招银国际 CMB INTERNATIONAL
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A Wholly Owned Subsidiary Of China Merchants Bank

iQIYI (IQ US)

Recovery still takes time

We expect iQiyi 3Q24 results (total revenue & operating profit) to be largely inline with our previous expectation in Aug and the consensus estimate. We forecast 3Q24 total revenue to decline by 10% YoY and 3% QoQ to RMB7.2bn, as macro uncertainty weighed on ad budgets and lack of blockbuster content impacted membership revenue growth. We expect 3Q24 non-GAAP net income to decline by 32% YoY but grow by 68% QoQ to RMB426mn, ahead of our previous expectation (RMB118mn), primarily due to foreign exchange gains of c.RMB300mn on the CNY appreciation. Overall, it still takes time for iQiyi to revitalize its business growth amid macro and content pipeline headwinds, in our view. We trim our FY25-26E non-GAAP earnings forecast by 4-5%, and lower our TP by 4% to US$4.80 on 15.0x FY25E PE (previous: US$5.0 on 16x 3Q24-2Q25E non-GAAP EPS). Maintain BUY.

- **Membership and ad businesses remain under pressure.** We forecast membership revenue to drop by 13% YoY and 3% QoQ to RMB4.4bn in 3Q24, mainly due to soft performance of certain drama series, intense competition and deferred revenue recognition of hit titles like *Strange Tales of Tang Dynasty 2.* We expect online advertising revenue to drop by 21% YoY and 9% QoQ to RMB1.3bn in 3Q24, primarily due to shrinking brand advertising budgets amid macro uncertainty. Advertisers in key verticals like FMCG continue to be conservative on brand advertising given the weak consumption sentiment.
- **New initiatives to revitalize business growth.** Despite short-term headwinds, iQiyi continues to innovate and optimize its business strategy to drive long-term growth. On iQiyi 2024 Autumn iJoy Conference, management announced three new initiatives to capture growth opportunities: 1) launch of Short Play Theatre (短剧场) and Mini Play Theatre (微剧场) to offer premium members more diversified content; 2) development of AI agent TaoDou 2.0 to enhance user experience; 3) introduction of more Chinese content to overseas markets. iQiyi also announced over 300 drama series and variety shows on the conference, including *A Moment But Forever (4Q24)*, *Snowy Night Timeless Love (4Q24)* and *Northward (4Q24)* etc.
- **Maintain BUY.** We forecast iQiyi GPM to decline by 5.1ppt YoY and 1.7ppt QoQ to 22.0% in 3Q24, mainly due to operating deleverage. iQiyi will remain prudent on opex, and we estimate opex as % of total revenue to decline by 0.1ppt QoQ to 19.0% in 3Q24. Overall, we expect non-GAAP OPM to decline by 6.3ppt YoY and 1.9ppt QoQ to 4.8% in 3Q24. Despite short-term headwinds, iQiyi's current valuation of 8x FY25E PE offers ample safety margin versus peers' average (22x) and its 2-year historical average (15x), in our view. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	30,245	32,488	34,314
YoY growth (%)	(5.1)	9.9	(5.1)	7.4	5.6
Gross margin (%)	23.0	27.5	24.7	26.9	27.7
Adjusted net profit (RMB mn)	1,284.0	2,838.3	1,847.6	2,347.6	2,751.3
YoY growth (%)	na	121.0	(34.9)	27.1	17.2
EPS (Adjusted) (RMB)	1.52	2.98	1.86	2.30	2.61
Consensus EPS (RMB)	1.52	2.98	1.38	2.14	2.55
P/S (x)	0.6	0.5	0.5	0.5	0.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$4.80**
(Previous TP	US$5.00)
Up/Downside	**99.2%**
Current Price	**US$2.41**

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Stock Data

Mkt Cap (US$ mn)	2,312.8
Avg 3 mths t/o (US$ mn)	11.0
52w High/Low (US$)	5.79/1.96
Total Issued Shares (mn)	959.7

Source: FactSet

Shareholding Structure

Baidu	45.4%
PAG	11.9%

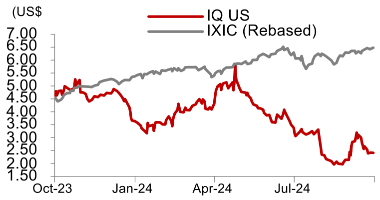
Source: Company data

Share Performance

	Absolute	Relative
1-mth	14.8%	11.1%
3-mth	-28.7%	-30.7%
6-mth	-44.1%	-53.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: iQiyi: forecast revision

