

**Data**

Price(05/06/2012)	HK\$6.53
Issued shares	10,336.95mn
Market cap	HK\$67,500mn
52week high/low	HK\$7.71/4.11
Major shareholders:	
Legend Holdings Ltd(33.6%)	
Yuanqing Yang-CEO (9.26%)	

Source:Company data

Price performance

	1M	3M	YTD
992 HK Equity	-14.8%	-2.1%	26.1%
HSI Index	-13.4%	-14.1%	-1.0%
HSCIIT Index	-13.6%	-5.3%	18.0%

Stock price chart

Source: Bloomberg, ABCI Securities estimates

Report date: 05 June, 2012**Analyst:**

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Lenovo Group Limited(992)**Downgrade to “Hold ” with target price of HK\$6.65**

We had a tele-conference with Lenovo’s management on 05 June 2012. We downgrade the rating of the stock to HOLD from BUY because of the following two main reasons. We lower our net profit forecast by 7.6% to US\$558.48mn (or US\$5.36cents) for FY2013 and subsequently revise down the target price to HK\$6.65 (or 16x FY2013 PER) from HK\$8.58.

Slowing down of PC shipment growth

Lenovo achieved a 34.9% YoY PC shipment growth to 47.6mn units in FY2012. We revise down its global PC shipment growth to 15%YoY from 24%YoY in FY2013 due to slow down of PC demand in both enterprises segment and consumer segment.

MIDH business is on the early investment stage

Its MIDH business grew by 85% to US\$1,484mn and accounted for 5% of total revenue in FY2012. Management expects its smartphone and tablet shipment to reach 12mn units and 2mn units respectively in FY2013. The group will continue to invest in the R&D and branding for its smartphone, tablet and smart TV in consumer market. As Lenovo is a new comer in this business segment which is highly competitive, we expect the group is unlikely to achieve breakeven in FY2013.

Downgrade to “Hold ” with target price of HK\$6.65

We revise down its revenue growth from 25.5%YoY to 17.0%YoY for FY2013. Subsequently, we revise down its net profit forecast by 7.6% for FY2013 from US\$604mn to US\$558mn (or US\$5.36cents). As FY2013 EPS growth will slow down to 17.2%, we revise down the PER rating of the stock from 18x to 16x. Based on the latest PER rating & FY2013 EPS, we set 12-mth target price at HK\$6.65.

Financial Summary

FY ended Mar31(US\$m)	2012	2013F	2014F	2015F
Revenue	29,574	34,598	40,288	47,092
Chg (% yoy)	37.0%	17.0%	16.4%	16.9%
Net Income	473	558	644	763
Chg (yoy)	74.0%	17.5%	15.2%	18.6%
Diluted EPS(US cents)	4.57	5.36	6.17	7.32
Chg (yoy)	67.4%	17.2%	15.2%	18.6%
P/E	18.40	15.70	13.63	11.49
BVPS(US cents)	23.65	26.91	31.65	37.29
P/B	3.61	3.17	2.70	2.29
DPS(US cents)	1.77	1.34	1.54	1.83
Dividend yield	2.11%	1.59%	1.83%	2.18%

Source:Lenovo,ABCI Securities estimates@hkd/usd:7.765



Figure1: Earnings revision

(US\$ mn)	New forecast			Old forecast			Change%		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Revenues	34,598.26	40,288.16	47,092.00	37,123.14	45,317.90	54,495.17	(6.8%)	(11.1%)	(13.6%)
Gross profit	3,970.82	4,623.88	5,404.83	4,406.92	5,404.27	6,498.48	(9.9%)	(14.4%)	(16.8%)
Operating profit	715.29	824.50	977.83	749.93	940.52	1,131.19	(4.6%)	(12.3%)	(13.6%)
Pretax profit	718.23	827.44	980.78	752.87	943.46	1,134.13	(4.6%)	(12.3%)	(13.5%)
Net profit	558.48	643.55	763.20	604.48	762.18	916.10	(7.6%)	(15.6%)	(16.7%)
Diluted EPS(US cents)	5.36	6.17	7.32	5.80	7.31	8.78	(7.6%)	(15.6%)	(16.7%)
Gross profit margin	11.48%	11.48%	11.48%	11.87%	11.93%	11.92%	-	-	-
Operating profit margin	2.07%	2.05%	2.08%	2.02%	2.08%	2.08%	-	-	-
Net profit margin	1.61%	1.60%	1.62%	1.63%	1.68%	1.68%	-	-	-

