

Netflix (NFLX US)

Guiding higher OPM despite disclosure change

Netflix reported upbeat 1Q24 results (topline/bottom line 1%/17% above consensus) and guided its FY24E OPM again, but stock price pulled back for moderate FY24E revenue guidance and removal of subs & ARM disclosures from 1Q25. We think the market has overreacted, as: 1) mgmt. restated its confidence on double-digit revenue growth in the medium term; 2) higher OPM guidance suggests enhanced profitability to continue, and we expect further earnings upside from efficient content spending, higher share of non-English content, and pull-back of competition. We remain positive on Netflix's AVOD and paid sharing initiatives, and raise our FY24-26E earnings forecast by 6%-7%, with a higher DCF-based TP of US\$644.5 (35.1x/28.7x FY24/25E P/E).

■ **A good start in 2024E.** Netflix delivered another upbeat quarter, with revenue +15% YoY (1% above our estimates/consensus) and OPM at 28.1% (2ppts above our estimates/consensus). Subs trended well, with net adds of 9.3mn (ahead of street expectation of 6-8mn), mainly attributable to AVOD, paid sharing, cold weather & sports tailwinds. Netflix gained share in US TV time in 1Q24, based on Nielsen data. ARM grew 0.8% YoY. OPM beat on stronger top line and disciplined content cost. Mgmt guided above-consensus 2Q24E OPM and raised its FY24E OPM target to 25% (vs. prior 24%), while moderate FY24E revenue guidance and disclosures change seem mixed.

■ **Solid 2Q24E guidance, and eyes on strong 2H24E pipeline.** Mgmt guided 2Q24E rev at US\$9.49bn (+16% YoY, or 21% ex-FX, largely in line), OP at US\$2.52bn (OPM at 26.6%, +38% YoY, 5% above consensus) and NP at US\$2.1bn. Given soft seasonality, 2Q24E net adds would be lower than that of 1Q24, while global ARM would grow YoY on a F/X neutral basis. Netflix's pipeline in 2Q24E & 2H24E include: new seasons of *Bridgerton*, *Sweet Tooth*, *The 90's Show*, *BedTime Box*, *Emily in Paris (2H)*, *Squid Game (2H)*, among others.

■ **Guiding up FY24E OPM again.** We are bullish on its margin outlook, as mgmt. guided up its FY24E OPM again to 25% from 24%. 2024E revenue will grow 13%-15% YoY, per mgmt, with the midpoint in line with our prior estimate but slightly below consensus of +15%. As Netflix prioritized growing engagement, revenue, profit and cash flow ahead, it will remove the disclosure of quarterly subs & ARM from 1Q25, but announce major subs milestone. We think the market has overreacted to this guidance and disclosures update. After sector correction and Netflix expectation reset, we expect its stock price to be boosted by further earnings upside and improving monetization.

■ **Maintain BUY.** To reflect stronger margin guidance, we lift our FY24-26E earnings forecast by 6-7%, with a higher TP at US\$644.5.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	31,616	33,723	38,428	42,637	47,219
YoY growth (%)	6.5	6.7	14.0	11.0	10.7
Net profit (US\$ mn)	4,491.9	5,408.0	7,977.8	9,631.0	11,836.0
EPS (Reported) (US\$)	10.10	12.25	18.71	22.89	28.28
YoY growth (%)	(12.5)	21.2	52.8	22.4	23.5
Consensus EPS (US\$)	NA	NA	17.27	21.36	25.45
P/S (x)	7.7	7.2	6.3	5.7	5.1
P/E (x)	54.9	45.3	29.7	24.2	19.6
ROE (%)	24.5	26.1	34.9	33.7	30.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$644.50
(Previous TP)	US\$613.30
Up/Downside	16.1%
Current Price	US\$555.04

Global Entertainment

Sophie HUANG

(852) 3900 0889

sophiehuang@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	243,107.5
Avg 3 mths t/o (US\$ mn)	2,154.4
52w High/Low (US\$)	636.18/317.55
Total Issued Shares (mn)	438.0

Source: FactSet

Shareholding Structure

Capital Group	9.2%
Vanguard	8.3%

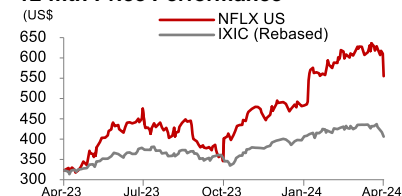
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-10.6%	-5.4%
3-mth	14.9%	15.1%
6-mth	38.1%	19.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: 1Q24 financial review

