

**Data**

Price (12/01/2012)	HK\$5.84
Issued shares	10,327.54mn
Market cap	HK\$60,312mn
52week high/low	HK\$6.04/3.9
Major shareholders:	
Legend Holdings Ltd (33.6%)	
Yuanqing Yang-CEO (9.16%)	

Source: Bloomberg, ABCI Securities estimates

Price performance

	1M	3M	YTD
992 HK Equity	6.0%	10.8%	12.7%
HSI Index	2.8%	4.2%	3.6%
HSCIT Index	9.3%	3.4%	7.1%

Stock performance

Source: Bloomberg, ABCI Securities estimates

Report date: 12 Jan, 2012**Analyst:**

Judy Hu (judyhu@abci.com.hk)

Tel: (852) 21478310

Previous reports

Lenovo (992) issued on 04 Nov,2011

Lenovo (992) issued on 13 Oct,2011

Lenovo (992) issued on 06 Oct,2011

Lenovo Group Ltd (992)**Revised up 12-mth target price to HK\$6.70 (previous HK\$6.37)****Strong PC shipment growth in 4Q 2011**

In respect of the global 4Q PC shipments statistics unveiled by International Data Corporation (IDC), we held a conference with Lenovo Group (992). After the conference, we revised our sales volume and gross profit margin forecasts in Q4 2011 and Q1 2012 to factor in (1) the latest PC shipments; (2) the change of gross profit margin due to HDD price hiking; and (3) the improvement of operating efficiency. We revise our estimated EPS to US\$4.39cents and US\$6.14cents for FY31/3/2012 and FY31/3/2013 respectively. Our 12-month target price is HK\$6.7, which represents 14x FY2013 PER.

Stronger PC shipment growth in 4Q of 2011

Although the worldwide PC shipments dropped 0.2% yoy in 4Q of 2011, PC shipments of Lenovo surged by 36.77%yoy and 3.4%qoq respectively. Although Hewlett-Packard stepped back its suggestion of spinning off PC division, its PC shipment dropped 15.9%yoy and 9.2% qoq in 4Q of 2011. The strong growth of Lenovo's PC shipments is due to inorganic growth (M&A in Germany and Japan this year) and strong organic growth in the emerging markets. The gap between the quarterly market shares of HP and Lenovo was narrowing. Lenovo may over-take HP to become the largest PC vendor in 2012.

Gross profit margin under pressure

Prices of HDD are rising due to the shortages of HDD after the flooding in Thailand last Oct. As HDD accounts for 6%-7% of Lenovo's COGS, the increase in HDD price will erode gross profit margin in last quarter and this quarter. We expect its gross profit margin to decline from 12.0% in 3Q 2011 to 11.2% in 4Q 2011 and 11.3% in 1Q 2012. The adverse impact of the shortage of HDD will factor into the second half-year results of the group for FY31/3/2012. We expect the supply of HDD will back to normal in 2Q 2012.

Raise target price to HK\$6.70 (from HK\$6.37)

We revise our FD EPS to US\$4.39cents (up 54.7%YoY) and US\$6.14cents (up 39.9%YoY) for FY2012 and FY2013 respectively. We revise our 12-month target price to HK\$6.70, which represent PER of 14x for FY2013. The stock price surged 12.7% from 3rd Jan to 12th Jan ahead of the announcement of IDC Global PC Shipment statistics. As 1Q 2012 is low season for PC vendors, the market in the short-term will put the focus on its upcoming quarterly result to be released in Feb.



Figure1: 4Q/2011 Worldwide PC shipments(Thousands)

Rank	Vendor	4Q/2011shipment	Market share	yoy growth(%)	qoq growth(%)
1	HP	15,123	16.3%	-15.9%	-9.2%
2	Lenovo	13,012	14.0%	36.8%	3.4%
3	Dell	11,970	12.9%	7.3%	8.7%
4	Acer	9,790	10.6%	-8.0%	6.3%
5	Asus	6,243	6.7%	26.3%	4.0%
	All vendor	92,702	100.0%	-0.2%	0.9%

Source: IDC, ABCI Securities estimate

Figure2: 1Q-4Q/2011 Worldwide PC shipments(Thousands)