Source: ABCI Securities estimates



Lenovo Quarterly Earnings Model

Yr to Mar31 (US\$ mn)	FY2012/2013				FY2013/2014				FY2014/2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,978.93	8,674.66	9,478.96	8,465.71	9,261.55	10,119.57	11,295.91	9,611.13	10,752.79	11,774.01	13,367.23	11,197.97
Gross profit	909.60	997.59	1,090.08	973.56	1,055.82	1,163.75	1,299.03	1,105.28	1,225.82	1,354.01	1,537.23	1,287.77
Operating profit	151.60	208.19	236.97	118.52	175.97	242.87	271.10	134.56	204.30	282.58	334.18	156.77
PBT	152.34	208.93	237.71	119.26	176.71	243.61	271.84	135.29	205.04	283.31	334.92	157.51
Net profit	121.87	162.96	190.17	83.48	141.36	190.01	217.47	94.70	164.03	220.98	267.93	110.26
Ratio(%)												
Gross profit margin	11.40%	11.50%	11.50%	11.50%	11.40%	11.50%	11.50%	11.50%	11.40%	11.50%	11.50%	11.50%
Operating profit margin	1.90%	2.40%	2.50%	1.40%	1.90%	2.40%	2.40%	1.40%	1.90%	2.40%	2.50%	1.40%
Net profit margin	1.53%	1.88%	2.01%	0.99%	1.53%	1.88%	1.93%	0.99%	1.53%	1.88%	2.00%	0.98%
E/R Ratio*	9.50%	9.10%	9.00%	10.10%	9.50%	9.10%	9.10%	10.10%	9.50%	9.10%	9.00%	10.10%
Q/Q Growth(%)												
Revenue	6.44%	8.72%	9.27%	-10.69%	9.40%	9.26%	11.62%	-14.91%	11.88%	9.50%	13.53%	-16.23%
Gross profit	12.89%	9.67%	9.27%	-10.69%	8.45%	10.22%	11.62%	-14.91%	10.91%	10.46%	13.53%	-16.23%
Operating profit	49.41%	37.33%	13.82%	-49.99%	48.47%	38.02%	11.62%	-50.37%	51.84%	38.31%	18.26%	-53.09%
Net profit	82.39%	33.72%	16.69%	-56.10%	69.34%	34.41%	14.45%	-56.45%	73.20%	34.72%	21.25%	-58.85%
Y/Y Growth(%)												
Revenue	34.78%	11.41%	13.22%	12.93%	16.08%	16.66%	19.17%	13.53%	16.10%	16.35%	18.34%	16.51%
Gross profit	23.17%	5.25%	14.25%	20.83%	16.08%	16.66%	19.17%	13.53%	16.10%	16.35%	18.34%	16.51%
Operating profit	23.19%	25.35%	22.49%	16.81%	16.08%	16.66%	14.40%	13.53%	16.10%	16.35%	23.27%	16.51%
Net profit	12.02%	13.23%	23.92%	24.94%	16.00%	16.60%	14.36%	13.45%	16.03%	16.30%	23.20%	16.42%

Source: Company data, ABCI Securities estimates

* E/R Ratio (Operating expense to revenue ratio)



Lenovo:Financial Summary

Consolidated Income Statement

Yr to Mar31 (US\$ mn)	2011	2012	2013F	2014F	2015F
Sales	21,594.37	29,574.44	34,598.26	40,288.16	47,092.00
Cost of sales	(19,230.42)	(26,128.22)	(30,627.44)	(35,664.28)	(41,687.18)
Gross profit	2,363.95	3,446.22	3,970.82	4,623.88	5,404.83
Other income	0.42	1.20	0.00	0.00	0.00
Selling and distribution expense	(1,038.46)	(1,690.78)	(1,901.16)	(2,223.62)	(2,585.59)
Admin expense	(719.71)	(730.29)	(868.30)	(1,009.19)	(1,178.93)
R&D expense	(303.41)	(453.33)	(486.08)	(566.58)	(662.48)
Other operating(expense)/income	79.43	11.07	0.00	0.00	0.00
EBITDA	558.36	438.50	475.69	575.52	0.00
Depreciation & amortization	176.14	(145.58)	(239.59)	(248.97)	0.00
EBIT	382.22	584.08	715.29	824.50	977.83
Interest income	24.93	42.69	35.73	35.73	35.73
Interest cost	(49.18)	(43.48)	(32.78)	(32.78)	(32.78)
Share of (losses)/profits of associates	(0.23)	(0.85)	0.00	0.00	0.00
PBT	357.75	582.44	718.23	827.44	980.78
Taxation	(84.52)	(107.03)	(159.75)	(183.89)	(217.57)
Net Income	273.24	475.42	558.48	643.55	763.20
Net profit attributable to equity holders of the co.	273.23	472.99	558.48	643.55	763.20
Non-controlling interests	0.00	2.42	0.00	0.00	0.00
Diluted EPS(US cents)	2.73	4.57	5.36	6.17	7.32
Dividend	68.73	183.21	139.62	160.89	190.80
DPS(US cents)	0.69	1.77	1.34	1.54	1.83
Dividend payout ratio	25%	39%	25%	25%	25%

