Demon Hunter's Romance 《无忧渡》 任嘉伦 宋祖儿 | My Journey to You 《云之羽》 虞书欣 张凌赫 | A Journey to Love 《一念关山》 刘诗诗 刘宇宁 | The seventh generation 《七时吉祥》 杨超越 丁禹兮 |
|---|---|---|---|---|---|
|  |  |  |  |  |  |

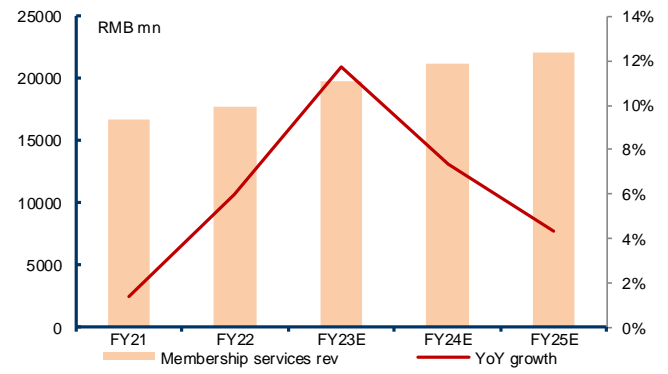
Source: Company data, CMBIGM

Figure 4: Quarterly subs estimates



Source: Company data, CMBIGM estimates

Figure 5: Yearly subs rev estimates



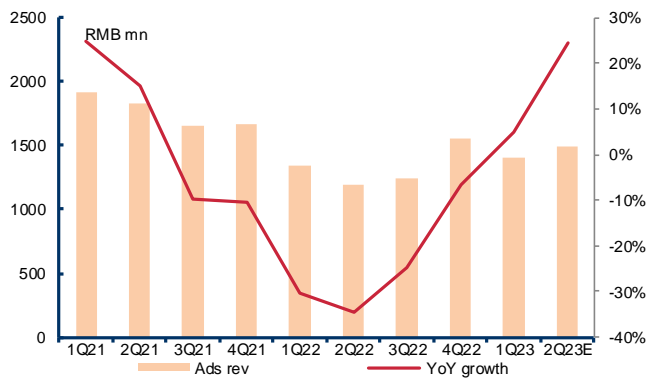
Source: Company data, CMBIGM estimates

Figure 6: iQIYI's key drama series pipeline in FY23E

| Title | Chinese title | Producer | Genre | Starring |
|--------------------------|---------------|--------------------------------------|------------|-------------|
| Bionic | 仿生人間 | iQIYI | Romance | 宋威龍、文淇 |
| Special Lady | 陌上人如玉 | iQIYI | Sci-Fi | 肖燕、翟子路、盛英豪 |
| My wife is a thief | 柳葉摘星辰 | iQIYI, Chinese Miracle | Romance | 唐曉天、庄達菲、林楓松 |
| Hua Xi Ji | 花溪記 | iQIYI, Rising Star | Romance | 邢菲、徐開騁、徐方舟 |
| The Lotus Casebook | 蓮花樓 | iQIYI | Romance | 成毅、曾舜晞、肖順堯 |
| Back for you | 漫影尋踪 | iQIYI | Romance | 楊穎、王安宇、匡牧野 |
| Rising with the wind | 我要逆風去 | iQIYI, Stellar | Romance | 龔俊、鍾楚曦、吳宣儀 |
| The Comic Bang | 開畫！少女漫 | iQIYI | Romance | 沈月、王敬軒、趙弈欽 |
| I am criminal police | 我是刑警 | iQIYI | Crime | 于和偉、李春嫒、劉泊濤 |
| Meet me in your sound | 幻樂森林 | iQIYI | Historical | 許佳琪、魏哲鳴、吳希澤 |
| Golden Trio | 老家伙 | iQIYI, Shandong Film & TV Production | Life | 張國立、王剛、張鐵林 |
| Hello Life | 你好生活 | iQIYI, HuangCheng Pictures | Life | 熱依扎、王陽、啜妮 |
| The seventh generation | 七時吉祥 | iQIYI, Stellar | Historical | 楊超越、丁禹兮 |
| The Mutations | 天啓異聞錄 | iQIYI | Historical | 路陽、喬磊、范川 |
| New York Mission 2 | 唐人街探案2 | iQIYI | Crime | 邱澤、尚語賢、張鈞甯 |
| Tiger Crane | 虎鶴妖師錄 | iQIYI, Youyaoqi | Historical | 蔣龍、張凌赫、王玉雯 |
| My Journey to You | 云之羽 | iQIYI | Historical | 虞書欣、張凌赫、汪鐸 |
| Chinese Paladin 4 | 仙劍奇俠傳4 | iQIYI | Historical | 鞠婧祎、陳哲遠、茅子俊 |
| The Demon Hunter's Romar | 無憂渡 | iQIYI | Romance | 任嘉倫、宋祖兒 |
| Fox Spirit Matchmaker | 狐妖小紅娘 | iQIYI, Tencent Pictures, Stellar | Historical | 楊冪、龔俊、郭曉婷 |
| Story of Kunning Palace | 寧安如夢 | iQIYI | Historical | 白鹿、張凌赫、王星越 |
| Imperfect Victim | 不完美受害人 | Haohan (浩瀚影視), iQIYI | Crime | 周迅、劉奕君、林允 |
| A Journey to Love | 一念關山 | iQIYI | Romance | 劉詩詩、劉宇寧 |

