

iQIYI (IQ US)

2Q25 review: core membership and advertising businesses to recover in 3Q25

iQiyi reported 2Q25 results: total revenue was down by 11% YoY/8% QoQ to RMB6.62bn, in line with Bloomberg consensus/our estimate; non-GAAP operating income was RMB59mn, ahead of our estimate (RMB26mn) thanks to the prudent opex control. Looking into 3Q25E, we expect the core membership and online advertising revenue to recover by 3% and 2% QoQ respectively, supported by the quality content offerings in summer. However, we lower our FY25-27E total revenue forecasts by 2-3%, mainly to reflect the adjustment of certain non-core business lines. That said, the recent policy issued by the NRTA to support the TV content supply has drove online video sector valuation rerating, and may also benefit iQiyi's business outlook. Thus, we roll forward our valuation window to FY26E and raise our target price to US\$2.70 based on 18x 2026E non-GAAP EPS (previous: US\$2.25 on 13x 3Q25-2Q26E non-GAAP EPS). Maintain BUY.

■ **Membership and ad businesses to recover in 3Q25.** Membership services revenue was down by 9% YoY and 7% QoQ to RMB4.09bn in 2Q25, primarily due to lighter content offerings. During the period, online advertising revenue declined by 13% YoY and 8% QoQ to RMB1.27bn in 2Q25, mainly due to the soft performance-based ads, while the brand ads remained resilient thanks to the enhanced variety show offerings. Content distribution revenue dropped by 37% YoY and 31% QoQ to RMB437mn in 2Q25, mainly attributable to the decrease in barter transactions. For 3Q25, we expect total revenue to be flattish QoQ at RMB6.62bn, mainly driven by the QoQ recovery of membership/online advertising revenue (+3%/+2% QoQ), but largely offset by the decline in other revenues, which is related to the adjustment of certain non-core businesses. The company has strong content offerings this summer, including *Feud*, *Coroner's Diary* and *This Thriving Land*.

■ **New policy development supports business outlook.** In Aug, the NRTA issued a new policy to support the audio & visual content sector, with key initiatives such as enhancing efficiency of TV drama content review and reducing restrictions on the no. of episodes per TV drama. Management regarded such policy development as positive, and cited several benefits: 1) shortening content production and review cycle, which can better align content with audience interests and enhance iQiyi's capital efficiency; 2) improving flexibility of content creation and enriching content genres; 3) strengthening cooperation between online video platforms and traditional TV networks, which will expand distribution channels for quality content.

■ **Investing in new opportunities.** Non-GAAP OPM declined by 6ppts YoY to 1% in 2Q25, as iQiyi invested in opportunities such as micro drama and IP derivatives businesses. iQiyi now has a library of c.15,000 micro dramas, and plans to release 2-3 premium titles per week during the summer. The company also brings its IPs to offline experiences like iQiyi Land, based on an asset-light strategy. Currently, two iQiyi Lands in Yangzhou and Kaifeng are in development with over 50 immersive centres operating in c.30 cities.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	32,018	29,225	27,194	27,847	28,305
Gross margin (%)	27.8	24.9	21.3	23.8	24.7
Adjusted net profit (RMB mn)	2,984.1	1,512.2	138.9	1,034.3	1,253.4
EPS (Adjusted) (RMB)	3.13	1.57	0.14	1.08	1.29
Consensus EPS (RMB)	3.13	1.57	0.63	1.32	1.83
P/S (x)	0.5	0.5	0.6	0.6	0.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$2.70
(Previous TP)	US\$2.25)
Up/Downside	17.4%
Current Price	US\$2.30

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Stock Data

Mkt Cap (US\$ mn)	2,215.7
Avg 3 mths t/o (US\$ mn)	14.4
52w High/Low (US\$)	3.19/1.53
Total Issued Shares(mn)	963.4