	Current			Previous			Change (%)		
RMBbn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30.2	32.5	34.3	30.3	32.5	34.3	-0.1%	-0.1%	-0.1%
Gross profit	7.5	8.7	9.5	7.6	8.9	9.6	-1.6%	-1.5%	-1.4%
Operating profit	2.0	3.0	3.5	2.1	3.1	3.6	-5.6%	-4.0%	-3.5%
Non-GAAP net profit	1.8	2.3	2.8	1.7	2.5	2.9	9.8%	-4.9%	-4.2%
Non-GAAP EPS (RMB)	1.9	2.3	2.6	1.7	2.5	2.8	7.6%	-7.6%	-7.9%
Gross margin	24.7%	26.9%	27.7%	25.1%	27.3%	28.1%	-0.4 ppt	-0.4 ppt	-0.4 ppt
Operating margin	6.6%	9.1%	10.2%	6.9%	9.5%	10.6%	-0.4 ppt	-0.4 ppt	-0.4 ppt
Non-GAAP net margin	6.1%	7.2%	8.0%	5.6%	7.6%	8.4%	0.5 ppt	-0.4 ppt	-0.3 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMBbn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30.2	32.5	34.3	30.1	31.7	33.2	0.4%	2.5%	3.2%
Gross profit	7.5	8.7	9.5	7.5	8.5	9.2	-0.3%	3.4%	3.0%
Operating profit	2.0	3.0	3.5	2.1	2.9	3.5	-4.5%	0.8%	0.1%
Non-GAAP net profit	1.8	2.3	2.8	1.5	2.3	2.7	24.8%	1.3%	0.6%
Non-GAAP EPS (RMB)	1.8	2.2	2.6	1.4	2.1	2.5	32.0%	5.1%	0.4%
Gross margin	24.7%	26.9%	27.7%	24.8%	26.7%	27.8%	-0.2 ppt	0.2 ppt	-0.1 ppt
Operating margin	6.6%	9.1%	10.2%	6.9%	9.2%	10.5%	-0.3 ppt	-0.2 ppt	-0.3 ppt
Non-GAAP net margin	6.1%	7.2%	8.0%	4.9%	7.3%	8.2%	1.2 ppt	-0.1 ppt	-0.2 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US$4.80 per share based on 15x 2025E P/E. Our target PE multiple is at a discount to the sector average (22x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	2025E
2025E Non-GAAP EPADS (RMB)	2.25
Target 2025E PE	15.0
Target Price (CNY)	33.72
Target Price (US$)	4.80

Source: Company data, CMBIGM estimates

Figure 4: Global streaming platforms

Companies	Ticker	Price	PE (x)			PS (x)			EPS CAGR
		(LC)	2024E	2025E	2026E	2024E	2025E	2026E	24-26E
Netflix Inc	NFLX US	772.1	38.8	32.3	26.9	8.5	7.6	6.8	33%
Disney	DIS US	96.6	19.5	18.8	16.7	1.9	1.8	1.8	16%
Spotify	SPOT US	382.0	NA	NA	33.5	4.5	3.9	3.5	NA
TME	TME US	11.8	17.3	14.8	12.9	5.1	4.6	4.2	22%
Average			**25.2**	**21.9**	**22.5**	**5.0**	**4.5**	**4.1**	