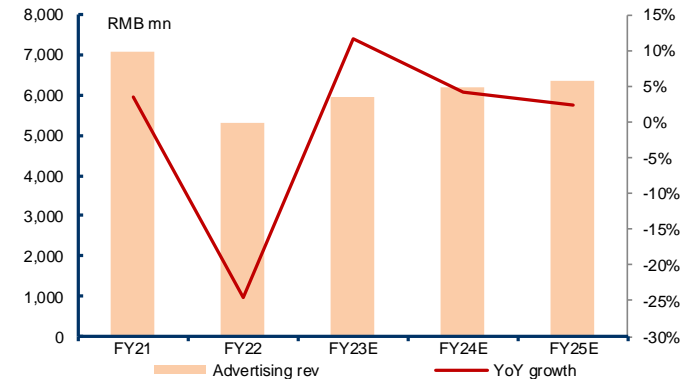
Source: Company data, CMBIGM

Figure 7: iQIYI's quarterly ads rev estimates



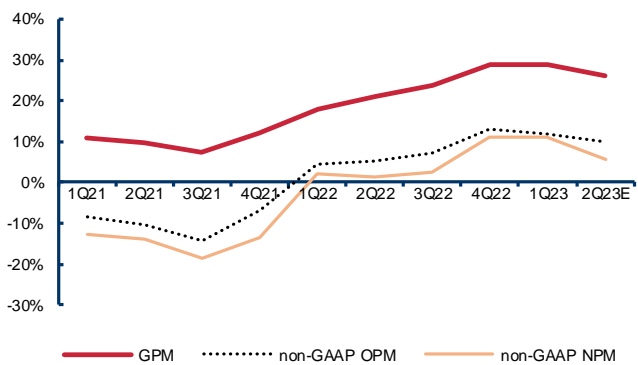
Source: Company data, CMBIGM estimates

Figure 8: iQIYI's yearly ads rev estimates



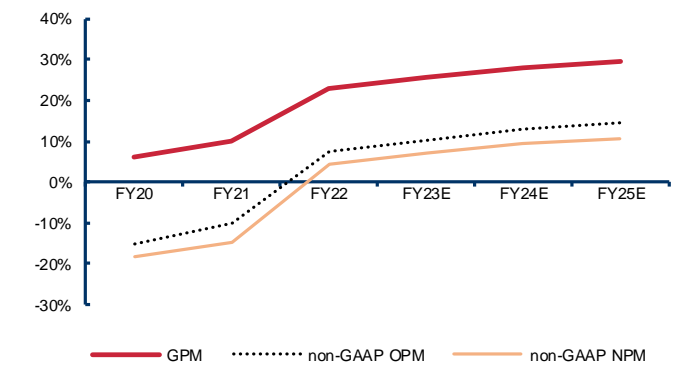
Source: Company data, CMBIGM estimates

Figure 9: Quarterly margin estimates



Source: Company data, CMBIGM estimates

Figure 10: Yearly margin estimates



Source: Company data, CMBIGM estimates

Figure 11: DCF Valuation

| DCF valuation (RMB mn) | | | | | | | | | | |
|--------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
| EBIT | 3,276 | 4,404 | 5,069 | 5,735 | 7,009 | 7,933 | 8,764 | 9,614 | 10,479 | 11,317 |
| Tax | (100) | (252) | (477) | (482) | (643) | (774) | (895) | (1,011) | (1,048) | (1,132) |
| D&A | 13,295 | 13,643 | 14,115 | 14,712 | 15,200 | 15,656 | 16,123 | 16,599 | 17,429 | 18,301 |
| Working capital | (9,741) | (13,781) | (14,293) | (14,773) | (15,312) | (15,778) | (16,202) | (16,713) | (17,549) | (18,426) |
| CAPEX | (907) | (934) | (1,018) | (1,050) | (1,097) | (1,110) | (1,110) | (1,121) | (1,177) | (1,224) |
| FCF | 5,822 | 3,080 | 3,395 | 4,142 | 5,158 | 5,927 | 6,680 | 7,368 | 8,134 | 8,836 |
| FCF Growth | | -47% | 10% | 22% | 25% | 15% | 13% | 10% | 10% | 9% |
| Terminal Value | | | | | | | | | | 94,643 |
| PV (FCF+ Terminal Value) | 5,822 | 2,735 | 2,677 | 2,900 | 3,207 | 3,272 | 3,275 | 3,207 | 3,144 | 35,518 |

| Assumptions | |
|----------------------|-------|
| WACC | 12.6% |
| Tax rate | 15.0% |
| Risk free rate | 3.6% |
| Beta | 1.10 |
