

iQIYI (IQ US)

Short-term headwind continues; strategic upgrades to drive long-term growth

iQiyi reported 3Q24 financial results: total revenue declined by 10% YoY to RMB7.2bn, in line with Bloomberg consensus and our estimate; non-GAAP net income was down by 23% YoY to RMB480mn, ahead of consensus/our estimate of RMB266/426mn primarily due to better-than-expected opex control and foreign exchange gains. Looking ahead in 4Q24E, we forecast total revenue to decline by 14% YoY and 8% QoQ, primarily due to the lighter content slate and soft consumption sentiment. That said, we expect non-GAAP operating income to be largely flattish QoQ at RMB368mn in 4Q24E, thanks to iQiyi's prudent cost and opex control. The company will increase investment in mini dramas, while also cutting content investment with low ROI, which we expect to help iQiyi capture new growth opportunities and improve margin in the long term. We lower FY24-26E total revenue forecast by 3-4% to reflect relatively soft content performance and macro uncertainty. We trim our TP to US\$4.50 based on 15x FY25E non-GAAP EPS (previous: US\$4.80 on 15x FY25E non-GAAP EPS). Maintain BUY.

■ **Strategic upgrades to capture new growth opportunities.** Membership services revenue was down by 13% YoY to RMB4.4bn in 3Q24, mainly due to the high-base effect and a lighter content slate. Online advertising revenue decreased by 20% YoY to RMB1.3bn in 3Q24, primarily owing to the decline in brand advertising revenue amid macro uncertainty, but this was partially offset by growth in performance-based ad revenue. Content distribution revenue grew by 52% YoY to RMB814mn in 3Q24. Despite intense competition, iQiyi topped the industry in terms of the drama series market share in 3Q24, according to Enlightent data. iQiyi launched several strategic upgrades to capture new growth opportunities, including 1) optimizing drama production process to better match audience preference and 2) upgrading iQiyi Light and Main apps to introduce more mini & short dramas.

■ **Revenue headwind to continue in 4Q24E.** For 4Q24E, we expect top-line headwind will continue due to the light content slate and soft consumption, while earnings performance should be relatively steady. We forecast total revenue to drop by 14% YoY to RMB6.6bn in 4Q24E, with membership/online advertising/content distribution revenue down by 13/21/15% YoY respectively. On the content front, iQiyi will step up investment in mini dramas to complement its content portfolio, which shall help iQiyi acquire new users and capture monetization opportunities in our view. In the future, iQiyi Light app will focus more on mini-drama content and ad monetization, while iQiyi Main app will continue to focus on long-form video content.

■ **Expect steady margin in 4Q24E.** Overall GPM declined by 5.1ppt YoY to 22.0% in 3Q24, mainly due to operating deleverage. Non-GAAP operating margin was down by 6.1ppt YoY to 5.1% in 3Q24. We expect 4Q24E non-GAAP OPM to be largely stable QoQ at 5.5%, mainly due to the prudent control in content costs and opex. While the company will increase investment in mini dramas, it will also reduce investment in content with low ROI. Overall, we believe the investment in mini dramas will benefit iQiyi's margin in the long term.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	28,998	31,873	29,242	31,358	33,129
Adjusted net profit (RMB mn)	1,284.0	2,838.3	1,783.9	2,257.4	2,652.9
EPS (Adjusted) (RMB)	1.52	2.98	1.80	2.21	2.52
Consensus EPS (RMB)	1.52	2.98	1.50	2.17	2.68
P/S (x)	0.5	0.4	0.5	0.4	0.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$4.50
(Previous TP)	US\$4.80)
Up/Downside	122.8%
Current Price	US\$2.02

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Stock Data

Mkt Cap (US\$ mn)	1,938.5
Avg 3 mths t/o (US\$ mn)	20.2
52w High/Low (US\$)	5.79/1.96
Total Issued Shares (mn)	959.7

Source: FactSet

Shareholding Structure

Baidu	45.4%
PAG	11.9%

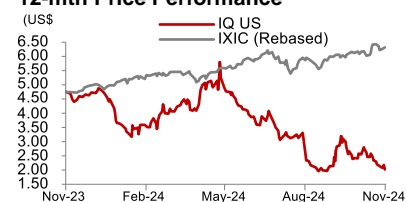
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-21.7%	-23.3%
3-mth	-22.3%	-27.8%
6-mth	-59.2%	-63.8%