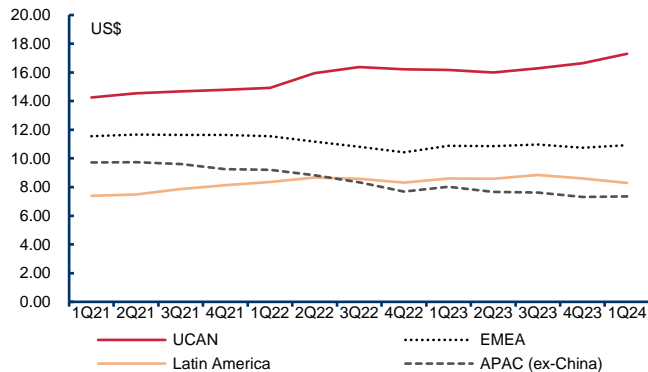
US\$ mn	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY	Consensus	Diff %	CMBI	Diff %
Revenue	7,868	7,970	7,926	7,852	8,162	8,187	8,542	8,833	9,370	6.1%	14.8%	9,262	1%	9,240	1%
Gross profit	3,583	3,279	3,137	2,448	3,358	3,514	3,611	3,525	4,393	24.6%	30.8%	4,126	6%	4,209	4%
Operating profit	1,972	1,578	1,533	550	1,714	1,827	1,916	1,496	2,633	76.0%	53.6%	2,429	8%	2,420	9%
Net profit	1,597	1,441	1,398	55	1,305	1,488	1,677	938	2,332	148.7%	78.7%	1,988	17%	1,976	18%
EPS (US\$)	3.53	3.20	3.10	0.12	2.88	3.29	3.73	2.11	5.28	150.2%	83.1%	4.55	16%	4.49	17%
Margin (%)															
Gross margin	45.5%	41.1%	39.6%	31.2%	41.1%	42.9%	42.3%	39.9%	46.9%			44.5%		45.6%	
Operating margin	25.1%	19.8%	19.3%	7.0%	21.0%	22.3%	22.4%	16.9%	28.1%			26.2%		26.2%	
Adj. net margin	20.3%	18.1%	17.6%	0.7%	16.0%	18.2%	19.6%	10.6%	24.9%			21.5%		21.4%	
Growth (%)															
Revenue (YoY)	9.8%	8.6%	5.9%	1.9%	3.7%	2.7%	7.8%	12.5%	14.8%			13.5%		13.2%	
Revenue (QoQ)	2.1%	1.3%	-0.6%	-0.9%	3.9%	0.3%	4.3%	3.4%	6.1%			4.9%		4.6%	
Operating profit	0.6%	-14.6%	-12.7%	-13.0%	-13.1%	15.8%	25.0%	172.1%	53.6%			41.7%		41.1%	
Net profit	-6.4%	6.5%	-3.5%	-90.9%	-18.3%	3.2%	20.0%	1596.4%	78.7%			52.4%		51.4%	

Source: Company data, Bloomberg, CMBIGM estimates

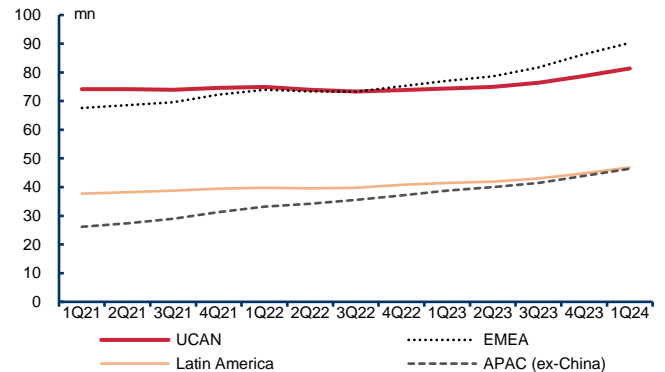
Figure 2: 1Q24 revenue breakdown

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (US\$ mn)	7,868	7,970	7,926	7,852	8,162	8,187	8,542	8,833	9,370	6.1%	14.8%
Total Streaming Revenues	7,828	7,933	7,890	7,818	8,130	8,158	8,519	8,833	9,370	6.1%	15.3%
UCAN	3,350	3,538	3,602	3,595	3,609	3,599	3,735	3,931	4,224	7.5%	17.1%
EMEA	2,562	2,457	2,376	2,350	2,518	2,562	2,693	2,784	2,958	6.3%	17.5%
LATAM	999	1,030	1,024	1,017	1,070	1,077	1,143	1,156	1,165	0.8%	8.9%
APAC	917	908	889	857	934	919	948	963	1,023	6.3%	9.6%
DVD	40	37	35	34	32	29	22	0	0	NA	NA

