

iQIYI (IQ US)

Increased mini-drama investment weighs on 1Q25E earnings

We expect iQiyi 1Q25E total revenue to decline by 11% YoY but increase by 7% QoQ to RMB7.08bn, in line with Bloomberg consensus estimate; and 1Q25E non-GAAP operating income to grow by 6% QoQ to RMB430mn, below consensus estimate of RMB597mn, as iQiyi stepped up content and marketing investment in mini dramas. Supported by the stepped-up investment, mini dramas have become iQiyi's top-three content category in terms of mobile user time spend, but we expect it still takes time for mini dramas to make meaningful revenue contribution. Overall, we maintain our FY25-27E total revenue forecast largely unchanged, but trim our FY25-27E non-GAAP net income forecast to RMB1.4/1.6/1.8bn (previous: RMB1.5/1.7/1.9bn) in view of the increased investment in mini dramas. We lower our target price to US\$2.60 based on 13x FY25E PE (previous: US\$2.80 on 13x FY25E PE). Maintain BUY.

- **Inline membership business while ad business was impacted by macro uncertainty in 1Q25.** By segment, 1) we forecast membership revenue to decline by 8% YoY but grow by 7% QoQ to RMB4.4bn in 1Q25E, largely in line with consensus and our previous expectation, thanks to the solid performance of key titles like *Drifting Away*. Several quality dramas are lined up for launch in 2Q25E, including *The Demon Hunter's Romance* and *Jie Ming Er Sheng*. 2) We expect online advertising revenue to decline by 13% YoY and 10% QoQ in 1Q25E, below our previous expectation as the macro uncertainty weighed on advertiser sentiment and impacted brand ad revenue growth. 3) We expect content distribution & others revenue to increase by 28% QoQ in 1Q25E, ahead of our previous estimate, mainly due to the earlier-than-expected launch of a TV drama and the better-than-expected performance of a new game title.
- **Stepping up investment in mini dramas.** In 1Q25, iQiyi stepped up investment in mini-drama content and promotion. The company has revamped *iQiyi Light* app, which will focus on short & mini dramas in the future. Mini dramas have become iQiyi's top-three content category in terms of user time spend and viewership on mobile devices. And iQiyi has also improved the ad monetization infrastructure for the mini-drama ecosystem, which we expect to gradually drive ad revenue growth of iQiyi.
- **Expect non-GAAP OPM to remain steady QoQ in 1Q25E.** We expect iQiyi GPM to decline from 24.5% in 4Q24 to 24.1% in 1Q25E, mainly due to increased content investment in mini dramas. We forecast S&M expenses to grow by 11% YoY and 9% QoQ in 1Q25E, as iQiyi increased marketing spending on mini dramas and the new game titles. Overall, we expect non-GAAP OPM to remain stable QoQ at 6.1% in 1Q25E, as the increased content & marketing spending is offset by the operating leverage.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	32,018	29,225	28,507	28,978	29,397
YoY growth (%)	10.4	(8.7)	(2.5)	1.7	1.4
Gross margin (%)	27.8	24.9	24.8	25.3	26.0
Adjusted net profit (RMB mn)	2,984.1	1,512.2	1,417.2	1,612.3	1,823.5
EPS (Adjusted) (RMB)	3.13	1.57	1.47	1.68	1.88
Consensus EPS (RMB)	3.13	1.57	1.81	2.30	2.91
P/S (x)	0.4	0.4	0.4	0.4	0.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$2.60
(Previous TP) US\$2.80
Up/Downside 57.6%
Current Price US\$1.65

China Internet

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

Wentao LU, CFA
luwentao@cmbi.com.hk

Ye TAO, CFA
franktao@cmbi.com.hk

Joanna Ma
(852) 3761 8838
joannama@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	1,588.1
Avg 3 mths t/o (US\$ mn)	64.2
52w High/Low (US\$)	5.79/1.53
Total Issued Shares (mn)	962.5