Source: FactSet

Shareholding Structure

Baidu	45.1%
PAG	12.2%

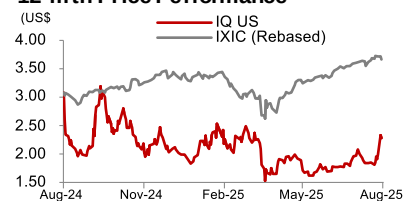
Source: Company data

Share Performance

	Absolute	Relative
1-mth	16.8%	15.7%
3-mth	34.5%	19.9%
6-mth	2.0%	-5.9%

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	27.2	27.8	28.3	27.9	28.5	29.0	-2.4%	-2.3%	-2.5%
Gross profit	5.8	6.6	7.0	6.3	7.2	7.6	-8.5%	-7.4%	-7.7%
Operating profit	0.2	1.2	1.5	0.8	1.8	2.1	-72.0%	-33.6%	-30.7%
Non-GAAP net profit	0.1	1.0	1.3	0.7	1.5	1.8	-80.8%	-32.2%	-29.1%
Non-GAAP EPS (RMB)	0.1	1.1	1.3	0.8	1.6	1.8	-80.8%	-32.2%	-29.1%
Gross margin	21.3%	23.8%	24.7%	22.7%	25.1%	26.1%	-1.4 ppt	-1.3 ppt	-1.4 ppt
Operating margin	0.9%	4.2%	5.1%	3.0%	6.2%	7.2%	-2.1 ppt	-2.0 ppt	-2.1 ppt
Non-GAAP net margin	0.5%	3.7%	4.4%	2.6%	5.3%	6.1%	-2.1 ppt	-1.6 ppt	-1.7 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	27.2	27.8	28.3	28.2	29.2	30.1	-3.6%	-4.6%	-6.1%
Gross profit	5.8	6.6	7.0	6.5	7.1	7.7	-10.4%	-6.7%	-8.9%
Operating profit	0.2	1.2	1.5	0.7	1.6	2.0	-67.7%	-24.0%	-28.7%
Non-GAAP net profit	0.1	1.0	1.3	0.6	1.3	1.9	-77.9%	-22.1%	-34.7%
Non-GAAP EPS (RMB)	0.1	1.1	1.3	0.6	1.3	1.8	-77.1%	-19.4%	-29.4%
Gross margin	21.3%	23.8%	24.7%	22.9%	24.4%	25.5%	-1.6 ppt	-0.5 ppt	-0.8 ppt
Operating margin	0.9%	4.2%	5.1%	2.5%	5.3%	6.8%	-1.7 ppt	-1.1 ppt	-1.6 ppt
Non-GAAP net margin	0.5%	3.7%	4.4%	2.3%	4.6%	6.4%	-1.7 ppt	-0.8 ppt	-1.9 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

We value iQiyi at US\$2.70 per share based on 18x 2026E non-GAAP EPS. Our target PE multiple is at a discount to the sector average (27x), due to the intense competition in China's video streaming sector.

Figure 3: iQiyi: target valuation

P/E valuation	
2026E Non-GAAP EPADS	1.08
Target 2026E PE	18.0
Target Price (CNY)	19.36
Target Price (US\$)	2.70

Source: Company data, CMBIGM estimates

Figure 4: Global streaming platforms

Companies	Ticker	Price (LC)	PE(x)		PS (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
Netflix Inc	NFLX US	1213.9	45.6	37.3	11.5	10.1	39%
Disney	DIS US	117.0	20.0	18.2	2.2	2.1	21%
Spotify	SPOT US	703.8	NA	NA	7.3	6.3	NA
TME	TME US	25.1	28.4	25.7	8.7	7.7	25%
Average			31.3	27.1	7.4	6.6	

Source: Bloomberg, CMBIGM

Note: data as of 20 Aug

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	28,998	32,018	29,225	27,194	27,847	28,305
Cost of goods sold	(22,319)	(23,102)	(21,954)	(21,414)	(21,207)	(21,303)
Gross profit	6,678	8,916	7,272	5,779	6,640	7,002
Operating expenses	(5,366)	(5,781)	(5,460)	(5,547)	(5,458)	(5,548)
SG&A expense	(3,467)	(4,014)	(3,682)	(3,893)	(3,819)	(3,825)
R&D expense	(1,899)	(1,767)	(1,778)	(1,655)	(1,639)	(1,722)
Operating profit	1,312	3,135	1,811	232	1,182	1,455
Share of (losses)/profits of associates/JV	(213)	(51)	18	18	18	18
EBIT	1,099	3,084	1,829	250	1,200	1,472
Interest income	70	257	272	313	313	313
Interest expense	(715)	(1,130)	(1,062)	(951)	(850)	(850)
Foreign exchange gain/loss	(168)	(105)	(97)	140	0	0
Other income/expense	(319)	73	(90)	0	0	0
Pre-tax profit	(34)	2,178	852	(249)	662	935
Income tax	(84)	(80)	(61)	(109)	(79)	(140)
After tax profit	(118)	2,098	791	(358)	583	794
Minority interest	18	27	27	2	0	0
Net profit	(136)	2,071	764	(360)	583	794
Adjusted net profit	1,284	2,984	1,512	139	1,034	1,253

