



**Data**

Price(23/05/2012)	HK\$6.78
Issued shares	10,336.95mn
Market cap	HK\$70,085mn
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	(7.0%)	(1.9%)	30.9%
HSI Index	(8.9%)	(12.1%)	1.9%
HSCIIT Index	(10.6%)	(3.8%)	21.0%

**Stock price chart**



**Report date: 23 May, 2012**

**Analyst:**

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**Lenovo Group Limited(992)**

**Raise 12-mth target price to HK\$8.58**

**Better-than-expected FY2012 financial result**

Lenovo(992) released better-than-expected financial results for FY2012 on 23th May. Its sales reach US\$29,574mn, up 37.0% yoy, 3.9% above consensus (US\$28,458mn) and 3.0% above our expectation(US\$28,709mn), due to stronger organic PC shipment growth and the acquisition with NEC and Medion. Its net profit reach US\$473mn, up 74.0%yoy.

**Further gain PC market share with improving profit margin**

Lenovo's PC market share grew 3ppt to 12.9% with strong PC shipment growth of 35% yoy in FY2012. Due to its high exposure in emerging markets, we expect that its PC shipment growth will maintain at 24% yoy and 21% yoy in FY2013 and FY2014 respectively. We expect its gross profit margin and net profit margin to lift up to 11.87% and 1.63% in FY2013 respectively. We will see margin improving in the Q1 FY2013 due to stabilise of component cost and better product mix.

**High growth potential of its MIDH business**

Lenovo has been unveiling its PC+ strategy in China by launch its smartphone, tablet and smart TV to enrich its product portfolio. Its smartphone shipment grew 11times yoy and its smartphone market share in Q4 FY2012 reach 9.5%. It ranked No.2 of overall China tablet market in FY2012. We expect its MIDH segment revenue will account for 6.5% and 9.1% of total revenue in FY2013 and FY2014 respectively, grew by 80.0% yoy and 71.4% yoy in FY2013 and FY2014.

**Reiterate "Buy " rating with target price at HK\$8.58**

We expect that its net profit will reach US\$604mn and US\$762mn respectively in FY2013 and FY2014, representing 34.7%yoy and 34.0% yoy. Our 12-month target price is HK\$8.58, which represent PER of 18x for FY2013 and PER of 14x for FY2014 respectively.

**Financial Summary**

<b>FY ended Mar31(US\$m)</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Revenue	29,574	37,123	45,318	54,495
Chg (% yoy)	37.0%	25.5%	22.1%	20.3%
Net Income	473	604	762	916
Chg (yoy)	74.0%	27.1%	26.1%	20.2%
Diluted EPS(US cents)	4.57	5.80	7.31	8.78
Chg (yoy)	67.4%	26.8%	26.1%	20.2%
P/E	19.11	15.06	11.95	9.94
BVPS(US cents)	23.65	27.30	32.98	39.76
P/B	3.75	3.25	2.69	2.23
DPS(US cents)	1.77	1.45	1.83	2.20
Dividend yield	2.03%	1.66%	2.09%	2.52%

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



## Better-than-expected Q4 and FY2012 financial result

Its Q4 FY2012 sales reach US\$7,496mn, 7.1% above our previous forecast due to strong shipment growth in China, emerging and mature markets. Its sales reach US\$29,574mn in FY2012, up 37.0% yoy. Its sales were 3.9% above consensus (US\$28,458mn) and 3.0% above our expectation (US\$28,709mn) due to stronger organic PC shipment growth and the acquisition with NEC and Medion. Its global PC shipment grew 35% yoy in FY2012 driven by strong shipment growth in China and mature market (China and mature markets PC shipment grew by 25% yoy and 53% yoy respectively in FY2012). Its net profit reach US\$473mn, up 74.0% yoy.

Figure1:Lenovo Q4 2012F financial results

(US\$ mn)	Q4 2012	Our forecast	Difference
Revenues	7,496.28	7,000.13	7.1%
Gross profit	805.73	791.01	1.9%
Operating profit	101.47	84.00	20.8%
Net profit	67.00	55.00	21.8%

Source:Company data,Bloomberg,ABC Securities estimates

Figure2:Lenovo 2012 full year results

(US\$ mn)		Our forecast	Difference	Consensus	Difference
Sales	29,574.44	28,708.78	3.0%	28,458.9	3.9%
Sales growth	37.0%	33.0%	-	31.8%	-
Net profit	472.99	453.70	4.3%	470.47	0.5%
Net profit growth	74.0%	66.3%	-	72.2%	-
Diluted EPS(US cents)	4.57	4.39	4.1%	5.00	-8.6%

