

iQIYI (IQ US)

Inline 4Q24 results; increase quality content supply to revitalize business growth

iQiyi reported inline 4Q24 results: total revenue declined by 14% YoY to RMB6.61bn, in line with our/Bloomberg consensus estimate; non-GAAP operating income declined by 56% YoY but grew by 10% QoQ to RMB406mn, vs our estimate of RMB395mn. FY24 total revenue declined by 9% YoY to RMB29.2bn, with non-GAAP operating margin down by 3.8ppt YoY to 8.1% primarily due to operating deleverage and content investment. Management saw QoQ recovery of business performance in 1Q25, driven by the launch of several quality drama series. We expect total revenue to grow by 7% QoQ, but still to decrease by 11% YoY to RMB7.07bn in 1Q25. We lower our FY25-26 total revenue forecast by 4-7% in view of the slower-than-expected recovery pace. We trim our target price to US\$2.80 based on 13x FY25E non-GAAP PE (previous: US\$3.00 based on 12x FY25E PE). Maintain BUY.

- **Business performance recovered from Dec 2024 onwards.** Membership services revenue decreased by 15% YoY to RMB4.10bn in 4Q24, primarily attributable to the soft content slate in Oct & Nov 2024. That said, since late Nov 2024, the launch of several pieces of quality content drove a solid rebound of membership business and reinforced iQiyi's top position in terms of total drama market share in 4Q24 as per Enlightent. Online advertising revenue was down by 13% YoY to RMB1.43bn in 4Q24, mainly due to the decline in brand advertising revenue, but partially offset by the growth of performance-based advertising revenue. Content distribution revenue declined by 20% YoY to RMB407mn in 4Q24, mainly attributable to the decline in revenue from barter transactions. Others revenue was down by 10% YoY to RMB670mn in 4Q24.
- **Expect total revenue to grow QoQ in 1Q25.** We forecast total revenue to grow by 7% QoQ but decline by 11% YoY to RMB7.07bn in 1Q25E, with membership/online advertising revenue +7%/-5% QoQ respectively. The recovery momentum since late Nov 2024 has sustained in 1Q25 per management, which has led to a solid increase in subscribers. For the pipeline in FY25, management will continue to increase the number of top-tier drama series, including *Drifting Away*, *Justifiable Defence*, *Dead End*, etc. On the development of mini dramas, management have expanded the portfolio to over 10,000 titles and improved the ad-placement system. Management expect these initiatives for mini-dramas to support ad inventory and revenue growth in 2025.
- **Margin remains under pressure.** iQiyi gross margin was down by 3.7ppt YoY to 24.5% in 4Q24, primarily due to the operating deleverage. Non-GAAP operating margin dropped by 5.9ppt YoY to 6.1% in 4Q24. We expect iQiyi's non-GAAP OPM to improve from 8.1% in 2024 to 8.6% in 2025E, mainly attributable to the recovery of drama series business and control in opex, but partially offset by the investment in mini dramas.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMBmn)	28,998	32,018	29,225	28,606	29,080
YoY growth(%)	(5.1)	10.4	(8.7)	(2.1)	1.7
Gross margin (%)	23.0	27.8	24.9	25.0	25.5
Adjusted net profit (RMBmn)	1,284.0	2,984.1	1,512.2	1,538.5	1,735.3
EPS (Adjusted)(RMB)	1.52	3.13	1.57	1.60	1.80
Consensus EPS (RMB cents)	151.58	312.92	na	180.25	232.61
P/S (x)	0.6	0.5	0.6	0.6	0.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$2.80
 (Previous TP) US\$3.00
Up/Downside 21.5%
Current Price US\$2.31

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Stock Data

Mkt Cap (US\$ mn)	2,218.5
Avg 3 mths t/o (US\$ mn)	50.5
52w High/Low (US\$)	5.79/1.83
Total Issued Shares (mn)	962.5

Source: FactSet

Shareholding Structure

Baidu	45.4%
PAG	11.9%

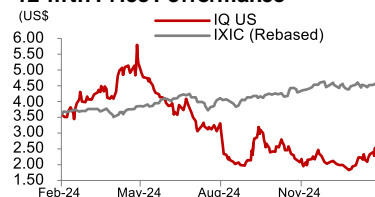
Source: Company data

Share Performance

	Absolute	Relative
1-mth	18.8%	16.5%
3-mth	10.3%	4.6%
6-mth	-30.4%	-37.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: iQiyi: forecast revision

