

# iQIYI (IQ US)

## Short-term headwind continues

iQiyi announced 2Q24 results: total revenue decreased by 5% YoY to RMB7.4bn, in line with our/consensus estimate; non-GAAP operating income was down by 36% YoY to RMB501mn (in line with our/consensus estimate), due to the intense competition in the long-form video sector. For 3Q24E, we expect membership and ads revenue growth will remain under pressure, and it will take time for the improved content performance to be reflected on the company's financials. Therefore, we forecast total revenue to decline by 9% YoY to RMB7.3bn, and non-GAAP operating profit to drop by 63% YoY to RMB335mn in 3Q24E. Given the intense competition and fluctuations in content performance, we lower FY24-26E non-GAAP net income forecast to RMB1.7/2.5/2.9bn (previous: RMB2.8/3.3/4.0bn). Our target price is US\$5.00 based on 16x 3Q24-2Q25E non-GAAP EPS (previous: US\$6.40 on 16x FY24E non-GAAP EPS). Maintain BUY.

- Membership & online advertising business under pressure in 2Q24.** Membership services revenue declined by 9% YoY to RMB4.5bn in 2Q24, mainly due to underperformance of certain drama series and intense competition. Online ad revenue decreased by 2% YoY in 2Q24, as fewer variety shows led to a decline in brand ad revenue, while performance-based ad revenue maintained YoY growth. Content distribution/other revenue was up by 2% YoY and 16% YoY respectively in 2Q24.
- Expect short-term headwind to sustain in 3Q24E.** We estimate total revenue to decline by 9% YoY to RMB7.3bn in 3Q24E, with membership services and online ad service revenue down by 13% and 17% YoY respectively. *Strange Tales of Tang Dynasty 2* achieved strong performance and boosted iQiyi market share in July. However, it will take time for its solid performance to be recognized and reflected in membership revenue growth. Looking ahead, iQiyi plans to enrich content supply targeting the female audience, with a highly-anticipated pipeline including *Go East*, *A Moment But Forever*, *Love Song in Winter*, and *Snowy Night Timeless Love* etc.
- Margin under pressure due to operating deleverage.** iQiyi gross margin dropped by 2.3ppt YoY to 23.7% in 2Q24, as the decline in revenue led to operating deleverage. Non-GAAP operating margin declined by 3.4ppt YoY to 6.7% in 2Q24. We expect content costs to remain largely stable QoQ in 3Q24E, as iQiyi will invest in content to maintain market share. As a result, we expect margin will remain under pressure, and GPM/non-GAAP OPM will decline to 21.7/4.6% in 3Q24E.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	30,277	32,518	34,345
YoY growth (%)	(5.1)	9.9	(5.0)	7.4	5.6
Gross margin (%)	23.0	27.5	25.1	27.3	28.1
Adjusted net profit (RMB mn)	1,284.0	2,838.3	1,683.4	2,468.4	2,872.0
YoY growth (%)	na	121.0	(40.7)	46.6	16.4
EPS (Adjusted) (RMB)	1.52	2.98	1.73	2.49	2.84
Consensus EPS (RMB)	1.52	2.98	2.71	3.50	3.81
P/S (x)	0.6	0.6	0.6	0.5	0.5

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>US\$5.00</b>
(Previous TP)	US\$6.40
<b>Up/Downside</b>	<b>92.3%</b>
<b>Current Price</b>	<b>US\$2.60</b>

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### Stock Data

Mkt Cap (US\$ mn)	2,495.1
Avg 3 mths t/o (US\$ mn)	9.1
52w High/Low (US\$)	5.79/2.60
Total Issued Shares (mn)	959.7

Source: FactSet

### Shareholding Structure

Baidu	45.4%
PAG	11.9%

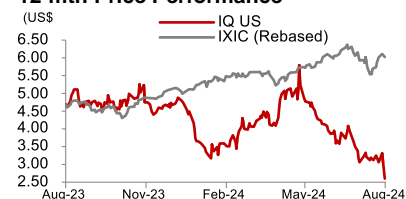
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-17.7%	-16.0%
3-mth	-45.5%	-48.2%
6-mth	-25.9%	-32.7%