Source: Company data, CMBIGM

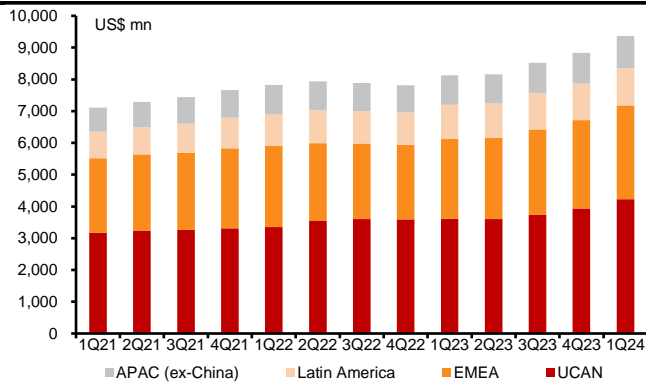
Figure 3: Quarterly ARPPU growth by region

Source: Company data, CMBIGM

Figure 4: Quarterly subs growth by region

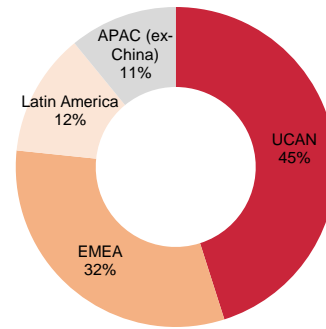
Source: Company data, CMBIGM

Figure 5: Quarterly revenue by region



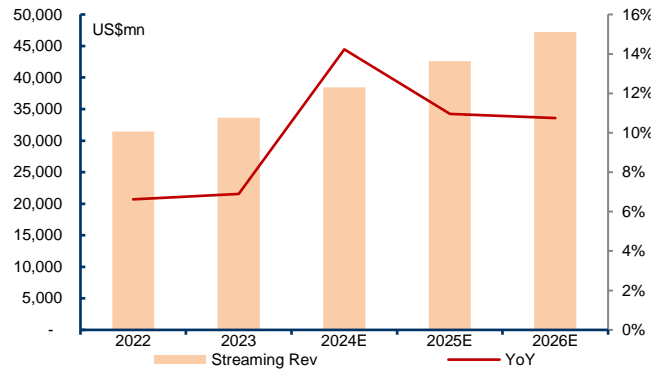
Source: Company data, CMBIGM

Figure 6: 1Q24 revenue breakdown



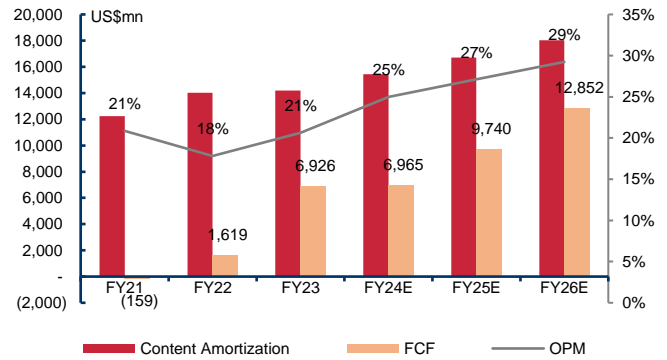
Source: Company data, CMBIGM

Figure 7: Yearly revenue growth estimates



Source: Company data, CMBIGM estimates

Figure 8: Free cash flow projections



Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38,428	42,637	47,219	38,591	43,222	47,663	-0.4%	-1.4%	-0.9%
Gross Profit	17,248	19,694	22,426	16,889	19,678	22,127	2.1%	0.1%	1.4%
Operating Profit	9,597	11,558	13,807	9,304	11,340	13,317	3.1%	1.9%	3.7%
Adj. net profit	7,978	9,631	11,836	7,560	9,167	10,731	5.5%	5.1%	10.3%
Adj. EPS (RMB)	18.35	22.45	27.72	17.27	21.36	25.45	6.2%	5.1%	9.0%
Gross margin	44.9%	46.2%	47.5%	43.8%	45.5%	46.4%	+1.1ppts	+0.7ppts	+1.1ppts
Operating margin	25.0%	27.1%	29.2%	24.1%	26.2%	27.9%	+0.9ppts	+0.9ppts	+1.3ppts
Adj. net margin	20.8%	22.6%	25.1%	19.6%	21.2%	22.5%	+1.2ppts	+1.4ppts	+2.6ppts