| Market risk return | 11.8% |
| Terminal growth rate | 3.0% |

| Equity Value | |
|----------------------------------|--------|
| PV | 65,757 |
| minus: Net cash | 8,352 |
| minus: Minority Interest | 0 |
| Equity Value | 57,406 |
| Shares (mn) | 947 |
| Target Price (US\$) based on DCF | 8.6 |

| | | WACC | | | | |
|--------|------|------|------|-----|-----|-----|
| | | 11% | 12% | 13% | 14% | 15% |
| Growth | 1.5% | 9.5 | 8.4 | 7.8 | 6.8 | 6.1 |
| | 2.0% | 9.9 | 8.7 | 8.1 | 6.9 | 6.2 |
| | 2.5% | 10.2 | 9.0 | 8.3 | 7.1 | 6.4 |
| | 3.0% | 10.7 | 9.3 | 8.6 | 7.3 | 6.5 |
| | 3.5% | 11.1 | 9.6 | 8.9 | 7.5 | 6.7 |
| | 4.0% | 11.7 | 10.0 | 9.2 | 7.7 | 6.8 |
| | 4.5% | 12.3 | 10.5 | 9.5 | 7.9 | 7.0 |

Source: CMBIGM estimates

Figure 12: CMBIGM estimates vs consensus

| RMB mn, Dec-YE | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 32,387 | 34,604 | 35,978 | 32,374 | 34,819 | 37,281 | 0.0% | -0.6% | -3.5% |
| Gross Profit | 8,271 | 9,710 | 10,577 | 8,845 | 10,333 | 11,642 | -6.5% | -6.0% | -9.2% |
| Operating Profit | 2,309 | 3,373 | 3,995 | 2,974 | 4,013 | 4,796 | -22.4% | -15.9% | -16.7% |
| Adj. net profit | 2,293 | 3,239 | 3,712 | 2,237 | 3,393 | 4,196 | 2.5% | -4.5% | -11.5% |
| EPS (RMB) | 2.42 | 3.40 | 3.88 | 2.15 | 3.18 | 4.19 | 12.7% | 6.9% | -7.5% |
| Gross Margin | 25.5% | 28.1% | 29.4% | 27.3% | 29.7% | 31.2% | -1.8ppts | -1.6ppts | -1.8ppts |
| Operating Margin | 7.1% | 9.7% | 11.1% | 9.2% | 11.5% | 12.9% | -2.1ppts | -1.8ppts | -1.8ppts |
| Net Margin | 7.1% | 9.4% | 10.3% | 6.9% | 9.7% | 11.3% | +0.2ppts | -0.4ppts | -0.9ppts |

