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CMB International Global Markets | Equity Research | Company Update

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iQIYI (IQ US)

2Q26 results: Sequential revenue and margin recovery

iQiyi announced 2Q26 results: total revenue declined by 5% YoY, but recovered by 1% QoQ to RMB6.29bn, in line with Visible Alpha (VA) consensus; non-GAAP operating loss also narrowed by 80% QoQ to RMB30mn, largely in line with consensus, mainly thanks to revenue recovery and control in opex. For 3Q26E, we forecast total revenue to decline by 9% YoY and 3% QoQ to RMB6.11bn, primarily attributable to the decline in content distribution and others revenue. We trim our FY26-FY28 total revenue forecast by 4-5% to factor in the adjustment of content distribution and others businesses. We lower our target price to US$1.52 based on 0.40x FY26E PS (previous: US$1.58 based on 0.40x FY26E PS). We expect the company's transformation to a decentralized social media ecosystem and AI-empowered content platform to gradually bear fruit, supporting earnings and cash flow improvement in the long term. Maintain BUY.

- **Inline 2Q26 topline performance.** In 2Q26: 1) Membership services revenue was down by 2% YoY to RMB4.01bn. The company refined its operation to revitalize the membership business, such as offering discounts for students & teachers, and expanding joint membership program. 2) Online advertising revenue was down by 2% YoY but flattish QoQ at RMB1.25bn. Performance-based ad revenue returned to positive YoY growth, as iQiyi continued to optimize the advertiser mix. Revenue from SME advertisers delivered strong YoY growth. 3) Content distribution revenue was up by 56% YoY and 90% QoQ to RMB682mn, mainly driven by increase in cash transactions related to popular drama series. 4) Others revenue decreased by 58% YoY to RMB345mn. Looking into 3Q26E, we expect total revenue to decline by 9% YoY and 3% QoQ to RMB6.11bn, with membership revenue down by 5% YoY but ad revenue up by 2% YoY.
- **Solid progress on micro dramas and AI.** 1) Micro & short-form drama: average daily views for micro drama & animation grew by double-digit % in Jun 2026 compared to Mar 2026, supported by the enriched content offerings; according to Enlightent, iQiyi's share in the domestic short-form drama market increased from 25% in Mar to 50% in Jun 2026. 2) AI-enhanced content production: AI significantly reduced content production costs and increased content supply; the company has launched 16 AI-generated short-form dramas under the revenue sharing model, and planned to introduce more AI-generated content in FY27. 3) Overseas business: membership revenue from the overseas business grew by 40% YoY in 2Q26, mainly driven by the increased popularity of Chinese dramas and micro dramas.
- **Sequential margin recovery.** iQiyi gross margin improved by 0.6ppt QoQ to 16.5% in 2Q26, primarily thanks to QoQ topline recovery. Non-GAAP operating margin also improved by 1.9ppt QoQ to -0.5% in 2Q26, as total opex declined by 17%/6% YoY/QoQ. The company repurchased 21.8mn ADSs for US$24.1mn in 2Q26 (2% of market cap), pursuant to its US$100mn share repurchase program announced in Mar 2026.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	29,225	27,291	24,836	25,488	26,492
Adjusted net profit (RMB mn)	1,512.2	280.6	(795.8)	182.3	614.0
EPS (Adjusted) (RMB)	1.57	0.29	(0.83)	0.19	0.64
Consensus EPS (RMB cents)	157.29	29.11	(7.47)	49.87	121.31
P/S (x)	0.3	0.3	0.3	0.3	0.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$1.52**
(Previous TP	US$1.58)
Up/Downside	**23.6%**
Current Price	**US$1.23**

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Stock Data

Mkt Cap (US$ mn)	1,185.4
Avg 3 mths t/o (US$ mn)	2.2
52w High/Low (US$)	2.79/0.96
Total Issued Shares (mn)	963.8

Source: FactSet

Shareholding Structure

Baidu	45.1%
PAG	12.2%

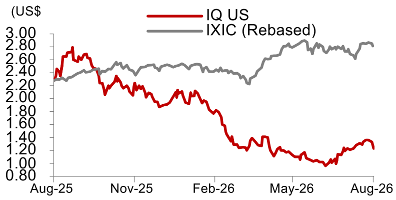
Source: Company data

Share Performance

	Absolute	Relative
1-mth	3.4%	0.3%
3-mth	10.8%	9.0%
6-mth	-30.5%	-40.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: iQiyi: forecast revision