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	30.3	32.5	34.3	31.0	33.1	35.4	-2.5%	-1.9%	-3.0%
Gross Profit	7.6	8.9	9.6	8.8	9.9	11.1	-13.4%	-10.9%	-13.2%
Operating Profit	2.1	3.1	3.6	3.2	4.1	5.0	-34.9%	-25.8%	-27.7%
Non-GAAP net profit	1.7	2.5	2.9	2.8	3.3	4.0	-40.4%	-26.3%	-27.9%
Non-GAAP EPS (RMB)	1.7	2.5	2.8	2.9	3.4	3.9	-40.4%	-26.3%	-27.9%
Gross Margin	25.1%	27.3%	28.1%	28.2%	30.0%	31.4%	-3.2 ppt	-2.8 ppt	-3.3 ppt
Operating Margin	6.9%	9.5%	10.6%	10.4%	12.5%	14.1%	-3.5 ppt	-3.1 ppt	-3.6 ppt
Non-GAAP net margin	5.6%	7.6%	8.4%	9.1%	10.1%	11.2%	-3.5 ppt	-2.5 ppt	-2.9 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	30.3	32.5	34.3	31.9	33.7	35.6	-5.2%	-3.6%	-3.6%
Gross Profit	7.6	8.9	9.6	9.0	9.9	10.7	-15.4%	-10.8%	-9.5%
Operating Profit	2.1	3.1	3.6	3.4	4.1	4.5	-38.1%	-25.7%	-20.1%
Non-GAAP net profit	1.7	2.5	2.9	2.6	3.3	3.7	-34.1%	-24.7%	-22.0%
Non-GAAP EPS (RMB)	1.7	2.5	2.8	2.7	3.5	3.8	-36.1%	-28.9%	-25.5%
Gross Margin	25.1%	27.3%	28.1%	28.1%	29.5%	29.9%	-3.0 ppt	-2.2 ppt	-1.8 ppt
Operating Margin	6.9%	9.5%	10.6%	10.6%	12.3%	12.7%	-3.7 ppt	-2.8 ppt	-2.2 ppt
Non-GAAP net margin	5.6%	7.6%	8.4%	8.0%	9.7%	10.3%	-2.4 ppt	-2.1 ppt	-2.0 ppt

Source: CMBIGM estimates, Bloomberg

## Valuation

We value iQiyi at US\$5.00 per share based on 16x 3Q24-2Q25E non-GAAP EPS. 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	2024E
3Q24-2Q25E Non-GAAP EPADS (RMB)	2.26
Target PE	16.0
Target Price (CNY)	36.17
Target Price (US\$)	5.00

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	689.0	35.8	30.0	25.0	7.6	6.8	6.1	31%
Disney	DIS US	89.9	18.2	17.4	15.5	1.8	1.7	1.6	17%
Spotify	SPOT US	342.2	NA	38.3	30.0	4.0	3.4	3.1	NA
TME	TME US	10.3	16.1	13.8	12.0	4.4	4.0	3.7	19%
<b>Average</b>			<b>23.4</b>	<b>24.9</b>	<b>20.6</b>	<b>4.5</b>	<b>4.0</b>	<b>3.6</b>	