Source: CMBIGM estimates, Bloomberg

Figure 13: Earnings revision

| RMB mn, Dec-YE | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 32,387 | 34,604 | 35,978 | 31,841 | 33,799 | 35,152 | 1.7% | 2.4% | 2.3% |
| Gross Profit | 8,271 | 9,710 | 10,577 | 8,124 | 9,521 | 10,373 | 1.8% | 2.0% | 2.0% |
| Operating Profit | 2,309 | 3,373 | 3,995 | 2,320 | 3,392 | 4,004 | -0.4% | -0.6% | -0.2% |
| Adj. net profit | 2,293 | 3,239 | 3,712 | 2,289 | 3,234 | 3,696 | 0.2% | 0.1% | 0.4% |
| EPS (RMB) | 2.42 | 3.40 | 3.88 | 2.42 | 3.40 | 3.86 | 0.2% | 0.1% | 0.4% |
| Gross Margin | 25.5% | 28.1% | 29.4% | 25.5% | 28.2% | 29.5% | +0.0ppts | -0.1ppts | -0.1ppts |
| Operating Margin | 7.1% | 9.7% | 11.1% | 7.3% | 10.0% | 11.4% | -0.2ppts | -0.3ppts | -0.3ppts |
| Net Margin | 7.1% | 9.4% | 10.3% | 7.2% | 9.6% | 10.5% | -0.1ppts | -0.2ppts | -0.2ppts |

Source: Company data, CMBIGM estimates

Figure 14: Valuation comps

| Company | Ticker | Mkt cap (USD mn) | Currency | Price | CMBI Rating | CMBI TP | PE | | | PS | | | FY23-25 EPS CAGR |
|------------------------------|--------------|---------------------|------------|------------|----------------|------------|-------------|-------------|-------------|------------|------------|------------|---------------------|
| | | | | | | | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | |
| iQIYI | IQ US | 5,157 | USD | 5.4 | BUY | 8.6 | 15.9 | 11.3 | 9.9 | 1.1 | 1.1 | 1.0 | 27% |
| Internet giants | | | | | | | | | | | | | |
| Tencent | 700 HK | 434,265 | HKD | 355 | BUY | 455 | 21.5 | 17.8 | 15.9 | 5.0 | 4.4 | 4.0 | 16% |
| Alibaba | BABA US | 249,742 | USD | 97 | BUY | 157 | 11.2 | 10.6 | 9.1 | 1.9 | 1.7 | 1.6 | 23% |
| Disney | DIS US | 165,316 | USD | 90 | NA | NA | 24.0 | 17.8 | 14.9 | 1.8 | 1.7 | 1.7 | 29% |
| Netflix | NFLX US | 200,212 | USD | 450 | NA | NA | 39.0 | 29.7 | 23.9 | 5.9 | 5.2 | 4.7 | 29% |
| Average | | | | | | | 18.9 | 15.4 | 13.3 | 3.6 | 3.3 | 3.0 | 24% |
| VAS & Subscribers | | | | | | | | | | | | | |
| Kuaishou | 1024 HK | 33,508 | HKD | 60 | BUY | 97 | 66.5 | 21.9 | 12.4 | 2.1 | 1.9 | 1.6 | 104% |
| Mango | 300413 CH | 9,184 | CNY | 35 | NA | NA | 27.8 | 23.5 | 20.3 | 4.1 | 3.7 | 3.3 | 17% |
| Bilibili | BILI US | 7,284 | USD | 18 | BUY | 27 | NA | NA | 55.9 | 2.2 | 1.9 | 1.6 | NA |
| TME | TME US | 13,557 | USD | 8 | BUY | 11 | 15.5 | 14.5 | 13.3 | 3.2 | 3.0 | 2.8 | 9% |
| Huya | HUYA US | 859 | USD | 4 | BUY | 7 | NA | NA | 28.7 | 0.7 | 0.7 | 0.7 | NA |
| Douyu | DOYU US | 368 | USD | 1 | NA | NA | NA | NA | 61.2 | 0.5 | 0.5 | 0.5 | 352% |
| Momo | MOMO US | 2,043 | USD | 11 | HOLD | 14 | 6.8 | 6.3 | 6.0 | 1.2 | 1.1 | 1.1 | 6% |
| YY | YY US | 2,421 | USD | 35 | BUY | 46 | 17.0 | 15.0 | 12.5 | 1.1 | 1.0 | 0.9 | 20% |
| China Literature | 772 HK | 4,465 | HKD | 34 | NA | NA | 21.0 | 18.3 | 16.3 | 3.9 | 3.5 | 3.2 | 14% |
| Average | | | | | | | 25.7 | 16.6 | 13.5 | 2.1 | 1.9 | 1.8 | 13% |
| Film, TV & IP | | | | | | | | | | | | | |
| Linmon Media | 9857 HK | 504 | HKD | 11 | NA | NA | 8.9 | 6.2 | NA | 1.8 | 1.5 | NA | NA |
| Strawbear entertain | 2125 HK | 79 | HKD | 1 | BUY | 4 | NA | NA | NA | NA | NA | NA | NA |
| Average | | | | | | | 8.9 | 6.2 | NA | 1.8 | 1.5 | NA | NA |
| Advertising | | | | | | | | | | | | | |
| Baidu | BIDU US | 53,247 | USD | 152 | BUY | 199 | 15.9 | 14.4 | 12.4 | 2.8 | 2.5 | 2.3 | 13% |
| Weibo | WB US | 3,402 | USD | 14 | BUY | 27 | 6.5 | 5.7 | 5.3 | 1.8 | 1.7 | 1.6 | 9% |
| Facebook | META US | 803,186 | USD | 313 | NA | NA | 25.1 | 20.4 | 18.8 | 6.3 | 5.7 | 5.1 | 18% |
| Snapchat | SNAP US | 21,735 | USD | 14 | NA | NA | NA | 69.0 | 31.5 | 4.8 | 4.2 | 3.6 | 113% |
| Average | | | | | | | 15.8 | 13.5 | 12.2 | 3.9 | 3.5 | 3.1 | 14% |
| Average | | | | | | | 18.5 | 14.8 | 13.1 | 2.9 | 2.6 | 2.4 | 17% |