	Current			Previous			Change (%)		
RMBbn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	24.8	25.5	26.5	25.9	26.7	27.7	-4.1%	-4.4%	-4.4%
Gross profit	4.3	5.1	5.7	4.8	5.7	6.3	-10.5%	-10.8%	-10.1%
Operating profit	(0.5)	0.2	0.7	0.1	0.9	1.5	NA	-74.3%	-49.1%
Non-GAAP net profit	(0.8)	0.2	0.6	(0.0)	0.8	1.2	NA	-76.6%	-50.5%
Non-GAAP EPS (RMB)	(0.9)	0.2	0.6	(0.0)	0.8	1.3	NA	-76.6%	-50.5%
Gross margin	17.4%	19.9%	21.5%	18.6%	21.3%	22.9%	-1.3 ppt	-1.4 ppt	-1.4 ppt
Operating margin	-1.9%	0.9%	2.8%	0.4%	3.4%	5.3%	-2.4 ppt	-2.5 ppt	-2.5 ppt
Non-GAAP net margin	-3.4%	0.7%	2.3%	-0.1%	2.9%	4.5%	-3.2 ppt	-2.2 ppt	-2.2 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMBbn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	24.8	25.5	26.5	25.8	26.5	27.4	-3.8%	-3.8%	-3.2%
Gross profit	4.3	5.1	5.7	4.7	5.3	5.9	-7.7%	-3.4%	-4.2%
Operating profit	(0.5)	0.2	0.7	(0.1)	0.5	1.1	NA	-51.2%	-30.2%
Non-GAAP net profit	(0.8)	0.2	0.6	(0.1)	0.5	1.2	NA	-62.4%	-47.7%
Non-GAAP EPS (RMB)	(0.9)	0.2	0.6	(0.1)	0.5	1.2	NA	-62.1%	-47.5%
Gross margin	17.4%	19.9%	21.5%	20.7%	22.3%	23.7%	-3.3 ppt	-2.4 ppt	-2.2 ppt
Operating margin	-1.9%	0.9%	2.8%	-0.2%	1.8%	3.9%	-1.7 ppt	-0.9 ppt	-1.1 ppt
Non-GAAP net margin	-3.4%	0.7%	2.3%	-0.3%	1.8%	4.3%	-3.1 ppt	-1.1 ppt	-2.0 ppt

Source: Visible Alpha consensus, CMBIGM estimates

Valuation

We value iQiyi at US$1.52 per share, based on 0.4x FY26E PS. Our target PS multiple is at a discount to the sector average (3.8x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/S valuation	
2026E Sales per ADS (CNY)	25.8
Target 2026E PS (x)	0.40
Target Price (CNY)	10.31
Target Price (US$)	1.52

Source: Company data, CMBIGM estimates
Note: CNY/USD = 6.8

Figure 4: Global streaming platforms

Companies	Ticker	Price	PE (x)		PS (x)		EPS CAGR
		(LC)	2026E	2027E	2026E	2027E	25-27E
Netflix Inc	NFLX US	76.0	21.2	20.1	6.0	5.4	20%
Disney	DIS US	103.5	15.0	14.0	1.7	1.6	11%
Spotify	SPOT US	492.5	35.0	27.7	4.8	4.2	20%
TME	TME US	8.9	9.6	8.9	2.9	2.7	6%
Average			**20.2**	**17.7**	**3.8**	**3.5**	