Growth&Margin	2011	2012	2013F	2014F	2013F
Sales growth	30.05%	36.95%	16.99%	16.45%	16.89%
EBIT growth	74.78%	52.81%	22.46%	15.27%	18.60%
Net income growth	111.21%	73.99%	17.47%	15.23%	18.59%
EPS growth	100.00%	64.44%	15.69%	15.23%	18.59%
Gross profit margin	10.95%	11.65%	11.48%	11.48%	11.48%
EBIT margin	1.77%	1.97%	2.07%	2.05%	2.08%
Net profit margin	1.27%	1.61%	1.61%	1.60%	1.62%

Source:Company data,ABCI Securities estimates



Consolidated Balance Sheet

As of Mar31 (US\$ mn)	2011	2012	2013F	2014F	2015F
Non-current assets:	2,769.48	4,040.35	4,084.13	4,149.85	4,236.12
Property, plant and equipment	209.42	392.47	399.64	428.75	478.29
Prepaid lease payments	9.68	13.55	13.42	13.28	13.15
Construction-in-progress	32.09	103.99	114.38	125.82	138.41
Intangible assets	2,134.45	3,091.21	3,117.56	3,142.85	3,167.14
Other non-current assets	383.83	439.13	439.13	439.13	439.13
Current assets:	7,936.46	11,820.40	11,466.57	16,154.19	16,690.08
Inventories	803.70	1,218.49	1,151.92	1,608.32	1,618.06
Trade receivables	1,368.92	2,354.91	2,001.49	3,071.35	2,858.19
Notes receivables	391.65	639.33	566.81	837.69	804.01
Derivative financial assets	13.30	62.88	62.88	62.88	62.88
Deposits, prepayments and other receivables	2,305.33	3,303.05	3,255.86	4,381.71	4,545.69
Income tax recoverable	56.91	70.41	70.41	70.41	70.41
Bank deposit	42.16	413.67	413.67	413.67	413.67
Cash and cash equivalents	2,954.50	3,757.65	3,943.53	5,708.17	6,317.18
Total asset	10,705.94	15,860.75	15,550.71	20,304.04	20,926.21
Current liabilities:	8,032.65	11,809.68	11,140.92	15,400.53	15,434.74
Trade payables	2,179.84	4,050.27	3,252.65	5,251.28	4,688.77
Notes payable	98.96	127.32	137.93	170.94	190.09
Provisions, accruals and other payables	5,096.65	7,074.20	7,192.44	9,420.42	9,997.98
Bank borrowings	71.56	62.95	62.95	62.95	62.95
Other current liabilities	585.64	494.94	494.94	494.94	494.94
Non-current liabilities:	838.39	1,603.10	1,603.10	1,603.10	1,603.10
Total liabilities	8,871.04	13,412.78	12,744.02	17,003.63	17,037.84
Total equity	1,834.90	2,447.97	2,806.69	3,300.41	3,888.37

Ratios	2011	2012	2013F	2014F	2015F
ROAE	15.88%	22.09%	21.26%	21.08%	21.23%
ROAA	2.78%	3.56%	3.56%	3.59%	3.70%
Inventory days	16	14	14	14	14
Trade & notes receivables days	27	29	29	29	29
Trade & notes payable days	52	45	45	45	45
Net cash/equity	1.59	1.68	1.53	1.84	1.71
Book value per share(US cents)	18.33	23.65	26.91	31.65	37.29

Source: Company data, ABCI Securities estimates



Consolidated Cash flow statement

Yr to Mar31 (US\$ mn)	2011	2012	2013F	2014F	2015F
Profit before taxation	357.75	582.44	718.23	827.44	980.78
D&A add-back	217.52	241.82	236.61	239.73	249.11
Change in working capital	597.97	1,388.79	(129.06)	1,336.63	107.33
Cash flow from operations	965.25	1,939.96	630.30	2,184.18	1,083.91
Cash flow from investing	65.52	(837.07)	(244.67)	(269.71)	(299.65)
Cash flow from financing	(372.51)	(315.52)	(199.76)	(149.83)	(175.25)
Net change in cash	658.26	787.36	185.87	1,764.64	609.01
Beginning cash	2,238.20	2,954.50	3,757.65	3,943.53	5,708.17
Ending cash	2,954.50	3,757.65	3,943.53	5,708.17	6,317.18

Source: Company data, ABCI Securities estimates



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