

1Q26 earnings preview: Non-core businesses show QoQ fluctuations, cash flow remains healthy

Key takeaway

Core businesses (membership + advertising) are expected to remain stable in 1Q26, but profits may post a temporary loss due to weaker-than-expected non-core businesses (content distribution and other revenue). Despite short-term pressure on profits, the company maintains healthy cash flow through strict cost control, optimized content launch scheduling, and improved review efficiency. Non-core businesses may experience seasonal fluctuations in the short term, but the company's core operations remain solid. Its drama market share continues to lead the industry. The company's "top-tier self-produced content + decentralized" inverted triangle content model and the commercial launch of the professional film and TV production platform "Nadou Pro" will create room for medium- to long-term content cost optimization and business model innovation. Meanwhile, new growth drivers such as Chinese dramas and overseas business are advancing steadily. Investors are advised to watch the recovery of the company's long-term profitability and potential valuation upside.

Brief analysis

Total revenue in 1Q26 is expected to be RMB6.2bn, YoY -13% and QoQ -8%. Membership revenue is in line with expectations, while advertising revenue is slightly above expectations. However, weaker-than-expected non-core businesses (content distribution and other revenue) still led to an overall revenue decline.

By segment: Membership revenue is expected to reach RMB4.2bn, YoY -4% and QoQ +3%, largely in line with expectations. Top content released during the quarter, such as "Chasing the Wind" and "City of the City," helped iQIYI maintain the No.1 drama market share on Yunhe. The continued supply of high-quality content strengthened user stickiness and provided solid support for the membership business. Advertising revenue is expected to reach RMB1.25bn, YoY -6% and QoQ -7%, slightly better than previous market expectations. Although there were no major marketing events and limited supply of top variety shows this quarter, leading dramas (such as "Life Tree") -

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Maintain

Buy

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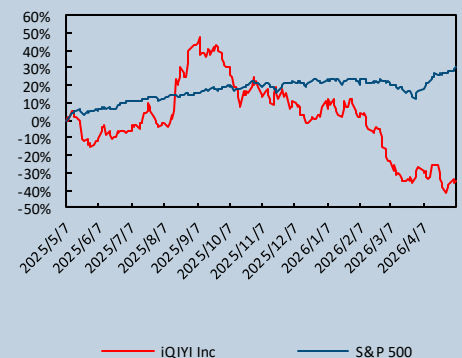
Current Price: USD1.21

Main Data

Absolute/relative share performance (%)

1 month	3 months	12 months
-9.02/-26.34	-38.58/-50.63	-38.89/-84.77
The highest/lowest price in recent 12 months(USD)		2.79/1.11
Total share capital (10,000 shares)		67,410.47
Circulating shares (10,000 shares)		37,058.23
Total market cap (USD'00mn)		11.68
Circulating market cap (USD'00mn)		6.38
3-month average daily trading volume (10,000 shares)		1060.13
Main shareholders		
Baidu, Inc.		45.14%

Share performance



demonstrated strong advertising demand and became the best performing aired drama in advertising sales since 2025. Content distribution revenue is expected to be RMB350mn, YoY -44% and QoQ -55%, mainly affected by natural inter-quarter fluctuations and the joint procurement model adopted for some top content in Q1. Other revenue is expected to be RMB420mn, YoY -50% and QoQ -24%, mainly due to factors such as the normalized operation of the gaming business.

Strict control over costs and expenses: The profit side shows a loss but cash flow remains healthy. Content cost in Q1 is expected to decline by about 2% QoQ, and Opex is expected to decrease QoQ. Non-GAAP operating loss is estimated at RMB150mn, and Non-GAAP net loss is estimated at RMB250mn. However, the company's operating cash flow remains a relatively healthy positive inflow, benefiting from: 1) sufficient reserves of self-produced projects, allowing a moderate reduction in production starts and improving scheduling flexibility; 2) improved efficiency in content review. Healthy cash flow provides solid support for the company's subsequent content investment and business innovation.

Earnings forecast: Despite short-term fluctuations in non-core businesses, the core membership and advertising businesses remain stable. The AI film and television production platform Nadou Pro has been officially commercialized and is expected to reduce costs and improve efficiency in content production. New initiatives such as Chinese drama and overseas businesses continue to advance, and full-year cash flow is expected to improve. We expect the company's revenue to reach RMB27.8bn/RMB28.6bn in 2026/2027, with Non-GAAP net profit of RMB590mn/RMB1.22bn, respectively. We give the company a "Buy" rating.

Risks

Macroeconomic slowdown may continue to pressure the advertising business. Regulatory policies in the film and television industry may further tighten, restricting content production and output. Factors such as funding, actors, and regulation may delay filming of film and television dramas, leading to slower-than-expected content releases. Insufficient content supply may reduce users' willingness to pay, creating risks of declines in subscription members and revenue. Personal issues involving actors may prevent dramas from being released. Competition within the long-form video industry may intensify, with additional pressure from short-video platforms. Continued losses on the profit side may increase operational pressure on the company. Innovative businesses may develop slower than expected. Risks related to technological iteration and rising copyright costs. Regulatory conflicts between the Chinese and U.S. capital markets remain unresolved and may continue to restrict capital inflows. Changes in the competitive landscape and underperformance of content may also occur.

Analysts

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Investment rating standard		Ratings	Description
The rating standard involved in the investment recommendations in the report is based on the performance relative to the market within 6 months after the release date, i.e., the performance of the company's stock price (or industry index) within 6 months after the release date is benchmarked against the change of representative index of the relevant securities market over the same period. CSI 300 Index serves as the benchmark index for the A-share market; the NEEQ Component Index serves as the benchmark index for the NEEQ market; Hang Seng Index serves as the benchmark index for the Hong Kong market; and S&P 500 Index serves as the benchmark index of the US market.	Stock ratings	Buy	Increase by more than 15% relative to the benchmark index
		Overweight	Increase by 5% - 15% relative to the benchmark index
		Neutral	Increase by - 5% - 5% relative to the benchmark index
		Underweight	Decrease by 5% - 15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
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		Neutral	Increase by - 10 - 10% relative to the benchmark index
		Underperform	Decrease by more than 10% relative to the benchmark index

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