

iQIYI (IQ US)

Wait for more content rollout

iQIYI delivered better-than-feared 2Q21 results, with rev +3% YoY (2% above consensus) and net loss beat. Subs +0.9mn QoQ despite content delay, and 3Q21E rev guidance is largely in line. However, we are prudent on 3Q21E outlook, given its relatively muted content, limited regulatory visibility, and ads headwinds. We trimmed its GP by 6-10% in FY21-23E to factor in prudent topline and continuous content investment, and lowered DCF-based TP to US\$12.5.

- 2Q21 beat & guidance largely in line.** 2Q21 rev was RMB7.6bn, +3% YoY, 2% above consensus. Adj. net loss narrowed to RMB1.1bn, vs. consensus -RMB1.5bn. Margin surprised on well-managed content cost (RMB5.1bn; 67% of rev vs. 68% in 1Q21). Mgmt. guided heightened content cost in the next few quarters with rich content pipeline and category expansion. 3Q21E rev guidance came in at RMB7.62-8.05bn, +6-12% YoY, with midpoint mostly in-line with consensus.
- Wait for more content rollout & clearer regulations.** iQIYI's subs +0.9mn QoQ to 106.2mn in 2Q21 despite tighter regulation, mainly on launched premium content (e.g., *The Rebel* <叛逆者>, Douban 8.3), summer vacation, and overseas expansion (c. 1mn users). ARPU saw high-digit YoY growth due to price hike in 4Q20. Looking ahead, we are cautious on 2H21E momentum. iQiyi delivered relatively soft content in Jul & Aug, while short video & Tencent video (two blockbusters) to continuously gain share, suggesting mild subs in 3Q21E. We see limited visibility for improving regulatory environment, thus still affecting content schedule, despite its rich content reserve (incl. new Sweet On Theater (恋恋剧场) and returning Light On Theater).
- Focusing on lower-tier city penetration & video production industrialization.** iQIYI Lite reached 1mn DAU milestone with personalized recommendation and low-function phone adaption, unlocking TAM in lower-tier cities and older generation (7% overlap with iQIYI). iQIYI aims to cover all in-house studios with Production Business Intelligence System (PBIS) in a year, increasing content supply visibility with traffic and monetization forecast.
- Maintain BUY.** To reflect cautious outlook and continuous content investment, we trimmed its GP by 6-10% in FY21-23E, and lowered TP to US\$12.5 (2.0x FY21E P/S) from US\$25. Suggest to wait for clearer regulation signals.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	28,994	29,707	31,756	36,110	40,401
YoY growth (%)	16.0	2.5	6.9	13.7	11.9
Adj. net income (RMB mn)	(8,765)	(5,516)	(5,564)	(3,175)	(1,033)
Adj. EPS (RMB)	(12.0)	(7.4)	(7.0)	(3.8)	(1.2)
YoY growth (%)	NA	NA	NA	NA	NA
Consensus EPS	NA	NA	(6.9)	(2.6)	(0.7)
P/E (x)	NA	NA	NA	NA	NA
P/B (x)	1.7	1.6	1.5	1.3	1.2
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(105)	(74)	(144)	(301)	(539)
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$12.5
(Previous TP)	US\$25.0
Up/Downside	+33.0%
Current Price	US\$9.4

China Internet Sector

Sophie Huang
 (852) 3900 0889
 sophiehuang@cmbi.com.hk

Miriam Lu
 (852) 3761 8728
 miriamlu@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	8,548
Avg 3 mths t/o (US\$ mn)	128.99
52w High/Low (US\$)	28.97/ 10.33
Total Issued Shares (mn)	378

Source: Bloomberg

Shareholding Structure

Hillhouse Capital Advisors	10.2%
Credit Suisse	6.9%
UBS	5.6%

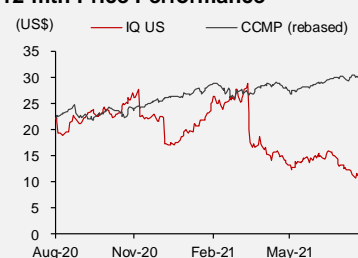
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-17.9%	-18.8%
3-mth	-21.2%	-27.1%
6-mth	-56.7%	-59.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

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Figure 1: 2Q21 financial review