Source: FactSet

12-month 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	29.2	31.4	33.1	30.2	32.5	34.3	-3.3%	-3.5%	-3.5%
Gross profit	7.1	8.5	9.2	7.5	8.7	9.5	-4.8%	-2.9%	-2.8%
Operating profit	1.8	2.9	3.4	2.0	3.0	3.5	-10.5%	-2.8%	-2.7%
Non-GAAP net profit	1.8	2.3	2.7	1.8	2.3	2.8	-2.0%	-3.8%	-3.6%
Non-GAAP EPS (RMB)	1.8	2.2	2.5	1.9	2.3	2.6	-2.0%	-3.8%	-3.6%
Gross margin	24.3%	27.1%	27.9%	24.7%	26.9%	27.7%	-0.4 ppt	0.2 ppt	0.2 ppt
Operating margin	6.1%	9.1%	10.3%	6.6%	9.1%	10.2%	-0.5 ppt	0.1 ppt	0.1 ppt
Non-GAAP net margin	6.2%	7.2%	8.0%	6.1%	7.2%	8.0%	0.1 ppt	0.0 ppt	0.0 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	29.2	31.4	33.1	30.0	31.5	32.9	-2.6%	-0.4%	0.6%
Gross profit	7.1	8.5	9.2	7.4	8.3	9.0	-4.1%	2.2%	2.3%
Operating profit	1.8	2.9	3.4	2.0	2.8	3.3	-10.7%	2.5%	2.4%
Non-GAAP net profit	1.8	2.3	2.7	1.7	2.3	2.8	8.0%	-0.4%	-4.8%
Non-GAAP EPS (RMB)	1.8	2.2	2.5	1.5	2.2	2.7	19.2%	-0.2%	-8.0%
Gross margin	24.3%	27.1%	27.9%	24.6%	26.4%	27.4%	-0.4 ppt	0.7 ppt	0.5 ppt
Operating margin	6.1%	9.1%	10.3%	6.6%	8.9%	10.1%	-0.5 ppt	0.3 ppt	0.2 ppt
Non-GAAP net margin	6.2%	7.2%	8.0%	5.6%	7.2%	8.5%	0.6 ppt	0.0 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value iQiyi at US\$4.50 per share based on 15x 2025E 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	2025E
2025E Non-GAAP EPADS (RMB)	2.16
Target PE	15.0
Target Price (RMB)	32.43
Target Price (US\$)	4.50

Source: Company data, CMBIGM estimates

Figure 4: Peer comparison: 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	897.5	45.1	37.8	31.4	9.7	8.7	7.8	33%
Disney	DIS US	114.7	23.1	21.4	18.9	2.3	2.2	2.1	18%
Spotify	SPOT US	470.7	NA	NA	39.6	5.7	5.0	4.4	NA
TME	TME US	11.5	16.8	14.4	12.5	5.0	4.6	4.2	23%
Average			28.4	24.5	25.6	5.7	5.1	4.6	