Source: FactSet

Shareholding Structure

Baidu	45.1%
PAG	12.2%

Source: Company data

Share Performance

	Absolute	Relative
1-mth	-33.7%	-27.5%
3-mth	-14.9%	2.5%
6-mth	-30.1%	-21.1%

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	28.5	29.0	29.4	28.6	29.1	29.5	-0.3%	-0.4%	-0.4%
Gross profit	7.1	7.3	7.6	7.2	7.4	7.7	-1.1%	-1.1%	-1.1%
Operating profit	1.7	1.9	2.2	2.0	2.2	2.5	-14.8%	-13.4%	-12.1%
Non-GAAP net profit	1.4	1.6	1.8	1.5	1.7	1.9	-7.9%	-7.1%	-6.4%
Non-GAAP EPS (RMB)	1.5	1.7	1.9	1.6	1.8	2.0	-7.9%	-7.1%	-6.4%
Gross margin	24.8%	25.3%	26.0%	25.0%	25.5%	26.2%	-0.2 ppt	-0.2 ppt	-0.2 ppt
Operating margin	5.8%	6.6%	7.5%	6.8%	7.6%	8.5%	-1.0 ppt	-1.0 ppt	-1.0 ppt
Non-GAAP net margin	5.0%	5.6%	6.2%	5.4%	6.0%	6.6%	-0.4 ppt	-0.4 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 2: iQiyi: CMBIGM estimates vs consensus

RMBbn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	28.5	29.0	29.4	29.3	30.4	31.7	-2.6%	-4.6%	-7.3%
Gross Profit	7.1	7.3	7.6	7.5	8.0	8.6	-5.0%	-8.3%	-11.6%
Operating Profit	1.7	1.9	2.2	2.1	2.6	3.0	-22.5%	-26.7%	-27.2%
Non-GAAP net profit	1.4	1.6	1.8	1.7	2.1	2.5	-16.0%	-23.0%	-28.0%
Non-GAAP EPS (RMB)	1.5	1.7	1.9	1.8	2.3	2.9	-19.6%	-28.0%	-35.5%
Gross Margin	24.8%	25.3%	26.0%	25.5%	26.3%	27.2%	-0.6 ppt	-1.0 ppt	-1.3 ppt
Operating Margin	5.8%	6.6%	7.5%	7.3%	8.6%	9.5%	-1.5 ppt	-2.0 ppt	-2.0 ppt
Non-GAAP net margin	5.0%	5.6%	6.2%	5.8%	6.9%	8.0%	-0.8 ppt	-1.3 ppt	-1.8 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$2.60 per share based on 13x 2025E P/E. Our target PE multiple is at a discount to the sector average (30x), 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)	1.46
Target 2025E PE	13.0
Target Price (CNY)	18.97
Target Price (US\$)	2.60

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	961.6	48.5	38.7	31.7	10.6	9.3	8.3	35%
Disney	DIS US	82.8	16.7	15.2	13.8	1.6	1.6	1.5	18%
Spotify	SPOT US	563.1	NA	49.5	38.1	7.1	5.6	4.8	NA
TME	TME US	12.3	19.3	16.7	14.1	5.4	5.0	4.5	20%
Average			28.2	30.0	24.4	6.2	5.4	4.8	

Source: Bloomberg, CMBIGM

Note: data as of 16 Apr

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,998	32,018	29,225	28,507	28,978	29,397
Cost of goods sold	(22,319)	(23,102)	(21,954)	(21,426)	(21,649)	(21,765)
Gross profit	6,678	8,916	7,272	7,081	7,329	7,632
Operating expenses	(5,366)	(5,781)	(5,460)	(5,416)	(5,419)	(5,438)
SG&A expense	(3,467)	(4,014)	(3,682)	(3,625)	(3,655)	(3,708)
R&D expense	(1,899)	(1,767)	(1,778)	(1,792)	(1,763)	(1,730)
Operating profit	1,312	3,135	1,811	1,664	1,910	2,193
Share of (losses)/profits of associates/JV	(213)	(51)	18	18	18	18
EBIT	1,099	3,084	1,829	1,682	1,928	2,211
Interest income	70	257	272	299	299	299
Interest expense	(715)	(1,130)	(1,062)	(995)	(995)	(995)
Foreign exchange gain/loss	(168)	(105)	(97)	0	0	0
Other income/expense	(319)	73	(90)	0	0	0
Pre-tax profit	(34)	2,178	852	987	1,232	1,516
Income tax	(84)	(80)	(61)	(89)	(148)	(227)
After tax profit	(118)	2,098	791	898	1,085	1,288
Minority interest	18	27	27	0	0	0
Net profit	(136)	2,071	764	898	1,085	1,288
Adjusted net profit	1,284	2,984	1,512	1,417	1,612	1,824