RMBbn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	28.6	29.1	29.5	30.0	31.1	NA	-4.6%	-6.5%	NA
Gross profit	7.2	7.4	7.7	7.7	8.3	NA	-7.0%	-10.7%	NA
Operating profit	2.0	2.2	2.5	2.2	2.7	NA	-11.2%	-18.3%	NA
Non-GAAP net profit	1.5	1.7	1.9	1.8	2.3	NA	-14.5%	-24.6%	NA
Non-GAAP EPS (RMB)	1.6	1.8	2.0	1.9	2.4	NA	-15.8%	-24.8%	NA
Gross margin	25.0%	25.5%	26.2%	25.5%	26.7%	NA	-0.5 ppt	-1.2 ppt	NA
Operating margin	6.8%	7.6%	8.5%	7.2%	8.7%	NA	-0.4 ppt	-1.1 ppt	NA
Non-GAAP net margin	5.4%	6.0%	6.6%	6.0%	7.3%	NA	-0.6 ppt	-1.3 ppt	NA

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

RMBbn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	28.6	29.1	29.5	29.5	30.8	31.9	-3.0%	-5.7%	-7.6%
Gross profit	7.2	7.4	7.7	7.4	8.0	8.3	-3.0%	-7.8%	-7.2%
Operating profit	2.0	2.2	2.5	2.1	2.5	2.9	-7.7%	-13.5%	-14.2%
Non-GAAP net profit	1.5	1.7	1.9	1.8	2.2	2.4	-16.4%	-21.5%	-19.6%
Non-GAAP EPS (RMB)	1.6	1.8	2.0	1.8	2.3	2.6	-12.1%	-23.2%	-22.8%
Gross margin	25.0%	25.5%	26.2%	25.0%	26.1%	26.0%	0.0 ppt	-0.6 ppt	0.1 ppt
Operating margin	6.8%	7.6%	8.5%	7.2%	8.3%	9.1%	-0.3 ppt	-0.7 ppt	-0.6 ppt
Non-GAAP net margin	5.4%	6.0%	6.6%	6.2%	7.2%	7.6%	-0.9 ppt	-1.2 ppt	-1.0 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$2.80 per share based on 13x 2025E P/E. Our target PE multiple is at a discount to the sector average (26x), 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)	1.58
Target 2025E PE	13.0
Target Price (CNY)	20.59
Target Price (US\$)	2.80

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	1035.9	NA	41.7	34.0	11.4	10.0	8.9	36%
Disney	DIS US	109.6	22.1	20.1	17.9	2.2	2.1	2.0	19%
Spotify	SPOT US	630.6	NA	NA	46.4	7.9	6.8	5.9	NA
TME	TME US	13.6	21.4	16.8	14.9	6.0	5.5	5.0	22%
Average			21.8	26.2	28.3	6.9	6.1	5.4	