Source: Bloomberg, CMBIGM

Note: data as of 21 Nov

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	31,873	29,242	31,358	33,129
Cost of goods sold	(27,513)	(22,319)	(23,102)	(22,142)	(22,874)	(23,897)
Gross profit	3,041	6,678	8,770	7,100	8,484	9,232
Operating expenses	(7,520)	(5,366)	(5,781)	(5,324)	(5,615)	(5,833)
SG&A expense	(4,725)	(3,467)	(4,014)	(3,601)	(3,830)	(4,013)
R&D expense	(2,795)	(1,899)	(1,767)	(1,723)	(1,785)	(1,820)
Operating profit	(4,479)	1,312	2,989	1,775	2,869	3,399
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	41	32	32
EBIT	(4,926)	1,099	2,938	1,816	2,901	3,432
Interest income	119	70	257	257	257	257
Interest expense	(1,350)	(715)	(1,130)	(1,052)	(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	1,142	2,034	2,565
Income tax	(97)	(84)	(80)	(64)	(346)	(513)
After tax profit	(6,109)	(118)	1,953	1,078	1,688	2,052
Minority interest	61	18	27	27	0	0
Net profit	(6,170)	(136)	1,925	1,051	1,688	2,052
Adjusted net profit	(4,487)	1,284	2,838	1,784	2,257	2,653
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	12,635	26,525	28,779	31,093
Cash & equivalents	2,997	7,098	4,435	17,846	19,756	21,749
Restricted cash	78	14	6	6	6	6
Account receivables	2,748	2,403	2,169	2,017	2,077	2,104
Prepayment	3,267	2,603	2,794	2,564	2,749	2,904
Other current assets	2,435	1,668	3,231	4,092	4,191	4,330
Non-current assets	30,948	32,263	31,959	22,279	22,937	24,029
PP&E	1,345	1,105	864	1,362	1,408	1,464
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	1,010	1,172	1,344
Goodwill	3,888	3,826	3,821	3,276	3,276	3,276
Other non-current assets	21,196	23,768	24,020	13,686	14,136	15,000
Total assets	42,472	46,048	44,594	48,804	51,716	55,122
Current liabilities	22,476	28,130	22,342	21,638	22,297	23,055
Short-term borrowings	4,118	3,348	3,572	3,572	3,572	3,572
Account payables	8,896	5,993	5,671	5,590	5,775	6,033
Other current liabilities	6,119	16,059	10,129	9,646	10,030	10,403
Lease liabilities	172	104	101	101	101	101
Accrued expenses	3,172	2,626	2,869	2,730	2,820	2,946
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	31,706	32,365	33,123
Share capital	1	1	1	1	1	1
Capital surplus	49,642	50,886	54,971	58,638	59,203	59,799
Retained earnings	(47,164)	(46,499)	(44,573)	(44,181)	(42,492)	(40,440)
Other reserves	3,106	1,863	1,688	2,543	2,543	2,543
Total shareholders equity	5,585	6,251	12,087	17,001	19,254	21,902
Minority interest	88	93	98	98	98	98
Total equity and liabilities	42,473	46,049	44,595	48,805	51,717	55,123

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,033	1,142	2,034	2,565
Depreciation & amortization	16,766	13,655	14,091	5,906	5,375	5,291
Tax paid	(97)	(84)	(80)	(64)	(346)	(513)
Change in working capital	(17,586)	(14,493)	(13,358)	9,346	(1,189)	(1,187)
Others	977	885	666	1,086	564	596
Net cash from operations	(5,952)	(71)	3,352	17,415	6,440	6,752
Investing						
Capital expenditure	(401)	(270)	(105)	(442)	(474)	(500)
Others	1,663	536	(1,635)	(4,430)	(4,056)	(4,259)
Net cash from investing	1,262	266	(1,740)	(4,872)	(4,529)	(4,759)
Financing						
Net borrowings	5,069	7,726	9,049	0	0	0
Others	(8,029)	(3,257)	(13,334)	27	0	0
Net cash from financing	(2,959)	4,469	(4,285)	27	0	0
Net change in cash						
Cash at the beginning of the year	10,941	3,075	7,862	5,281	17,852	19,762
Exchange difference	(217)	122	92	0	0	0
Cash at the end of the year	3,075	7,862	5,281	17,852	19,762	21,755
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	9.9%	(8.3%)	7.2%	5.6%
Gross profit	66.8%	119.6%	31.3%	(19.0%)	19.5%	8.8%
Operating profit	na	na	127.8%	(40.6%)	61.6%	18.5%
EBIT	na	na	167.4%	(38.2%)	59.7%	18.3%
Net profit	na	na	na	(45.4%)	60.7%	21.5%
Adj. net profit	na	na	121.0%	(37.1%)	26.5%	17.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.5%	24.3%	27.1%	27.9%
Operating margin	(14.7%)	4.5%	9.4%	6.1%	9.1%	10.3%
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%	7.2%	9.3%	10.0%
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	7.2	13.8	8.8	7.5
P/E (diluted)	ns	ns	7.4	14.1	9.0	7.7
P/B	2.1	2.0	1.2	0.9	0.8	0.7

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

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