

iQIYI

4Q preview: sub trend impacted by content schedule, profit growth remains on track

Reiterate Rating: BUY | PO: 6.00 USD | Price: 3.79 USD

Content remains the key, scheduling impacts NT trend

We expect IQiyi (IQ) to report 4Q23 result in late-Feb and we turn more conservative on its subscription biz amid soft user and subscriber trend in 4Q, justified by 1) user: Questmobile data indicates both MAU and DAU of IQ declined at teens YoY and mid-high-single digit QoQ in 4Q vs. Tencent Video's 5% YoY increase and low-single digit decrease; 2) content: we see IQ's key dramas in 4Q- *Story of Kunning Palace* and *A Journey to Love* reached high level of popularity score and attracted sizeable fan base within IQ but is not able to drive incremental subscriber given its higher subscriber base, and some content delay has further impacted its sub and content distribution biz in 4Q; 3) pipeline: we expect diversified content offering for IQ in 2024 with several custom dramas and other genres, while Tencent Video is likely to have more IP based series (e.g. *Joy of life 2* and *Lose you forever 2*) in 2024E followed by its hit drama *Blossoms* in 1Q24.

Profit growth trend remains unchanged

On the positive side, we see ARM trend remains positive in 4Q and the growth trend is likely to continue in 2024E with pricing adjustment. We also see profit growth trend to be largely on track in 4Q23 with content cost savings on ROI focused spending strategy and the delay of certain content in 4Q23. Hence, we lower our 4Q23 revenue by 3% on weak sub biz while adj OP remains unchanged on cost saving. Overall, we lower 23-25E revenue by 1-3% and net profit by 2-7% amid more conservative estimates on sub biz. Hence, our PO lowers to US\$6 (from US\$7) on 15x '24E P/E (16x prior) and 12x adj '24E P/E (13x prior). Reiterate Buy on market leader position with improving profit growth despite NT volatilities.

4Q: lower rev on soft sub biz, OP profit on track

We expect 4Q23 revenue to be RMB7.68bn (1% YoY and down (4)% QoQ), vs. RMB7.9bn previously, below consensus' RMB7.9bn. We lower membership rev to RMB4.8bn (vs. MB5bn previously) on 101m subscribers (6.2m QoQ decline), offsetting improved ARM of RMB15.8. We model better ad revenue of RMB1.66bn driven by brand ads. We see GPM to improve to 28% (vs. 27% in 3Q23), vs. consensus' 27% on lower content costs. We expect adj. Op to be unchanged at RMB900mn. We model net profit of RMB465mn with NM of 6%, slightly below consensus of RMB496mn due to higher one-off expenses.

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	(4,507)	412	2,629	3,672	4,213
EPS	(7.78)	(0.159)	1.97	3.08	3.60
EPS Change (YoY)	18.4%	98.0%	NM	55.9%	17.2%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(7.98)	(0.398)	5.66	0.950	6.13
Valuation (Dec)					
P/E	NM	NM	13.62x	8.87x	7.57x
EV / EBITDA*	2.03x	1.66x	7.64x	5.86x	4.97x
Free Cash Flow Yield*	-24.43%	-1.31%	20.76%	3.50%	22.79%

* For full definitions of *IQmethod*SM measures, see page 6.

18 January 2024

Equity

Key Changes

(CNY)	Previous	Current
Price Obj.	US\$7.00	US\$6.00
2023E EPS	2.03	1.97
2024E EPS	3.19	3.08
2025E EPS	3.88	3.60

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Stock Data

Price	3.79 USD
Price Objective	6.00 USD
Date Established	18-Jan-2024
Investment Opinion	C-1-9
52-Week Range	3.94 USD-7.99 USD
Mrkt Val / Shares Out (mn)	3,614 USD / 953.5
Average Daily Value (mn)	27.79 USD
Free Float	16.1%
BofA Ticker / Exchange	IQ / NAS
Bloomberg / Reuters	IQ US / IQ.OQ
ROE (2023E)	27.4%
Net Dbt to Eqty (Dec-2022A)	91.50%

NT: near term

MAU/DAU: monthly/daily active user

ARM: average revenue per membership

GPM/ OPM: gross profit/operating profit margin

GP/OP: gross/operating profit

ROI: return on investment

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 18 January 2024 01:39PM EST

iQprofileSM iQIYI

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	30,554	28,998	31,849	33,147	34,905
Gross Profit	3,041	6,678	8,769	9,825	10,698
Sell General & Admin Expense	(4,725)	(3,467)	(4,034)	(4,066)	(4,207)
Operating Profit	(4,479)	1,312	2,959	3,956	4,652
Net Interest & Other Income	(1,533)	(1,346)	(958)	(885)	(877)
Associates	NA	NA	NA	NA	NA
Pretax Income	(6,012)	(34)	2,000	3,071	3,775
Tax (expense) / Benefit	(97)	(84)	(50)	(31)	(189)
Net Income (Adjusted)	(4,507)	412	2,629	3,672	4,213
Average Fully Diluted Shares Outstanding	796	857	975	979	987