Source: Bloomberg, CMBIGM estimates

Figure 10: Earnings revision

US\$ mn, Dec-YE	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38,428	42,637	47,219	38,302	41,897	45,766	0.3%	1.8%	3.2%
Gross Profit	17,248	19,694	22,426	16,943	19,079	21,437	1.8%	3.2%	4.6%
Operating Profit	9,597	11,558	13,807	9,215	10,972	12,960	4.1%	5.3%	6.5%
Adj. net profit	7,978	9,631	11,836	7,536	9,178	11,050	5.9%	4.9%	7.1%
Adj. EPS (RMB)	18.35	22.45	27.72	17.23	21.25	25.71	6.5%	5.6%	7.8%
Gross Margin	44.9%	46.2%	47.5%	44.2%	45.5%	46.8%	+0.7ppts	+0.7ppts	+0.7ppts
Operating Margin	25.0%	27.1%	29.2%	24.1%	26.2%	28.3%	+0.9ppts	+0.9ppts	+0.9ppts
Adj. net margin	20.8%	22.6%	25.1%	19.7%	21.9%	24.1%	+1.1ppts	+0.7ppts	+0.9ppts

Source: Bloomberg, CMBIGM estimates

Figure 11: DCF-based valuation

DCF Valuation (US\$ mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EBIT	9,597	11,558	13,807	16,226	19,471	23,171	27,341	31,989	37,108	42,674	48,648
Tax	(1,216)	(1,539)	(1,769)	(2,126)	(2,233)	(2,657)	(3,135)	(3,668)	(4,255)	(4,893)	(5,578)
D&A	(562)	462	1,608	3,020	3,140	3,266	3,397	3,533	3,674	3,821	3,974
Change in working capital	(430)	(295)	(326)	(295)	(266)	(239)	(215)	(194)	(174)	(157)	(141)
CAPEX	(424)	(446)	(468)	(491)	(516)	(542)	(569)	(597)	(627)	(658)	(691)
FCF	6,965	9,740	12,852	16,333	19,597	22,999	26,819	31,063	35,725	40,786	46,211
FCF Growth	1%	40%	32%	27%	20%	17%	17%	16%	15%	14%	13%
PV	6,965	8,683	10,213	11,570	12,375	12,946	13,457	13,894	14,245	14,497	174,140
Terminal Value											503,392

Assumptions

WACC	12.2%
Tax rate	11.0%
Risk free rate	4.95%
Cost of debt	6.1%
Beta	1.20
Market risk return	10.7%
Cost of equity	12.2%
Debt/Assets	0.0%
Long term growth	3.0%

Equity Value

PV	292,984
minus: Net debt (US\$ mn)	7,405
minus: Minority interest (US\$ mn)	0
Equity Value(US\$ mn)	285,579
No. of shares (mn)	443
Target Price (US\$) based on DCF	644.5

Source: CMBIGM estimates

	Terminal growth rate	WACC				
		~	10%	11%	12%	13%
1.5%		793.1	689.7	593.9	539.7	484.0
2.0%		822.7	711.2	609.1	551.9	493.4
2.5%		856.2	735.2	625.9	565.2	503.5
3.0%		894.5	762.2	644.5	579.8	514.7
3.5%		938.7	792.8	665.2	596.0	526.8
4.0%		990.2	827.8	688.5	613.9	540.2
4.5%		1,051.1	868.1	714.8	634.0	555.0