RMB mn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY	Consensus	Diff %
Revenue	6,990	7,110	7,397	7,497	7,650	7,412	7,188	7,458	7,968	7,608	-4.5%	2.7%	7,467	1.9%
Operating profit	(2,026)	(1,872)	(2,832)	(2,529)	(2,242)	(1,282)	(1,210)	(1,307)	(1,014)	(1,122)	10.6%	-12.5%	(1,349)	NA
Net profit	(1,814)	(2,327)	(3,688)	(2,495)	(2,876)	(1,444)	(1,176)	(1,549)	(1,270)	(1,402)	10.3%	-2.9%	(1,721)	NA
Adj. net profit	(1,508)	(1,962)	(3,394)	(1,901)	(2,482)	(956)	(829)	(1,249)	(948)	(1,093)	15.3%	14.3%	(1,476)	NA
EPS (RMB)	(17.64)	(22.54)	(35.28)	(3.43)	(3.92)	(1.96)	(1.61)	(2.10)	(1.61)	(1.75)	8.7%	-10.7%	(1.86)	NA
Margin (%)														
Gross margin	-4.1%	1.8%	-10.5%	-5.6%	-3.3%	7.8%	11.5%	9.0%	10.8%	9.7%			7.5%	2.2%
Operating margin	-29.0%	-26.3%	-38.3%	-33.7%	-29.3%	-17.3%	-16.8%	-17.5%	-12.7%	-14.7%			-18.1%	3.3%
Adj. net margin	-21.6%	-27.6%	-45.9%	-25.4%	-32.4%	-12.9%	-11.5%	-16.8%	-11.9%	-14.4%			-19.8%	5.4%
Growth (%)														
Revenue (YoY)	43.3%	15.2%	7.0%	6.7%	9.4%	4.2%	-2.8%	-0.5%	4.2%	2.7%			0.7%	
Revenue (QoQ)	-0.5%	1.7%	4.0%	1.3%	2.0%	-3.1%	-3.0%	3.8%	6.8%	-4.5%			-6.3%	
Operating profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	
Adj. net profit	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA			NA	

Source: Company data, Bloomberg

Figure 2: 2Q21 revenue breakdown

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue (RMB mn)	6,990	7,110	7,397	7,497	7,650	7,412	7,188	7,458	7,968	7,608	-4.5%	2.7%
Membership Services	3,445	3,412	3,717	3,861	4,634	4,046	3,976	3,835	4,312	3,993	-7.4%	-1.3%
Online Advertising	2,119	2,201	2,067	1,883	1,537	1,586	1,840	1,859	1,917	1,825	-4.8%	15.1%
Content Distribution	443	518	680	878	603	861	392	804	779	688	-11.7%	-20.1%
Other	983	979	932	874	876	919	980	960	961	1,102	14.7%	19.9%

Source: Company data

Figure 3: CMBIS estimates vs consensus

RMB mn, Dec-YE	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	31,756	36,110	40,401	32,023	35,946	40,145	-0.8%	0.5%	0.6%
Gross Profit	2,409	5,020	7,074	2,933	5,555	8,474	-17.9%	-9.6%	-16.5%
Operating Profit	(5,834)	(3,342)	(1,373)	(5,165)	(2,377)	138	NA	NA	NA
Adj. net profit	(5,564)	(3,175)	(1,033)	(5,595)	(3,105)	(535)	NA	NA	NA
EPS (RMB)	(6.97)	(3.81)	(1.23)	(6.95)	(2.60)	(0.73)	NA	NA	NA
Gross Margin	7.6%	13.9%	17.5%	9.2%	15.5%	21.1%	-1.6ppts	-1.6ppts	-3.6ppts
Operating Margin	-18.4%	-9.3%	-3.4%	-16.1%	-6.6%	0.3%	-2.2ppts	-2.6ppts	-3.7ppts
Net Margin	-17.5%	-8.8%	-2.6%	-17.5%	-8.6%	-1.3%	-0.0ppts	-0.2ppts	-1.2ppts