Rank	Vendor	1Q-4Q/2011shipment	Market share	yoy growth(%)
1	HP	62,334	17.7%	-3.0%
2	Lenovo	44,007	12.5%	28.9%
3	Dell	44,282	12.6%	2.0%
4	Acer	37,169	10.6%	-13.9%
5	Asus	20,741	5.9%	14.4%
	All vendor	352,395	100.0%	1.6%

Source: IDC, ABCI Securities estimate

Figure3: Estimates revision

(US\$ mn)	Oct-Dec of 2011			Jan-Mar of 2012		
	Old forecast	New forecast	Difference	Old forecast	New forecast	Difference
Sales	7484.24	8002.34	6.92%	6316.16	7000.13	10.83%
Cost of goods sold	(6,586.13)	(7,106.08)	7.89%	(5,558.23)	(6,209.12)	11.71%
Gross profit	898.11	896.26	0.00	757.94	791.01	0.04
Gross margin	12.00%	11.20%	-6.67%	12.00%	11.30%	-5.83%
Operating expense	716.16	729.79	0.02	648.45	707.21	0.09
E/R ratio	9.57%	9.12%	-4.69%	10.27%	10.10%	-1.60%
Operating profit	181.95	166.47	-0.09	109.48	83.80	-0.23
PBT	176.12	176.47	0.00	103.55	77.87	-0.25
PBT margin	2.35%	2.21%	-6.29%	1.64%	1.11%	-32.15%
Taxation	-21.13	-30.00	0.42	-12.43	-23.36	0.88
Net income	154.98	146.47	-0.05	91.13	54.51	-0.40
Net profit margin	2.07%	1.83%	-11.61%	1.44%	0.78%	-46.03%

Source: ABCI Securities estimates



Income statement

Yr to Mar31 (US\$ mn)	2010	2011	2012F	2013F	2014F
Sales	16,604.82	21,594.37	28,708.78	33,581.51	38,784.36
Cost of sales	(14,815.22)	(19,230.42)	(25,335.17)	(29,551.73)	(34,130.23)
Gross profit	1,789.59	2,363.95	3,373.61	4,029.78	4,654.12
Other income	83.13	0.42	0.00	0.00	0.00
Selling and distribution expense	(839.39)	(1,038.46)	(1,634.96)	(1,880.56)	(2,171.92)
Admin expense	(566.25)	(719.71)	(821.14)	(1,007.45)	(1,163.53)
R&D expense	(214.34)	(303.41)	(356.32)	(335.82)	(387.84)
Other operating(expense)/income	(34.06)	79.43	(21.76)	0.00	0.00
EBITDA	395.48	558.36	685.58	946.37	1,066.17
Depreciation & amortization	176.79	176.14	146.15	140.41	135.35
EBIT	218.69	382.22	539.43	805.96	930.82
Interest income	20.38	24.93	37.35	36.71	73.41
Interest cost	(62.88)	(49.18)	(33.68)	(50.52)	(50.52)
Share of (losses)/profits of associates	0.12	(0.23)	(0.40)	0.00	0.00
PBT	176.30	357.75	542.70	792.15	953.72
Taxation	(46.94)	(84.52)	(88.25)	(158.43)	(190.74)
Net income	129.37	273.24	454.45	633.72	762.97
Net profit attributable to equity holders of the co.	129.37	273.23	453.70	633.72	762.97
Non-controlling interests	0.00	0.00	0.75	0.00	0.00
Basic EPS(US cents)	1.42	2.84	4.39	6.14	7.39
Diluted EPS(US cents)	1.33	2.73	4.39	6.14	7.39
Dividend	35.58	68.73	113.61	158.43	190.74
DPS(US cents)	0.37	0.68	1.10	1.53	1.85
Dividend payout ratio (%)	27%	25%	25%	25%	25%
Growth & Margin(%)	2010	2011	2012F	2013F	2014F
Sales growth	11.44%	30.05%	32.95%	16.97%	15.49%
EBIT growth	-56.18%	74.78%	41.13%	49.41%	15.49%
Net income growth	-72.19%	111.21%	66.32%	39.45%	20.40%
EPS growth	-73.16%	100.00%	54.69%	39.68%	20.40%
Gross profit margin	10.78%	10.95%	11.75%	12.00%	12.00%
EBIT margin	1.32%	1.77%	1.88%	2.40%	2.40%