Risks

1) Subs churning due to price hikes; 2) lower-than-expected subs net adds from AVOD and paid sharing; 3) ARM pressure from AVOD and overseas expansion; and 4) global macro uncertainty.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	29,698	31,616	33,723	38,428	42,637	47,219
Cost of goods sold	17,333	19,168	19,715	21,180	22,943	24,793
Gross profit	12,365	12,447	14,008	17,248	19,694	22,426
Operating expenses	6,171	6,814	7,054	7,651	8,136	8,619
Selling expense	2,545	2,531	2,658	2,995	3,172	3,347
Admin expense	1,352	1,573	1,720	1,792	1,903	2,013
R&D expense	2,274	2,711	2,676	2,864	3,060	3,259
Operating profit	6,195	5,633	6,954	9,597	11,558	13,807
Other income	(766)	(706)	(700)	(676)	(612)	(584)
Other expense	411	337	(49)	273	224	381
Pre-tax profit	5,840	5,264	6,205	9,194	11,170	13,605
Income tax	724	772	797	1,216	1,539	1,769
Net profit	5,116	4,492	5,408	7,978	9,631	11,836
BALANCE SHEET						
YE 31 Dec (US\$ mn)						
Current assets	8,070	9,266	9,918	12,743	18,044	31,299
Cash & equivalents	6,028	5,147	7,117	9,203	14,135	26,988
ST bank deposits	0	911	21	21	21	21
Other current assets	2,042	3,208	2,780	3,519	3,888	4,291
Non-current assets	36,515	39,328	38,814	41,925	43,551	44,432
PP&E	1,323	1,398	1,491	1,540	1,596	1,661
Intangibles	30,920	32,737	31,658	33,795	34,675	34,737
Other non-current assets	4,272	5,193	5,664	6,590	7,280	8,035
Total assets	44,585	48,595	48,732	54,668	61,596	75,732
Current liabilities	8,489	7,931	8,861	9,550	10,518	11,574
Short-term borrowings	700	0	400	0	0	0
Account payables	837	672	747	776	825	876
Accrued expenses	1,449	1,515	1,804	2,170	2,397	2,646
Non-current liabilities	20,246	19,886	19,283	19,273	18,141	18,880
Long-term borrowings	14,693	14,353	14,143	12,817	11,009	11,009
Other non-current liabilities	14,042	13,464	14,000	16,006	17,649	19,444
Total liabilities	28,735	27,817	28,144	28,823	28,659	30,454
Capital surplus	4,025	4,638	5,145	5,490	5,490	5,490
Retained earnings	12,689	17,181	22,589	30,873	40,965	53,306
Other reserves	(40)	(217)	(224)	(112)	(112)	(112)
Total shareholders equity	15,849	20,777	20,588	25,067	32,159	44,500

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	5,840	5,264	6,205	9,194	11,170	13,605
Depreciation & amortization	208	337	357	376	389	404
Tax paid	724	772	797	1,216	1,539	1,769
Change in working capital	(242)	(758)	(116)	(430)	(295)	(326)
Others	(6,138)	(3,588)	31	(2,967)	(2,618)	(2,131)
Net cash from operations	393	2,026	7,274	7,389	10,186	13,320
Investing						
Capital expenditure	(525)	(408)	(349)	(424)	(446)	(468)
Net proceeds from disposal of short-term investments	0	(911)	890	0	0	0
Others	(815)	(757)	0	0	0	0
Net cash from investing	(1,340)	(2,076)	542	(424)	(446)	(468)
Financing						
Net borrowings	(500)	(678)	61	(800)	(1,808)	0
Proceeds from share issues	174	14	0	0	0	0
Share repurchases	(600)	0	(6,045)	(4,250)	(3,000)	0
Others	(224)	0	34	0	0	0
Net cash from financing	(1,150)	(664)	(5,951)	(5,050)	(4,808)	0
Net change in cash						
Cash at the beginning of the year	8,206	6,028	5,147	7,115	8,934	13,867
Cash at the end of the year	6,028	5,147	7,115	8,934	13,867	26,719
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.8%	6.5%	6.7%	14.0%	11.0%	10.7%
Gross profit	27.2%	0.7%	12.5%	23.1%	14.2%	13.9%
Operating profit	35.1%	(9.1%)	23.5%	38.0%	20.4%	19.5%
Net profit	85.3%	(12.2%)	20.4%	47.5%	20.7%	22.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	41.6%	39.4%	41.5%	44.9%	46.2%	47.5%
Operating margin	20.9%	17.8%	20.6%	25.0%	27.1%	29.2%
Return on equity (ROE)	38.0%	24.5%	26.1%	34.9%	33.7%	30.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.6	0.4	0.4	0.1	(0.1)	(0.4)
Current ratio (x)	1.0	1.2	1.1	1.3	1.7	2.7
Payable turnover days	17.6	15.7	13.3	13.8	13.6	13.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	48.1	54.9	45.3	29.7	24.2	19.6
P/B	15.9	12.1	12.1	9.6	7.4	5.3

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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