Source: Bloomberg, CMBIGM

Note: data as of 18 Feb

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	30,554	28,998	32,018	29,225	28,606	29,080
Cost of goods sold	(27,513)	(22,319)	(23,102)	(21,954)	(21,447)	(21,670)
Gross profit	3,041	6,678	8,916	7,272	7,159	7,410
Operating expenses	(7,520)	(5,366)	(5,781)	(5,460)	(5,206)	(5,205)
SG&A expense	(4,725)	(3,467)	(4,014)	(3,682)	(3,523)	(3,552)
R&D expense	(2,795)	(1,899)	(1,767)	(1,778)	(1,683)	(1,653)
Operating profit	(4,479)	1,312	3,135	1,811	1,953	2,205
Share of (losses)/profits of associates/JV	(446)	(213)	(51)	18	18	18
EBIT	(4,926)	1,099	3,084	1,829	1,971	2,223
Interest income	119	70	257	272	272	272
Interest expense	(1,350)	(715)	(1,130)	(1,062)	(1,124)	(1,124)
Foreign exchange gain/loss	55	(168)	(105)	(97)	0	0
Other income/expense	90	(319)	73	(90)	0	0
Pre-tax profit	(6,012)	(34)	2,178	852	1,118	1,370
Income tax	(97)	(84)	(80)	(61)	(101)	(164)
After tax profit	(6,109)	(118)	2,098	791	1,017	1,206
Minority interest	61	18	27	27	0	0
Net profit	(6,170)	(136)	2,071	764	1,017	1,206
Adjusted net profit	(4,487)	1,284	2,984	1,512	1,539	1,735
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,524	13,786	12,635	9,527	11,896	13,534
Cash & equivalents	2,997	7,098	4,435	3,530	4,949	6,480
Restricted cash	78	14	6	0	0	0
Account receivables	2,748	2,403	2,169	2,191	2,056	2,010
Prepayment	3,267	2,603	2,794	2,193	2,146	2,182
Other current assets	2,435	1,668	3,231	1,613	2,745	2,862
Non-current assets	30,948	32,263	31,959	36,233	37,892	38,177
PP&E	1,345	1,105	864	878	1,390	1,422
Right-of-use assets	907	674	684	610	610	610
Deferred income tax	31	0	0	24	24	24
Investment in JVs & assos	3,035	2,454	2,261	2,108	2,108	2,108
Intangibles	545	437	310	290	1,154	1,299
Goodwill	3,888	3,826	3,821	3,821	3,276	3,276
Other non-current assets	21,196	23,768	24,020	28,503	29,330	29,438
Total assets	42,472	46,048	44,594	45,761	49,788	51,711
Current liabilities	22,476	28,130	22,342	21,477	20,349	20,543
Short-term borrowings	4,118	3,348	3,572	3,787	3,787	3,787
Account payables	8,896	5,993	5,671	6,482	5,936	5,998
Other current liabilities	6,119	16,059	10,129	8,053	7,885	7,989
Lease liabilities	172	104	101	97	97	97
Accrued expenses	3,172	2,626	2,869	3,058	2,644	2,672
Non-current liabilities	14,323	11,575	10,068	10,909	10,909	10,909
Long-term borrowings	0	0	98	1,037	1,037	1,037
Convertible bonds	12,652	9,568	8,144	8,351	8,351	8,351
Other non-current liabilities	1,670	2,007	1,826	1,522	1,522	1,522
Total liabilities	36,799	39,705	32,409	32,387	31,258	31,452
Share capital	0	0	0	0	0	0
Capital surplus	49,642	50,886	54,971	55,624	59,283	59,807
Retained earnings	(47,164)	(46,499)	(44,573)	(43,809)	(43,305)	(42,099)
Other reserves	3,106	1,863	1,688	1,551	2,543	2,543
Total shareholders equity	5,585	6,251	12,087	13,365	18,521	20,250
Minority interest	88	93	98	8	8	8
Total equity and liabilities	42,472	46,048	44,594	45,761	49,788	51,711

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(6,012)	(34)	2,178	852	1,118	1,370
Depreciation & amortization	16,766	13,655	14,091	18,005	17,804	16,838
Tax paid	(97)	(84)	(80)	(61)	(101)	(164)
Change in working capital	(17,586)	(14,493)	(13,358)	(12,274)	(14,280)	(12,749)
Others	977	885	666	(4,412)	1,060	523
Net cash from operations	(5,952)	(71)	3,497	2,110	5,601	5,818
Investing						
Capital expenditure	(401)	(270)	(105)	(441)	(432)	(439)
Others	1,663	536	(1,635)	(2,003)	(3,810)	(3,848)
Net cash from investing	1,262	266	(1,740)	(2,445)	(4,242)	(4,287)
Financing						
Net borrowings	5,069	7,726	9,049	422	0	0
Others	(8,029)	(3,257)	(13,334)	(1,792)	0	0
Net cash from financing	(2,959)	4,469	(4,285)	(1,370)	0	0
Net change in cash						
Cash at the beginning of the year	10,915	2,997	7,098	4,435	3,530	4,949
Exchange difference	(217)	122	92	15	0	0
Cash at the end of the year	2,997	7,098	4,435	3,530	4,949	6,480
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	2.9%	(5.1%)	10.4%	(8.7%)	(2.1%)	1.7%
Gross profit	66.8%	119.6%	33.5%	(18.4%)	(1.5%)	3.5%
Operating profit	na	na	138.9%	(42.2%)	7.8%	12.9%
EBIT	na	na	180.6%	(40.7%)	7.7%	12.8%
Net profit	na	na	na	(63.1%)	33.2%	18.5%
Adj. net profit	na	na	132.4%	(49.3%)	1.7%	12.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	10.0%	23.0%	27.8%	24.9%	25.0%	25.5%
Operating margin	(14.7%)	4.5%	9.8%	6.2%	6.8%	7.6%
Adj. net profit margin	(14.7%)	4.4%	9.3%	5.2%	5.4%	6.0%
Return on equity (ROE)	(82.5%)	(2.3%)	22.6%	6.0%	6.4%	6.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	0.2	(0.6)	(0.1)	0.1	(0.0)	(0.1)
Current ratio (x)	0.5	0.5	0.6	0.4	0.6	0.7
Receivable turnover days	32.8	30.2	24.7	27.4	26.2	25.2
Payable turnover days	118.0	98.0	89.6	107.8	101.0	101.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	7.7	21.1	15.9	13.4
P/E (diluted)	ns	ns	7.9	21.3	16.0	13.5
P/B	2.4	2.3	1.3	1.2	0.9	0.8

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

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