Source: Company data, ABCI Securities estimates



Consolidated Balance Sheets

As of Mar31 (US\$ mn)	2010	2011	2012F	2013F	2014F
Cash and cash equivalents	2,439.00	2,996.66	4,124.13	4,598.97	5,277.24
Account receivables	1,407.81	1,760.57	2,110.94	2,469.23	2,851.79
Inventories	878.89	803.70	1,111.19	1,296.13	1,496.94
Others	1,509.92	2,375.53	3,265.52	3,712.91	7,100.89
Total current assets	6,235.61	7,936.46	10,611.78	12,077.24	16,726.87
property, plant and equip	248.26	209.42	200.56	194.20	189.62
Intangible assets	2,066.34	2,134.45	2,040.54	1,950.75	1,864.92
Others	405.72	425.61	426.00	426.00	426.00
Total asset	8,955.93	10,705.94	13,278.89	14,648.19	19,207.41
Short-term bank loans	64.71	71.56	61.47	61.47	61.47
Account payables	3,235.85	2,278.80	3,619.31	4,221.68	4,875.75
Current portion of non-current liabilities	437.36	449.71	461.75	460.00	460.00
Others	2,681.44	5,232.58	5,971.66	6,106.63	9,248.81
Total current liabilities	6,419.35	8,032.65	10,114.19	10,849.77	14,646.03
Non-current liabilities:	930.56	838.39	875.35	875.35	875.35
Total liabilities	7,349.91	8,871.04	10,989.53	11,725.12	15,521.37
Total equity	1,606.02	1,834.90	2,289.35	2,923.07	3,686.04
BVPS(\$)	0.16	0.18	0.22	0.28	0.36

Ratios	2011	2012F	2013F	2014F
ROE(%)	14.89%	19.85%	21.68%	20.70%
ROA(%)	2.55%	3.42%	4.33%	3.97%
Inventory days	15.97	13.79	14.87	14.93
Receivables days	26.78	24.61	24.89	25.04
Payable days	52.34	42.49	48.42	48.65
Net debt/equity (%)	(89.21)	(119.05)	(109.55)	(105.27)

Valuation	2011	2012F	2013F	2014F
P/E	27.43	17.04	12.20	10.13
P/B	4.14	3.37	2.64	2.10
Dividend yield(%)	0.91%	1.47%	2.06%	2.48%

Source: Company data, ABCI Securities estimates



Cash flow statement

Yr to Mar31 (US\$ mn)	2010	2011	2012F	2013F	2014F
Net income	129.37	273.24	454.45	633.72	762.97
D&A add-back	176.79	176.14	146.15	140.41	135.35
Minority interest add-back	0.00	0.00	0.00	0.00	0.00
Change in working capital	433.72	(1,234.63)	682.65	59.14	70.70
Other operating cash flow	94.87	1,750.51	0.00	0.00	0.00
Cash flow from operations	834.75	965.25	1,283.25	833.27	969.02
Acquisition	(106.70)	0.00	(210.00)	(200.00)	(100.00)
Others	(148.35)	65.52	0.00	0.00	0.00
Cash flow from investing	(255.06)	65.52	(210.00)	(200.00)	(100.00)
Dividend paid	(11.90)	(87.87)	(113.61)	(158.43)	(190.74)
issue shares	0.00	0.00	210.00	0.00	0.00
Cash flow from financing	(217.14)	(372.51)	96.39	(158.43)	(190.74)
Net change in cash	375.00	716.30	1,169.64	474.84	678.27
Beginning cash	1,863.00	2,238.20	2,954.50	4,124.13	4,598.97
Ending cash	2,238.00	2,954.50	4,124.13	4,598.97	5,277.24

Source: Company data, ABCI Securities estimates



Disclosures

Analyst Certification

I, Hu Zhaoling, Judy , being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates has/have no financial interests in relation to subject company(ies) covered in this report., as well as I and/or my associates do not serve as officer(s) of listed corporation(s) covered in this report.

ABC Securities Company Limited and/or its associates will seek to do business with Lenovo Group. As a result, investors should be aware that we may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Investors should obtain appropriate and specific professional advice appropriate to his/her/its personal circumstances and investment objectives before making any investment decision. Investor should also carefully consider relevant risk factors. If investor has any questions about anything contained in this research report please consult ABCI Securities Company Limited or his/her/its professional advisors.

ABC Securities Company Limited and its member companies may pursue financial interests to the companies mentioned in the report in the future.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results.



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

Lenovo Group

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2011 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183