Better Buy: iQiyi vs. Netflix

Description

We're streaming more video than ever, and that's a leisurely pursuit that is only going to get more popular through the next few years. **iQiyi** (NASDAQ: IQ) has the Chinese market on lock with 100.5 million largely paying subscribers on its rolls. **Netflix** (NASDAQ: NFLX) is the global leader with 151.6 million premium streaming memberships worldwide. Both platforms are growing their audiences at a heady clip. iQiyi's audience has ballooned 50% over the past year, with Netflix growing its rolls at a respectable 22% pace.

Despite being the leaders in a booming niche, iQiyi and Netflix aren't the hot stocks they were last summer. Although both stocks peaked in June of last year, shares of iQiyi and Netflix have gone on to plummet 65% and 38%, respectively. Each company has unique concerns right now, but both are compellingly priced given their leadership roles in a market that's only trending higher in usage. Let's see which of the two out-of-favor stream queens deserves to be royalty in your portfolio.

Stream control

With Netflix weighing in at a market cap of roughly $115 billion and iQiyi at less than $13 billion, the latter may seem to offer investors more bang for their brokerage buck. If Netflix has just a little more than 50% of the paying subscribers iQiyi does but is selling at 10 times the price, is this a battle even worth debating? Yes. There is more to this bout than subscriber counts.

iQiyi premium accounts are paying a lot less than Netflix's worldwide average. In fact, when you add up all of iQiyi's revenue — since membership revenue accounts for half of its business, as it's also available as an ad-supported platform for freeloaders and engages in content distribution — the $3.9 billion that it has recorded over the past four quarters is less than a quarter of the $17.6 billion in revenue that Netflix has racked up in the same period.

Netflix is also profitable, something that analysts don't see happening at iQiyi until 2022 at the earliest. A lack of profitability and China's tightly regulated ways are weighing on iQiyi's stock these days. Revenue growth has also decelerated sharply at iQiyi.

Another factor keeping iQiyi as a broken IPO is that investors are mostly steering clear of Chinese growth stocks as the trade tariff war with the U.S. plays out. It can be argued that iQiyi's model itself is relatively immune to the actual trade fisticuffs, but with China's economy slowing as a result of the discord, folks are staying away from consumer discretionary stocks in the world's most populous nation.

Netflix also has its challenges. The stock is being held back by a glut of big-name competition that will be launching in the coming months, with its two largest rivals coming to market in November at far more aggressive pricing than analysts were expecting. Netflix is starting to seem pricey as a service relative to the new platforms. It also doesn't help that Netflix fell well short of its second-quarter subscriber growth guidance this summer. It reports again in a few weeks.

And the winner is…

I own Netflix, and I've been vocally supportive of iQiyi. I think both stocks will beat the market off of today's depressed prices. However, given the near-term challenges for Netflix and the high ceiling for the faster-growing Chinese company, I'm going to go with iQiyi as the better buy here.

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TICKERS GLOBAL

1. NASDAQ:IQ (iQIYI, Inc.)
2. NASDAQ:NFLX (Netflix, Inc.)

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