

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

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

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%

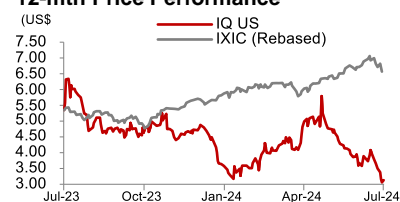
Source: Company data

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						
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.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.