Source: Bloomberg, CMBIGM

Note: data as of 22 Aug

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>30,554</b>	<b>28,998</b>	<b>31,873</b>	<b>30,277</b>	<b>32,518</b>	<b>34,345</b>
Cost of goods sold	(27,513)	(22,319)	(23,102)	(22,691)	(23,652)	(24,708)
<b>Gross profit</b>	<b>3,041</b>	<b>6,678</b>	<b>8,770</b>	<b>7,585</b>	<b>8,866</b>	<b>9,636</b>
<b>Operating expenses</b>	<b>(7,520)</b>	<b>(5,366)</b>	<b>(5,781)</b>	<b>(5,482)</b>	<b>(5,791)</b>	<b>(6,013)</b>
SG&A expense	(4,725)	(3,467)	(4,014)	(3,744)	(3,988)	(4,178)
R&D expense	(2,795)	(1,899)	(1,767)	(1,739)	(1,802)	(1,835)
<b>Operating profit</b>	<b>(4,479)</b>	<b>1,312</b>	<b>2,989</b>	<b>2,103</b>	<b>3,075</b>	<b>3,624</b>
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	54	54	54
<b>EBIT</b>	<b>(4,926)</b>	<b>1,099</b>	<b>2,938</b>	<b>2,157</b>	<b>3,129</b>	<b>3,678</b>
Interest income	119	70	257	257	257	257
Interest expense	(1,350)	(715)	(1,130)	(1,139)	(1,124)	(1,124)
Foreign exchange gain/loss	55	(168)	(105)	0	0	0
Other income/expense	90	(319)	73	(79)	0	0
<b>Pre-tax profit</b>	<b>(6,012)</b>	<b>(34)</b>	<b>2,033</b>	<b>1,196</b>	<b>2,263</b>	<b>2,811</b>
Income tax	(97)	(84)	(80)	(160)	(385)	(562)
<b>After tax profit</b>	<b>(6,109)</b>	<b>(118)</b>	<b>1,953</b>	<b>1,036</b>	<b>1,878</b>	<b>2,249</b>
Minority interest	61	18	27	0	0	0
<b>Net profit</b>	<b>(6,170)</b>	<b>(136)</b>	<b>1,925</b>	<b>1,036</b>	<b>1,878</b>	<b>2,249</b>
<b>Adjusted net profit</b>	<b>(4,487)</b>	<b>1,284</b>	<b>2,838</b>	<b>1,683</b>	<b>2,468</b>	<b>2,872</b>
<b>BALANCE SHEET</b>						
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>11,524</b>	<b>13,786</b>	<b>12,635</b>	<b>26,824</b>	<b>29,340</b>	<b>31,853</b>
Cash & equivalents	2,997	7,098	4,435	17,977	20,123	22,306
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,088	2,154	2,181
Prepayment	3,267	2,603	2,794	2,654	2,851	3,011
Other current assets	2,435	1,668	3,231	4,098	4,206	4,350
<b>Non-current assets</b>	<b>30,948</b>	<b>32,263</b>	<b>31,959</b>	<b>22,365</b>	<b>23,103</b>	<b>24,239</b>
PP&E	1,345	1,105	864	1,369	1,422	1,483
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	1,017	1,187	1,367
Goodwill	3,888	3,826	3,821	3,276	3,276	3,276
Other non-current assets	21,196	23,768	24,020	13,757	14,274	15,168
<b>Total assets</b>	<b>42,472</b>	<b>46,048</b>	<b>44,594</b>	<b>49,189</b>	<b>52,443</b>	<b>56,092</b>
<b>Current liabilities</b>	<b>22,476</b>	<b>28,130</b>	<b>22,342</b>	<b>22,056</b>	<b>22,848</b>	<b>23,630</b>
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,728	5,971	6,238
Other current liabilities	6,119	16,059	10,129	9,858	10,288	10,674
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,798	2,916	3,046
<b>Non-current liabilities</b>	<b>14,323</b>	<b>11,575</b>	<b>10,068</b>	<b>10,068</b>	<b>10,068</b>	<b>10,068</b>
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
<b>Total liabilities</b>	<b>36,799</b>	<b>39,705</b>	<b>32,409</b>	<b>32,124</b>	<b>32,916</b>	<b>33,698</b>
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,672	59,258	59,876
Retained earnings	(47,164)	(46,499)	(44,573)	(44,249)	(42,371)	(40,123)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
<b>Total shareholders equity</b>	<b>5,585</b>	<b>6,251</b>	<b>12,087</b>	<b>16,967</b>	<b>19,430</b>	<b>22,297</b>
Minority interest	88	93	98	98	98	98
<b>Total equity and liabilities</b>	<b>42,473</b>	<b>46,049</b>	<b>44,595</b>	<b>49,189</b>	<b>52,444</b>	<b>56,093</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(6,012)	(34)	2,033	1,196	2,263	2,811
Depreciation & amortization	16,766	13,655	14,091	5,953	5,508	5,468
Tax paid	(97)	(84)	(80)	(160)	(385)	(562)
Change in working capital	(17,586)	(14,493)	(13,358)	9,547	(1,136)	(1,226)
Others	977	885	666	1,120	585	618
<b>Net cash from operations</b>	<b>(5,952)</b>	<b>(71)</b>	<b>3,352</b>	<b>17,656</b>	<b>6,835</b>	<b>7,108</b>
<b>Investing</b>						
Capital expenditure	(401)	(270)	(105)	(457)	(491)	(519)
Others	1,663	536	(1,635)	(4,497)	(4,197)	(4,407)
<b>Net cash from investing</b>	<b>1,262</b>	<b>266</b>	<b>(1,740)</b>	<b>(4,954)</b>	<b>(4,688)</b>	<b>(4,926)</b>
<b>Financing</b>						
Net borrowings	5,069	7,726	9,049	0	0	0
Others	(8,029)	(3,257)	(13,334)	0	0	0
<b>Net cash from financing</b>	<b>(2,959)</b>	<b>4,469</b>	<b>(4,285)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	10,941	3,075	7,862	5,281	17,983	20,129
Exchange difference	(217)	122	92	0	0	0
<b>Cash at the end of the year</b>	<b>3,075</b>	<b>7,862</b>	<b>5,281</b>	<b>17,983</b>	<b>20,129</b>	<b>22,312</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	2.9%	(5.1%)	9.9%	(5.0%)	7.4%	5.6%
Gross profit	66.8%	119.6%	31.3%	(13.5%)	16.9%	8.7%
Operating profit	na	na	127.8%	(29.7%)	46.2%	17.8%
EBIT	na	na	167.4%	(26.6%)	45.1%	17.5%
Net profit	na	na	na	(46.2%)	81.2%	19.7%
Adj. net profit	na	na	121.0%	(40.7%)	46.6%	16.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	10.0%	23.0%	27.5%	25.1%	27.3%	28.1%
Operating margin	(14.7%)	4.5%	9.4%	6.9%	9.5%	10.6%
Adj. net profit margin	(14.7%)	4.4%	8.9%	5.6%	7.6%	8.4%
Return on equity (ROE)	(82.5%)	(2.3%)	21.0%	7.1%	10.3%	10.8%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
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
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	ns	ns	9.2	17.4	9.8	8.4
P/E (diluted)	ns	ns	9.4	17.8	10.0	8.5
P/B	2.6	2.5	1.5	1.1	0.9	0.8

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

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