Source: Bloomberg, CMBIGM estimates

Key Investment Risks

Key investment risks may derive from: 1) key content delay; 2) regulatory uncertainty; 3) slower-than-expected ads recovery for macro uncertainty; and 4) competition from SFV.

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|-----------------------------|----------|----------|----------|----------|----------|
| Revenue | 30,554 | 28,998 | 32,387 | 34,604 | 35,978 |
| Membership services | 16,714 | 17,711 | 20,786 | 22,530 | 23,614 |
| Online advertising services | 7,067 | 5,332 | 5,947 | 6,195 | 6,343 |
| Content distribution | 2,856 | 2,470 | 2,593 | 2,697 | 2,778 |
| Others | 3,918 | 3,485 | 3,061 | 3,182 | 3,243 |
| COGS | (27,513) | (22,319) | (24,116) | (24,894) | (25,401) |
| Gross profit | 3,041 | 6,678 | 8,271 | 9,710 | 10,577 |
| S&M | (4,725) | (3,467) | (3,888) | (4,183) | (4,364) |
| Admin.Exp. | | | | | |
| R&D | (2,795) | (1,899) | (2,074) | (2,154) | (2,218) |
| Operating profit | (4,479) | 1,312 | 2,309 | 3,373 | 3,995 |
| Other income/(exp), net | (1,533) | (1,346) | (822) | (849) | (813) |
| Pre-tax Income | (6,012) | (34) | 1,487 | 2,523 | 3,182 |
| Income Tax | (97) | (84) | (100) | (252) | (477) |
| Net profit | (6,251) | (155) | 1,387 | 2,271 | 2,705 |
| Adj. net profit | (4,549) | 1,266 | 2,293 | 3,239 | 3,712 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|-----------------------------------|----------|----------|---------|----------|----------|
| Net income | (6,170) | (136) | 1,387 | 2,271 | 2,705 |
| D&A | 16,766 | 16,475 | 13,295 | 13,643 | 14,115 |
| Change in WC | (17,586) | (18,346) | (9,741) | (13,781) | (14,293) |
| Others | 977 | 1,937 | 906 | 968 | 1,007 |
| Operating CF | (6,013) | (71) | 5,847 | 3,101 | 3,534 |
| Capex | (401) | (841) | (907) | (934) | (1,018) |
| Purchase of long-term investments | (386) | 582 | - | - | - |
| Others | 2,049 | 525 | - | - | - |
| Investing CF | 1,262 | 266 | (907) | (934) | (1,018) |
| Equity raised | 268 | - | - | - | - |
| Change of Debts | 259 | (240) | 1,339 | (469) | (422) |
| Cash from CB raised | 632 | 5,222 | - | - | - |
| Others | (4,119) | (513) | - | - | - |
| Financing CF | (2,959) | 4,469 | 1,339 | (469) | (422) |
| Net change in cash | (7,927) | 4,664 | 6,279 | 1,698 | 2,094 |
| Cash (beg of yr) | 10,941 | 3,075 | 7,112 | 13,391 | 15,089 |
| FX | (217) | - | - | - | - |
| Cash (end of yr) | 3,075 | 7,112 | 13,391 | 15,089 | 17,183 |