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Earnings revision

RMB mn, Dec-YE	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	31,756	36,110	40,401	32,279	36,809	41,197	-1.6%	-1.9%	-1.9%
Gross Profit	2,409	5,020	7,074	2,679	5,440	7,569	-10.1%	-7.7%	-6.5%
Operating Profit	(5,834)	(3,342)	(1,373)	(5,552)	(2,916)	(857)	NA	NA	NA
Adj. net profit	(5,564)	(3,175)	(1,033)	(5,348)	(2,722)	(484)	NA	NA	NA
EPS (RMB)	(6.97)	(3.81)	(1.23)	(6.77)	(3.36)	(0.60)	NA	NA	NA
Gross Margin	7.6%	13.9%	17.5%	8.3%	14.8%	18.4%	-0.7ppts	-0.9ppts	-0.9ppts
Operating Margin	-18.4%	-9.3%	-3.4%	-17.2%	-7.9%	-2.1%	-1.2ppts	-1.3ppts	-1.3ppts
Net Margin	-17.5%	-8.8%	-2.6%	-16.6%	-7.4%	-1.2%	-1.0ppts	-1.4ppts	-1.4ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	28,994	29,707	31,756	36,110	40,401
Membership services	14,436	16,491	16,924	19,683	22,218
Online advertising services	8,271	6,822	7,807	8,584	9,363
Content distribution	2,519	2,660	2,702	2,810	2,950
Others	3,768	3,734	4,323	5,033	5,869
COGS	(30,348)	(27,884)	(29,348)	(31,090)	(33,328)
Gross profit	(1,355)	1,823	2,409	5,020	7,074
S&M	(3,888)	(3,883)	(3,999)	(4,132)	(4,219)
Admin. Exp.	(1,348)	(1,350)	(1,520)	(1,350)	(1,328)
R&D	(2,667)	(2,697)	(2,723)	(2,880)	(2,899)
Operating profit	(9,258)	(6,107)	(5,834)	(3,342)	(1,373)
Other income/(exp), net	(967)	(943)	(950)	(1,228)	(1,253)
Pre-tax Income	(10,225)	(7,051)	(6,784)	(4,570)	(2,626)
Income Tax	(52)	(23)	(50)	(50)	(23)
Net profit	(10,325)	(7,045)	(6,834)	(4,620)	(2,649)
Adj. net profit	(8,765)	(5,516)	(5,564)	(3,175)	(1,033)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income	(10,277)	(7,007)	(6,834)	(4,620)	(2,649)
D&A	17,169	15,650	13,926	13,865	13,175
Change in WC	(4,206)	-	(810)	(3,322)	(1,708)
Others	1,221	(14,054)	1,882	1,444	1,616
Operating CF	3,907	(5,411)	8,164	7,368	10,434
Capex	(12,831)	(11,194)	(15,713)	(11,915)	(15,153)
Purchase of long-term investments	(706)	(221)	-	-	-
Others	1,788	11,574	-	-	-
Investing CF	(11,750)	159	(15,713)	(11,915)	(15,153)
Equity raised	107	-	-	-	-
Change of Debts	350	765	4,000	1,000	-
Cash from CB raised	7,910	4,382	-	-	-
Others	(486)	4,227	-	-	-
Financing CF	7,880	9,374	4,000	1,000	-
Net change in cash	150	4,031	(3,549)	(3,547)	(4,720)
Cash (beg of yr)	6,760	6,910	10,941	7,392	3,844
FX	112	(91)	-	-	-
Cash (end of yr)	6,910	10,941	7,392	3,844	(875)

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	24,520	25,895	29,559	31,037	35,597
Fixed asset	1,754	1,393	2,156	2,464	2,827
Long-term investments	2,982	3,203	3,203	3,203	3,203
Licensed copyrights, net	6,287	6,435	8,365	10,470	11,952
Others	13,496	14,864	15,835	14,900	17,616
Current assets	20,273	22,290	19,325	16,995	12,951
Cash	5,935	10,915	7,367	3,819	(901)
Restricted cash	975	25	25	25	25
Short-term investments	4,579	3,358	3,358	3,358	3,358
Account receivable	3,628	3,344	3,640	4,040	4,409
Others	5,156	4,647	4,935	5,753	6,059
Current liabilities	20,173	24,855	30,302	32,626	34,175
Account payable	8,212	7,562	8,301	8,794	9,427
Customer advances and deferred revenue	3,081	3,445	3,683	4,187	4,685
Accrued liabilities	3,795	3,241	3,618	3,833	4,109
Short-term borrowings	2,618	2,966	6,966	7,966	7,966
Others	2,466	7,641	7,735	7,846	7,988
Non-current liabilities	14,904	13,887	13,887	13,887	13,887
Convertible senior notes	12,297	11,927	11,927	11,927	11,927
Others	2,608	1,960	1,960	1,960	1,960
MI	42	79	79	79	79
Total Equity	9,656	9,415	3,851	675	(357)
Shareholders' equity	9,613	9,336	3,772	596	(436)

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Membership services	49.8	55.5	53.3	54.5	55.0
Online advertising services	28.5	23.0	24.6	23.8	23.2
Content distribution	8.7	9.0	8.5	7.8	7.3
Others	13.0	12.6	13.6	13.9	14.5
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	16.0	2.5	6.9	13.7	11.9
Gross profit	(36.8)	(234.6)	32.1	108.4	40.9
EBIT	NA	NA	NA	NA	NA
Adj. net profit	NA	NA	NA	NA	NA
P&L ratios (%)					
Operating margin	(31.9)	(20.6)	(18.4)	(9.3)	(3.4)
Pre-tax margin	(35.3)	(23.7)	(21.4)	(12.7)	(6.5)
Adj. net margin	(30.2)	(18.6)	(17.5)	(8.8)	(2.6)
Effective tax rate	0.5	0.3	0.7	1.1	0.9
Returns (%)					
ROE	(105.2)	(74.7)	(144.5)	(300.8)	(539.5)
ROA	(19.6)	(11.4)	(11.4)	(6.6)	(2.1)
Per share					
EPS (RMB)	(11.97)	(7.42)	(6.97)	(3.81)	(1.23)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	9.49	14.80	9.25	4.61	1.04

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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