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	13,786	12,635	9,527	9,973	11,171	12,354
Cash & equivalents	7,098	4,435	3,530	3,227	4,297	5,378
Restricted cash	14	6	0	0	0	0
Account receivables	2,403	2,169	2,191	1,954	1,925	1,879
Prepayment	2,603	2,794	2,193	2,040	2,089	2,124
Other current assets	1,668	3,231	1,613	2,751	2,860	2,973
Non-current assets	32,263	31,959	36,233	38,139	37,954	38,140
PP&E	1,105	864	878	1,380	1,405	1,434
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	1,144	1,281	1,420
Goodwill	3,826	3,821	3,821	3,276	3,276	3,276
Other non-current assets	23,768	24,020	28,503	29,597	29,250	29,268
Total assets	46,048	44,594	45,761	48,112	49,125	50,494
Current liabilities	28,130	22,342	21,477	20,118	20,103	20,225
Short-term borrowings	3,348	3,572	3,787	3,787	3,787	3,787
Account payables	5,993	5,671	6,482	5,927	5,870	5,896
Other current liabilities	16,059	10,129	8,053	7,667	7,735	7,819
Lease liabilities	104	101	97	97	97	97
Accrued expenses	2,626	2,869	3,058	2,640	2,615	2,626
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	31,028	31,013	31,134
Share capital	0	0	0	0	0	0
Capital surplus	50,886	54,971	55,624	59,211	59,657	60,110
Retained earnings	(46,499)	(44,573)	(43,809)	(44,678)	(44,096)	(43,301)
Other reserves	1,863	1,688	1,551	2,543	2,543	2,543
Total shareholders equity	6,251	12,087	13,365	17,076	18,104	19,351
Minority interest	93	98	8	8	8	8
Total equity and liabilities	46,048	44,594	45,761	48,112	49,125	50,494

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(34)	2,178	852	(249)	662	935
Depreciation & amortization	13,655	14,091	13,625	17,945	16,871	16,042
Tax paid	(84)	(80)	(61)	(109)	(79)	(140)
Change in working capital	(14,493)	(13,358)	(12,359)	(14,651)	(12,607)	(11,980)
Others	885	666	53	988	446	453
Net cash from operations	(71)	3,497	2,110	3,924	5,291	5,310
Investing						
Capital expenditure	(270)	(105)	(173)	(411)	(421)	(428)
Others	536	(1,635)	(2,272)	(3,879)	(3,801)	(3,801)
Net cash from investing	266	(1,740)	(2,445)	(4,289)	(4,222)	(4,229)
Financing						
Net borrowings	7,726	9,049	4,953	0	0	0
Others	(3,257)	(13,334)	(6,323)	2	0	0
Net cash from financing	4,469	(4,285)	(1,370)	2	0	0
Net change in cash						
Cash at the beginning of the year	2,997	7,098	4,435	3,590	3,227	4,297
Exchange difference	122	92	15	0	0	0
Others	(686)	(228)	785	0	0	0
Cash at the end of the year	7,098	4,435	3,530	3,227	4,297	5,378
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(5.1%)	10.4%	(8.7%)	(7.0%)	2.4%	1.6%
Gross profit	119.6%	33.5%	(18.4%)	(20.5%)	14.9%	5.5%
Operating profit	na	138.9%	(42.2%)	(87.2%)	409.6%	23.1%
EBIT	na	180.6%	(40.7%)	(86.3%)	380.4%	22.7%
Net profit	na	na	(63.1%)	na	na	36.4%
Adj. net profit	na	132.4%	(49.3%)	(90.8%)	644.8%	21.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	23.0%	27.8%	24.9%	21.3%	23.8%	24.7%
Operating margin	4.5%	9.8%	6.2%	0.9%	4.2%	5.1%
Adj. net profit margin	4.4%	9.3%	5.2%	0.5%	3.7%	4.4%
Return on equity (ROE)	(2.3%)	22.6%	6.0%	(2.4%)	3.3%	4.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.1)	0.1	0.1	0.0	(0.0)
Current ratio (x)	0.5	0.6	0.4	0.5	0.6	0.6
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	7.6	20.8	ns	27.2	20.2
P/E (diluted)	ns	7.8	21.0	ns	27.5	20.2
P/B	2.2	1.3	1.2	0.9	0.9	0.8

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

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