Source: Bloomberg, CMBIGM
Note: data as of 21 Oct

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**30,554**	**28,998**	**31,873**	**30,245**	**32,488**	**34,314**
Cost of goods sold	(27,513)	(22,319)	(23,102)	(22,784)	(23,751)	(24,812)
Gross profit	**3,041**	**6,678**	**8,770**	**7,461**	**8,737**	**9,503**
Operating expenses	**(7,520)**	**(5,366)**	**(5,781)**	**(5,477)**	**(5,785)**	**(6,008)**
SG&A expense	(4,725)	(3,467)	(4,014)	(3,740)	(3,985)	(4,174)
R&D expense	(2,795)	(1,899)	(1,767)	(1,737)	(1,801)	(1,833)
Operating profit	**(4,479)**	**1,312**	**2,989**	**1,984**	**2,952**	**3,495**
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	41	32	32
EBIT	**(4,926)**	**1,099**	**2,938**	**2,025**	**2,985**	**3,527**
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)	210	0	0
Other income/expense	90	(319)	73	(89)	0	0
Pre-tax profit	**(6,012)**	**(34)**	**2,033**	**1,264**	**2,118**	**2,661**
Income tax	(97)	(84)	(80)	(128)	(360)	(532)
After tax profit	**(6,109)**	**(118)**	**1,953**	**1,136**	**1,758**	**2,129**
Minority interest	61	18	27	0	0	0
Net profit	**(6,170)**	**(136)**	**1,925**	**1,136**	**1,758**	**2,129**
Adjusted net profit	**(4,487)**	**1,284**	**2,838**	**1,848**	**2,348**	**2,751**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**11,524**	**13,786**	**12,635**	**26,917**	**29,310**	**31,697**
Cash & equivalents	2,997	7,098	4,435	18,071	20,093	22,147
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,086	2,152	2,179
Prepayment	3,267	2,603	2,794	2,652	2,848	3,008
Other current assets	2,435	1,668	3,231	4,102	4,211	4,356
Non-current assets	**30,948**	**32,263**	**31,959**	**22,398**	**23,142**	**24,286**
PP&E	1,345	1,105	864	1,369	1,421	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	1,186	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	13,791	14,314	15,216
Total assets	**42,472**	**46,048**	**44,594**	**49,315**	**52,452**	**55,983**
Current liabilities	**22,476**	**28,130**	**22,342**	**22,099**	**22,893**	**23,678**
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,752	5,996	6,264
Other current liabilities	6,119	16,059	10,129	9,865	10,297	10,683
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,809	2,928	3,059
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**	**32,167**	**32,961**	**33,746**
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,657	59,242	59,859
Retained earnings	(47,164)	(46,499)	(44,573)	(44,149)	(42,392)	(40,263)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
Total shareholders equity	**5,585**	**6,251**	**12,087**	**17,051**	**19,393**	**22,140**
Minority interest	88	93	98	98	98	98
Total equity and liabilities	**42,473**	**46,049**	**44,595**	**49,316**	**52,453**	**55,984**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(6,012)**	**(34)**	**2,033**	**1,264**	**2,118**	**2,661**
Depreciation & amortization	16,766	13,655	14,091	5,976	5,553	5,513
Tax paid	(97)	(84)	(80)	(128)	(360)	(532)
Change in working capital	(17,586)	(14,493)	(13,358)	9,578	(1,144)	(1,235)
Others	977	885	666	1,104	585	618
Net cash from operations	**(5,952)**	**(71)**	**3,352**	**17,794**	**6,752**	**7,024**
Investing						
Capital expenditure	(401)	(270)	(105)	(457)	(491)	(518)
Others	1,663	536	(1,635)	(4,542)	(4,239)	(4,451)
Net cash from investing	**1,262**	**266**	**(1,740)**	**(4,999)**	**(4,730)**	**(4,969)**
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	18,077	20,099
Exchange difference	(217)	122	92	0	0	0
Cash at the end of the year	**3,075**	**7,862**	**5,281**	**18,077**	**20,099**	**22,154**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	(5.1%)	7.4%	5.6%
Gross profit	66.8%	119.6%	31.3%	(14.9%)	17.1%	8.8%
Operating profit	na	na	127.8%	(33.6%)	48.8%	18.4%
EBIT	na	na	167.4%	(31.1%)	47.4%	18.2%
Net profit	na	na	na	(41.0%)	54.7%	21.1%
Adj. net profit	na	na	121.0%	(34.9%)	27.1%	17.2%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	24.7%	26.9%	27.7%
Operating margin	(14.7%)	4.5%	9.4%	6.6%	9.1%	10.2%
Adj. net profit margin	(14.7%)	4.4%	8.9%	6.1%	7.2%	8.0%
Return on equity (ROE)	(82.5%)	(2.3%)	21.0%	7.8%	9.6%	10.2%

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)	(0.8)	(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

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	8.5	15.0	10.0	8.5
P/E (diluted)	ns	ns	8.7	15.3	10.2	8.7
P/B	2.4	2.3	1.4	1.0	0.9	0.8

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

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