Key Cash Flow Statement Data

Net Income	(6,190)	(136)	1,925	3,010	3,555
Depreciation & Amortization	16,766	13,655	304	295	367
Change in Working Capital	(17,586)	(14,493)	2,562	(2,741)	1,745
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,058	904	927	739	739
Cash Flow from Operations	(5,952)	(71)	5,717	1,303	6,407
Capital Expenditure	(401)	(270)	(318)	(392)	(481)
(Acquisition) / Disposal of Investments	(473)	451	(78)	(78)	(78)
Other Cash Inflow / (Outflow)	2,136	85	0	0	0
Cash Flow from Investing	1,262	266	(396)	(471)	(559)
Shares Issue / (Repurchase)	500	1,807	3,581	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(2,959)	4,469	7,721	0	0
Free Cash Flow	(6,353)	(340)	5,399	911	5,926
Net Debt	13,695	5,804	(3,098)	(3,931)	(9,778)
Change in Net Debt	4,006	(2,094)	(8,902)	(833)	(5,848)

Key Balance Sheet Data

Property, Plant & Equipment	1,345	1,105	1,110	1,200	1,305
Other Non-Current Assets	29,603	31,158	31,195	31,282	31,368
Trade Receivables	2,748	2,403	3,080	2,445	3,755
Cash & Equivalents	3,075	7,112	20,154	20,986	26,834
Other Current Assets	5,701	4,271	4,612	4,729	4,887
Total Assets	42,472	46,048	60,152	60,641	68,150
Long-Term Debt	12,652	9,568	13,708	13,708	13,708
Other Non-Current Liabilities	1,670	2,007	2,007	2,007	2,007
Short-Term Debt	4,118	3,348	3,348	3,348	3,348
Other Current Liabilities	18,359	24,782	28,277	25,017	28,231
Total Liabilities	36,799	39,705	47,339	44,080	47,294
Total Equity	5,673	6,343	12,813	16,562	20,856
Total Equity & Liabilities	42,472	46,048	60,152	60,641	68,150

iQmethodSM - Bus Performance*

Return On Capital Employed	-14.0%	5.5%	10.9%	11.0%	11.5%
Return On Equity	-59.6%	6.8%	27.4%	25.0%	22.5%
Operating Margin	-14.7%	4.5%	9.3%	11.9%	13.3%
EBITDA Margin	40.2%	51.6%	10.2%	12.8%	14.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	-0.2x	2.2x	0.4x	1.5x
Asset Replacement Ratio	1.0x	0.8x	2.0x	2.7x	2.3x
Tax Rate (Reported)	NM	NM	2.5%	1.0%	5.0%
Net Debt-to-Equity Ratio	241.4%	91.5%	-24.2%	-23.7%	-46.9%
Interest Cover	-3.3x	1.8x	2.6x	3.5x	4.3x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

iQIYI is a leading online video streaming platform in China. It offers a variety of entertainment content, including professionally-produced video, partner-generated video and user-generated video. It generates revenues mainly from membership services and online advertising services, and to a much lesser extent, content distribution, live broadcasting services and online games. As a subsidiary of Baidu, it has cooperation with Baidu in technology and user traffic.

Investment Rationale

iQIYI's market leadership creates an eco-system to attract both content creators and users. We expect content curation, production and distribution to be further enhanced by its artificial intelligence (AI) empowered technology. It sees rising monetization driven by increasing paying user ratio, and rising user spending. The company is focusing on balanced strategy with high quality inhouse content to drive a gradual profit improvement in 23/24E

