

iQIYI

Investor meeting takeaways: improving ROI amid backend-loaded content schedule

Reiterate Rating: BUY | PO: 5.50 USD | Price: 4.16 USD

Likely backend-loaded content schedule in 2024

We recently hosted post-results group investors call with IQiyi (IQ) and note content schedule, ARM & subscriber trend, and cash flow trend as key focus areas of investors. For content, IQ sees a backend-loaded content release schedule, given: 1) it has a **rich content** pipeline (*Exhibit 1*) with different genre and it wants to keep the best content, including key costume dramas at peak seasons (summer and winter holiday season); 2) **competition** environment and competitors' content release schedule. We note that Tencent Video may have several IP-based new dramas in 1H24 - *The Legend of Shenli* on 18 March, *Joy of Life 2* in 2Q, *Lost You Forever 2* in 2Q/3Q, and IQ is likely to adjust its schedule and content accordingly; 3) **overall content investment** for 2024E is likely to remain stable YoY and most of the content have their own timeline and IQ expects more top content to be released in '24E vs. '23, despite the backend-loaded content schedule.

ARM as a key driver in '24E; sub still see room long-term

The company indicated that sub revenue growth is the top priority, and it will adjust ARM amid the backend-loaded content schedule, including reducing the discount level for new users, providing value-added privileges for different tier of subscribers such as pay for view, cross-screen model, etc. ARM rose 6% YoY to RMB15.1 (vs. RMB14.3 in 2022), with 2H23 improving by 12% YoY to RMB16, as of 4Q23, amid mild content release. IQ also indicated the percentage of long-term subscribers (auto renew and annual sub) improved in 2023 and the RMB16 ARM level is still lower vs. global peers and other entertainment and offline consumption in China. On the other hand, IQ maintained 150mn+ subscribers target in the long term despite recent slowdown to 100mn subscriber level, evident from over 130mn+ peak sub base in 1Q23 with key drama launches. IQ will continue to provide rich content to target more user groups, including younger users (animation genre) and elder user group (family/modern drama).

Cash flow and profit trend to be on track

IQ's management expects improvement in both operating and free cash flow with reasonable investments in original content and continuous efforts to refine operations. It sees no pressure on the repayment of its three outstanding convertible bonds: 1) the company has enough cash reserve and cash flow to repay the remaining US\$396mn CB in August '24; 2) PAG CB is more equity-like with low conversion price; 3) IQ has enough free cash flow to cover another US\$600mn CB and is likely to seek replacement with more cost-effective alternative for this CB. IQ indicated its intention to improve capital structure and shareholder-return initiatives after repayment of existing notes. It is also confident on the profit growth trend in 2024E with more upside from 2H24 due to backend-loaded content release schedule.

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Stock Data

Price	4.16 USD
Price Objective	5.50 USD
Date Established	29-Feb-2024
Investment Opinion	C-1-9
52-Week Range	3.06 USD-7.52 USD
Mrkt Val / Shares Out (mn)	3,967 USD / 953.6
Average Daily Value (mn)	38.11 USD
Free Float	16.1%
BofA Ticker / Exchange	IQ / NAS
Bloomberg / Reuters	IQ US / IQ.OQ
ROE (2023E)	27.5%
Net Dbt to Eqty (Dec-2022A)	91.50%

ARM: average revenue per membership

GPM/ OPM: gross profit/operating profit margin

GP/OP: gross/operating profit

ROI: return on investment

CB: convertible bond

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Timestamp: 14 March 2024 05:29AM EDT

Content pipeline

Exhibit 1: Content pipeline in 2024

IQ has a rich content pipeline with different genres to release in 2024E

Drama	English	Platform	Planned broadcast time
狐妖小红娘系列	Fox Spirit Matchmaker	IQ	2024
大理寺少卿游	White Cat Legend	IQ	20/02/2024
白月梵星	Moonlight Mystique	IQ	2024
唐朝诡事录 2	Horror Stories of Tang Dynasty 2	IQ	2024
乌云之上	The Shadows	IQ	2024
看不见影子的少年	Lost in the Shadows	IQ	2024
南来北往	Always on the Move	IQ	06/02/2024
武庚纪	Burning Flames	IQ	13/03/2024
城中之城	CityCenter	IQ	1Q24
哈尔滨 1944	HARBIN 1944	IQ	2024
球状闪电	Ball Lightning	IQ	2024
唐宫夜宴	Night Banquet in Tang Dynasty Palace	IQ	2024
与凤行	The Legend of Shen Li	Tencent	2024
长相思 2	Lost You Forever	Tencent	2024
庆余年 2	Joy of Life: Episode 2	Tencent	Jun-24
在暴雪时分	Amidst a Snowstorm of Love	Tencent	02/02/2024
上甘岭	Battle of Triangle Hil	Youku	2024
清明上河图密码	Along the River	Youku	2024
梦之海	Sea of Dreams	Youku	2024
大唐狄公案	Judge Dee's Mystery	Youku	06/02/2024

Source: Company data, BofA Global Research

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Price objective basis & risk

iQIYI (IQ)

Our price objective of US\$5.5 per ADS is based on EPS of US\$0.42 and 13x 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.

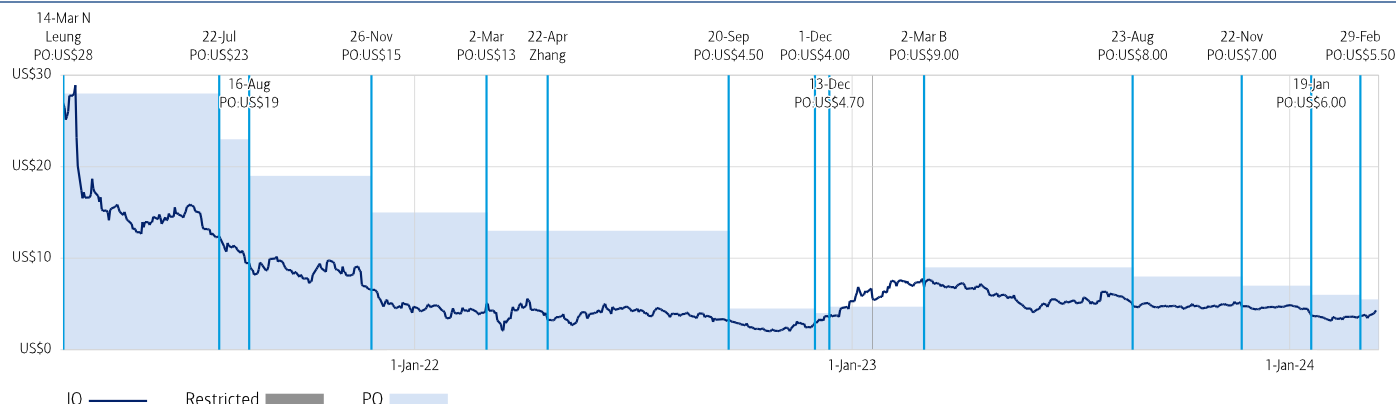
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iQIYI (IQ) Price Chart



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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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