Source: Bloomberg, CMBIGM
Note: data as of 17 Aug, 2026

Risks

Intensifying competition; increasing content investment impact margin; AI disrupts content production and distribution.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**32,018**	**29,225**	**27,291**	**24,836**	**25,488**	**26,492**
Cost of goods sold	(23,102)	(21,954)	(21,542)	(20,516)	(20,409)	(20,794)
Gross profit	**8,916**	**7,272**	**5,749**	**4,319**	**5,079**	**5,698**
Operating expenses	**(5,781)**	**(5,460)**	**(5,520)**	**(4,793)**	**(4,843)**	**(4,954)**
SG&A expense	(4,014)	(3,682)	(3,857)	(3,133)	(3,164)	(3,209)
R&D expense	(1,767)	(1,778)	(1,663)	(1,660)	(1,678)	(1,745)
Operating profit	**3,135**	**1,811**	**229**	**(474)**	**236**	**744**
Share of (losses)/profits of associates/JV	(51)	18	(4)	(4)	(4)	(4)
EBIT	**3,084**	**1,829**	**225**	**(478)**	**232**	**739**
Interest income	257	272	334	334	334	334
Interest expense	(1,130)	(1,062)	(910)	(793)	(764)	(764)
Foreign exchange gain/loss	(105)	(97)	246	0	0	0
Other income/expense	73	(90)	45	0	0	0
Pre-tax profit	**2,178**	**852**	**(60)**	**(937)**	**(198)**	**310**
Income tax	(80)	(61)	(145)	(189)	30	(46)
After tax profit	**2,098**	**791**	**(204)**	**(1,125)**	**(168)**	**263**
Minority interest	27	27	2	(41)	0	0
Net profit	**2,071**	**764**	**(206)**	**(1,084)**	**(168)**	**263**
Adjusted net profit	**2,984**	**1,512**	**281**	**(796)**	**182**	**614**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**12,635**	**9,527**	**10,290**	**10,700**	**11,193**	**12,020**
Cash & equivalents	4,435	3,530	4,354	4,804	5,455	6,129
Restricted cash	6	0	23	23	23	23
Account receivables	2,169	2,191	2,523	1,805	1,643	1,635
Prepayment	2,794	2,193	2,406	1,987	1,912	1,987
Other current assets	3,231	1,613	984	2,081	2,161	2,246
Non-current assets	**31,959**	**36,233**	**36,391**	**39,178**	**38,896**	**39,062**
PP&E	864	878	903	1,386	1,399	1,426
Right-of-use assets	684	610	490	490	490	490
Deferred income tax	0	24	21	21	21	21
Investment in JVs & assos	2,261	2,108	1,773	1,773	1,773	1,773
Intangibles	310	290	217	1,261	1,381	1,508
Goodwill	3,821	3,821	3,821	3,276	3,276	3,276
Other non-current assets	24,020	28,503	29,166	30,972	30,557	30,567
Total assets	**44,594**	**45,761**	**46,682**	**49,878**	**50,089**	**51,082**
Current liabilities	**22,342**	**21,477**	**22,067**	**20,885**	**20,920**	**21,305**
Short-term borrowings	3,572	3,787	2,493	2,493	2,493	2,493
Account payables	5,671	6,482	6,652	6,255	6,222	6,339
Other current liabilities	10,129	8,053	10,075	9,524	9,605	9,824
Lease liabilities	101	97	84	84	84	84
Accrued expenses	2,869	3,058	2,762	2,529	2,516	2,564
Non-current liabilities	**10,068**	**10,909**	**11,306**	**11,306**	**11,306**	**11,306**
Long-term borrowings	98	1,037	3,369	3,369	3,369	3,369
Convertible bonds	8,144	8,351	6,712	6,712	6,712	6,712
Other non-current liabilities	1,826	1,522	1,225	1,225	1,225	1,225
Total liabilities	**32,409**	**32,387**	**33,373**	**32,191**	**32,226**	**32,610**
Share capital	0	0	0	0	0	0
Capital surplus	54,971	55,624	56,026	60,843	61,187	61,532
Retained earnings	(44,573)	(43,809)	(44,016)	(45,691)	(45,859)	(45,595)
Other reserves	1,688	1,551	1,306	2,543	2,543	2,543
Total shareholders equity	**12,087**	**13,365**	**13,316**	**17,695**	**17,871**	**18,479**
Minority interest	98	8	(8)	(8)	(8)	(8)
Total equity and liabilities	**44,594**	**45,761**	**46,682**	**49,878**	**50,089**	**51,082**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**2,178**	**852**	**(60)**	**(937)**	**(198)**	**310**
Depreciation & amortization	14,091	13,625	13,264	9,959	9,011	8,669
Tax paid	(80)	(61)	(145)	(189)	30	(46)
Change in working capital	(13,358)	(12,359)	(13,053)	(8,810)	(8,151)	(8,203)
Others	666	53	99	843	344	344
Net cash from operations	**3,497**	**2,110**	**106**	**866**	**1,036**	**1,074**
Investing						
Capital expenditure	(105)	(173)	(125)	(375)	(385)	(400)
Others	(1,635)	(2,272)	(203)	0	0	0
Net cash from investing	**(1,740)**	**(2,445)**	**(327)**	**(375)**	**(385)**	**(400)**
Financing						
Net borrowings	9,049	4,953	5,077	0	0	0
Others	(13,334)	(6,323)	(4,013)	(41)	0	0
Net cash from financing	**(4,285)**	**(1,370)**	**1,064**	**(41)**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	7,098	4,435	3,530	4,354	4,804	5,455
Exchange difference	92	15	(55)	0	0	0
Others	(228)	785	37	0	0	0
Cash at the end of the year	**4,435**	**3,530**	**4,354**	**4,804**	**5,455**	**6,129**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	10.4%	(8.7%)	(6.6%)	(9.0%)	2.6%	3.9%
Gross profit	33.5%	(18.4%)	(20.9%)	(24.9%)	17.6%	12.2%
Operating profit	138.9%	(42.2%)	(87.3%)	na	na	214.6%
EBIT	180.6%	(40.7%)	(87.7%)	na	na	218.7%
Net profit	na	(63.1%)	na	na	na	na
Adj. net profit	132.4%	(49.3%)	(81.4%)	na	na	236.7%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	27.8%	24.9%	21.1%	17.4%	19.9%	21.5%
Operating margin	9.8%	6.2%	0.8%	(1.9%)	0.9%	2.8%
Adj. net profit margin	9.3%	5.2%	1.0%	(3.2%)	0.7%	2.3%
Return on equity (ROE)	22.6%	6.0%	(1.5%)	(7.0%)	(0.9%)	1.4%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.1)	0.1	0.1	0.1	0.0	(0.0)
Current ratio (x)	0.6	0.4	0.5	0.5	0.5	0.6
Receivable turnover days	24.7	27.4	33.7	26.5	23.5	22.5
Payable turnover days	89.6	107.8	112.7	111.3	111.3	111.3

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	3.8	10.4	ns	ns	ns	30.3
P/E (diluted)	3.9	10.5	ns	ns	ns	30.3
P/B	0.7	0.6	0.6	0.5	0.4	0.4

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

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