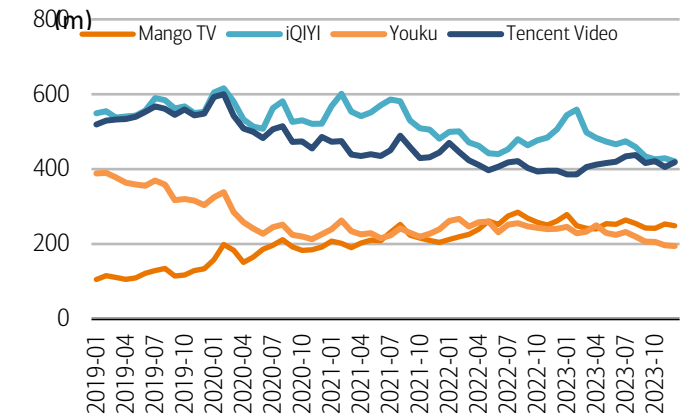
Stock Data

Price to Book Value

2.0x

User trend

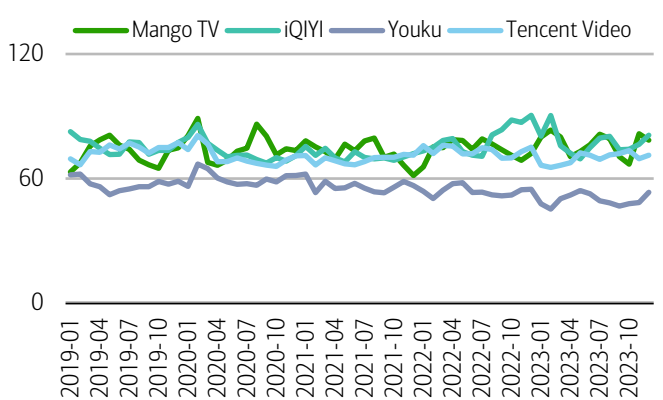
Exhibit 1: MAU comparison (mn)
iQIYI MAU decreased in 4Q23



Source: Questmobile, BofA Global Research

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Exhibit 2: Daily time spent per user comparison (mins)
IQ's daily time spent per user reached 81mins in December



Source: Questmobile, BofA Global Research

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Price objective basis & risk

iQIYI (IQ)

Our price objective of US\$6 per ADS is based on EPS of US\$0.42 and 15x 2024E P/E, which is the average P/E of major online video, live streaming and entertainment platforms in China and overseas.

Downside risks are 1) competition from deep-pocket peers and other entertainment, 2) rising content cost, 3) slowing Internet user growth, 4) regulation and censorship, including those that may affect content, accounting policies, data security, or the listing requirements in US or HK, 5) persistent decline in ad revenue, 6) lack of working capital or refinancing options and uncertainty in terms and structure of potential capital raising plans. Upside risks are 1) price hikes of subscription packages to boost margins, 2) diversifying audience preferences over casting that can ease content cost pressure, 3) strong-than-expected advertising environment, 4) increasing time spent by users due to better content or new entertainment, 5) industry consolidation.

Analyst Certification

I, Lei Zhang, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVLF	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA
	YY	YY	YY US	Lei Zhang
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

NEUTRAL

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang

UNDERPERFORM

	Altium Limited	ALMFF	ALU AU	Ware Kuo
	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGF	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	Pearl Abyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTFD	688561 CH	Daley Li, CFA



APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTSF	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo
RVW				
	Dada Nexus	DADA	DADA US	Lei Zhang

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

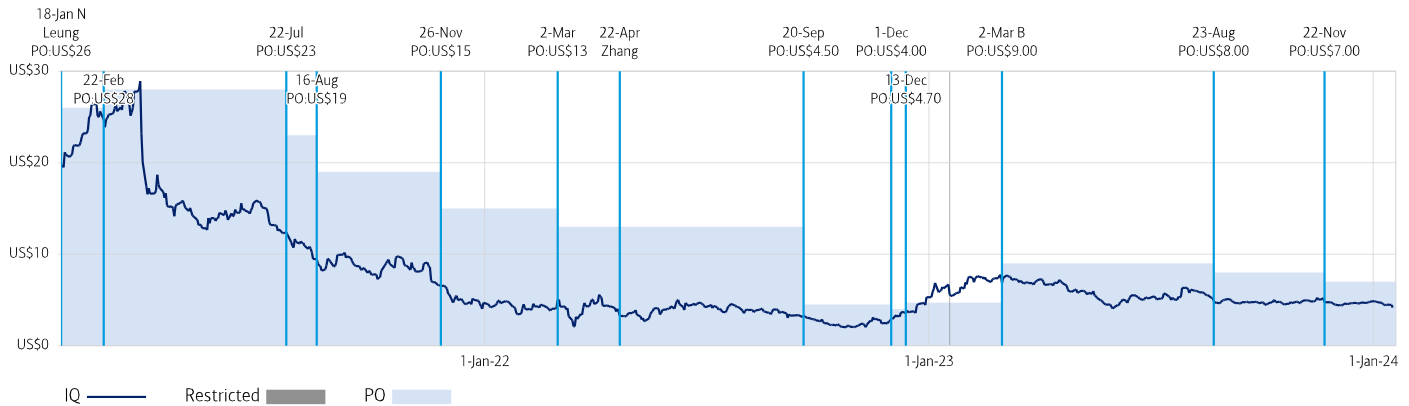
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Disclosures

Important Disclosures

iQIYI (IQ) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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