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	13,786	12,635	9,527	11,896	13,412	15,135
Cash & equivalents	7,098	4,435	3,530	4,964	6,372	8,002
Restricted cash	14	6	0	0	0	0
Account receivables	2,403	2,169	2,191	2,048	2,003	1,951
Prepayment	2,603	2,794	2,193	2,139	2,174	2,206
Other current assets	1,668	3,231	1,613	2,745	2,862	2,977
Non-current assets	32,263	31,959	36,233	37,890	38,174	38,394
PP&E	1,105	864	878	1,389	1,420	1,453
Right-of-use assets	674	684	610	610	610	610
Deferred income tax	0	0	24	24	24	24
Investment in JVs & assos	2,454	2,261	2,108	2,108	2,108	2,108
Intangibles	437	310	290	1,153	1,297	1,444
Goodwill	3,826	3,821	3,821	3,276	3,276	3,276
Other non-current assets	23,768	24,020	28,503	29,330	29,438	29,479
Total assets	46,048	44,594	45,761	49,787	51,586	53,530
Current liabilities	28,130	22,342	21,477	20,323	20,516	20,643
Short-term borrowings	3,348	3,572	3,787	3,787	3,787	3,787
Account payables	5,993	5,671	6,482	5,931	5,992	6,024
Other current liabilities	16,059	10,129	8,053	7,867	7,971	8,051
Lease liabilities	104	101	97	97	97	97
Accrued expenses	2,626	2,869	3,058	2,642	2,669	2,683
Non-current liabilities	11,575	10,068	10,909	10,909	10,909	10,909
Long-term borrowings	0	98	1,037	1,037	1,037	1,037
Convertible bonds	9,568	8,144	8,351	8,351	8,351	8,351
Other non-current liabilities	2,007	1,826	1,522	1,522	1,522	1,522
Total liabilities	39,705	32,409	32,387	31,232	31,425	31,552
Share capital	1	1	1	1	1	1
Capital surplus	50,886	54,971	55,624	59,428	59,949	60,479
Retained earnings	(46,499)	(44,573)	(43,809)	(43,425)	(42,340)	(41,052)
Other reserves	1,863	1,688	1,551	2,543	2,543	2,543
Total shareholders equity	6,251	12,087	13,366	18,547	20,153	21,970
Minority interest	93	98	8	8	8	8
Total equity and liabilities	46,048	44,594	45,761	49,787	51,586	53,530

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(34)	2,178	852	987	1,232	1,516
Depreciation & amortization	13,655	14,091	18,005	17,804	16,838	16,268
Tax paid	(84)	(80)	(61)	(89)	(148)	(227)
Change in working capital	(14,493)	(13,358)	(12,274)	(14,292)	(12,749)	(12,164)
Others	885	666	(4,412)	1,058	522	529
Net cash from operations	(71)	3,497	2,110	5,468	5,694	5,921
Investing						
Capital expenditure	(270)	(105)	(441)	(431)	(438)	(444)
Others	536	(1,635)	(2,003)	(3,810)	(3,848)	(3,848)
Net cash from investing	266	(1,740)	(2,445)	(4,240)	(4,286)	(4,292)
Financing						
Net borrowings	7,726	9,049	422	0	0	0
Others	(3,257)	(13,334)	(1,792)	0	0	0
Net cash from financing	4,469	(4,285)	(1,370)	0	0	0
Net change in cash						
Cash at the beginning of the year	3,075	7,862	5,427	3,737	4,964	6,372
Exchange difference	122	92	15	0	0	0
Cash at the end of the year	7,862	5,427	3,737	4,964	6,372	8,002
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(5.1%)	10.4%	(8.7%)	(2.5%)	1.7%	1.4%
Gross profit	119.6%	33.5%	(18.4%)	(2.6%)	3.5%	4.1%
Operating profit	na	138.9%	(42.2%)	(8.1%)	14.8%	14.8%
EBIT	na	180.6%	(40.7%)	(8.0%)	14.6%	14.7%
Net profit	na	na	(63.1%)	17.5%	20.8%	18.8%
Adj. net profit	na	132.4%	(49.3%)	(6.3%)	13.8%	13.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	23.0%	27.8%	24.9%	24.8%	25.3%	26.0%
Operating margin	4.5%	9.8%	6.2%	5.8%	6.6%	7.5%
Adj. net profit margin	4.4%	9.3%	5.2%	5.0%	5.6%	6.2%
Return on equity (ROE)	(2.3%)	22.6%	6.0%	5.6%	5.6%	6.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.1)	0.1	(0.0)	(0.1)	(0.1)
Current ratio (x)	0.5	0.6	0.4	0.6	0.7	0.7
Receivable turnover days	30.2	24.7	27.4	26.2	25.2	24.2
Payable turnover days	98.0	89.6	107.8	101.0	101.0	101.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	5.5	15.2	12.9	10.7	9.1
P/E (diluted)	ns	5.7	15.3	13.0	10.8	9.1
P/B	1.6	0.9	0.9	0.6	0.6	0.5

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.