Balance sheet

| YE 31 Dec (RMB mn) | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|--------|--------|--------|--------|--------|
| Non-current assets | 30,948 | 32,263 | 29,473 | 31,020 | 32,533 |
| Fixed asset | 1,345 | 1,105 | 1,847 | 2,088 | 2,291 |
| Long-term investments | 3,035 | 2,454 | 2,454 | 2,454 | 2,454 |
| Licensed copyrights, net | 7,258 | 6,841 | 6,854 | 7,160 | 7,478 |
| Others | 19,310 | 21,864 | 18,319 | 19,318 | 20,311 |
| Current assets | 11,524 | 13,786 | 21,443 | 23,360 | 25,510 |
| Cash | 2,997 | 7,098 | 13,377 | 15,075 | 17,169 |
| Restricted cash | 78 | 14 | 14 | 14 | 14 |
| Short-term investments | 1,348 | 818 | 818 | 818 | 818 |
| Account receivable | 2,748 | 2,403 | 3,046 | 3,207 | 3,285 |
| Others | 4,353 | 3,453 | 4,189 | 4,246 | 4,224 |
| Current liabilities | 22,476 | 28,130 | 30,251 | 30,475 | 30,427 |
| Account payable | 8,896 | 5,993 | 7,864 | 8,118 | 8,213 |
| Customer advances and deferred revenue | 3,485 | 4,232 | 3,855 | 4,119 | 4,283 |
| Accrued liabilities | 3,172 | 2,626 | 2,943 | 3,038 | 3,099 |
| Short-term borrowings | 4,118 | 3,348 | 4,687 | 4,218 | 3,796 |
| Others | 2,806 | 11,931 | 10,902 | 10,983 | 11,035 |
| Non-current liabilities | 14,323 | 11,575 | 11,575 | 11,575 | 11,575 |
| Convertible senior notes | 12,652 | 9,568 | 9,568 | 9,568 | 9,568 |
| Others | 1,670 | 2,007 | 2,007 | 2,007 | 11,575 |
| MI | 88 | 93 | 93 | 93 | 93 |
| Total Equity | 5,364 | 6,436 | 10,241 | 13,480 | 17,192 |
| Shareholders' equity | 5,276 | 6,343 | 10,148 | 13,388 | 17,099 |

Key ratios

| YE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|-----------------------------|---------|-------|-------|-------|-------|
| Sales mix (%) | | | | | |
| Membership services | 54.7 | 61.1 | 64.2 | 65.1 | 65.6 |
| Online advertising services | 23.1 | 18.4 | 18.4 | 17.9 | 17.6 |
| Content distribution | 9.3 | 8.5 | 8.0 | 7.8 | 7.7 |
| Others | 12.8 | 12.0 | 9.5 | 9.2 | 9.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Growth rate (%) | | | | | |
| Revenue | 2.9 | (5.1) | 11.7 | 6.8 | 4.0 |
| Gross profit | 66.8 | 119.6 | 23.9 | 17.4 | 8.9 |
| EBIT | NA | NA | 75.9 | 46.1 | 18.5 |
| Adj. net profit | NA | NA | 81.2 | 41.2 | 14.6 |
| P&L ratios (%) | | | | | |
| Operating margin | (14.7) | 4.5 | 7.1 | 9.7 | 11.1 |
| Pre-tax margin | (19.7) | (0.1) | 4.6 | 7.3 | 8.8 |
| Adj. net margin | (14.9) | 4.4 | 7.1 | 9.4 | 10.3 |
| Effective tax rate | (0.3) | (0.3) | (0.3) | (0.7) | (1.3) |
| Returns (%) | | | | | |
| ROE | (106.0) | (0.5) | 16.4 | 20.5 | 19.8 |
| ROA | (10.7) | 2.7 | 4.5 | 6.0 | 6.4 |
| Per share | | | | | |
| EPS (RMB) | (5.64) | 1.50 | 2.42 | 3.40 | 3.88 |
| DPS (RMB) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS (RMB) | 0.96 | 1.00 | 1.54 | 2.02 | 2.57 |

Source: Company data, CMBIGM estimates

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