Source:ABC Securities estimates,Bloomberg

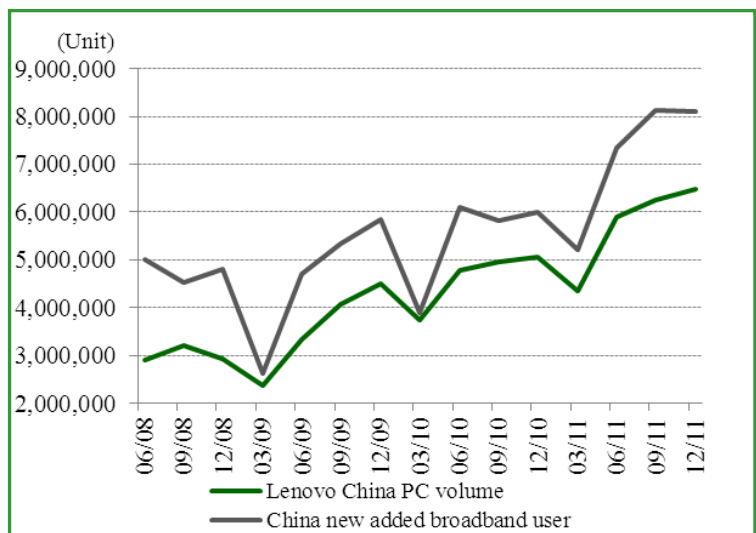


### Further PC penetration with faster speed and lower cost of broadband service

China will invest Rmb 1.6 trillion in broadband infrastructure according to the 12<sup>th</sup> Five year plan. The fix-line broadband subscribers are expected to reach 250mn at the end of 2015, compared with 156mn at the end of 2011. The CAGR of broadband subscribers may reach 12.5%. Due to widen broadband coverage, speed up of broadband and lower subscriber cost, we expect new demand for PC to maintain at high growth rate. With 32% market share in the China PC market, we believe Lenovo will benefit from the rising PC demand.

We did a regression analysis between Lenovo's China PC shipment and new added broadband numbers. The correlation coefficient is close to 0.93, implying high correlation.

Figure 3: Lenovo PC shipment and new broadband user analysis



Source:MIIT, Wind, ABCI Securities estimates



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Lenovo Group Limited

### **High growth potential of its MIDH business**

Lenovo's MIDH(Mobile internet digital home) business includes distribute smartphone, tablet and smart TV in China. Lenovo has been unveiling its PC+ strategy in China by launch its smartphone, tablet and smart TV to enrich its product portfolio. Its smartphone shipment grew 11times yoy and its smartphone market share in Q4 FY2012 reach 9.5%. Lenovo also gained 48.7% market share in the Android tablet market in China in Q4 FY2012. It ranked No.2 of overall China tablet market in FY2012. We believe its MIDH segment may contribute profit due to achieve shipment scale. With a nationwide distribution network in China, Lenovo can cross distribute its products through the existing distribution channel and sustain its business growth momentum in the China market. We expect its MIDH segment revenue will account for 6.5% and 9.1% of total revenue in FY2013 and FY2014 respectively, grew by 80.0% yoy and 71.4% yoy in FY2013 and FY2014.



**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	7,620.03	10,101.65	10,342.82	9,058.64	9,244.94	12,313.84	12,896.21	10,862.92	11,126.89	14,671.04	15,637.40	13,059.84
Gross profit	914.40	1,212.20	1,220.45	1,059.86	1,155.62	1,477.66	1,521.75	1,249.24	1,390.86	1,760.52	1,845.21	1,501.88
Operating profit	167.64	202.03	217.20	163.06	249.61	246.28	270.82	173.81	300.43	293.42	328.39	208.96
PBT	168.38	202.77	217.94	163.79	250.35	247.01	271.56	174.54	301.16	294.16	329.12	209.69
Net profit	143.12	172.35	174.35	114.65	212.80	209.96	217.25	122.18	255.99	250.03	263.30	146.79
<b>Ratio(%)</b>												
Gross profit margin	12.00%	12.00%	11.80%	11.70%	12.50%	12.00%	11.80%	11.50%	12.50%	12.00%	11.80%	11.50%
Operating profit margin	2.20%	2.00%	2.10%	1.80%	2.70%	2.00%	2.10%	1.60%	2.70%	2.00%	2.10%	1.60%
Net profit margin	1.88%	1.71%	1.69%	1.27%	2.30%	1.71%	1.68%	1.12%	2.30%	1.70%	1.68%	1.12%
E/R Ratio*	9.80%	10.00%	9.70%	9.90%	9.80%	10.00%	9.70%	9.90%	9.80%	10.00%	9.70%	9.90%
<b>Q/Q Growth(%)</b>												
Revenue	1.65%	32.57%	2.39%	-12.42%	2.06%	33.20%	4.73%	-15.77%	2.43%	31.85%	6.59%	-16.48%
Gross profit	13.49%	32.57%	0.68%	-13.16%	9.03%	27.87%	2.98%	-17.91%	11.34%	26.58%	4.81%	-18.61%
Operating profit	65.22%	20.52%	7.51%	-24.93%	53.08%	-1.34%	9.97%	-35.82%	72.85%	-2.33%	11.92%	-36.37%
Net profit	114.19%	20.43%	1.16%	-34.24%	85.60%	-1.33%	3.47%	-43.76%	109.52%	-2.33%	5.30%	-44.25%
<b>Y/Y Growth(%)</b>												
Revenue	28.72%	29.73%	23.54%	20.84%	21.32%	21.90%	24.69%	19.92%	20.36%	19.14%	21.26%	20.22%
Gross profit	23.82%	27.89%	27.91%	31.54%	26.38%	21.90%	24.69%	17.87%	20.36%	19.14%	21.26%	20.22%
Operating profit	36.22%	21.64%	12.27%	60.70%	48.90%	21.90%	24.69%	6.59%	20.36%	19.14%	21.26%	20.22%
Net profit	31.55%	19.76%	13.61%	71.59%	48.68%	21.82%	24.60%	6.56%	20.30%	19.09%	21.20%	20.14%

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
<b>Sales</b>	<b>21,594.37</b>	<b>29,574.44</b>	<b>37,123.14</b>	<b>45,317.90</b>	<b>54,495.17</b>
Cost of sales	(19,230.42)	(26,128.22)	(32,716.22)	(39,913.64)	(47,996.69)
Gross profit	2,363.95	3,446.22	4,406.92	5,404.27	6,498.48
Other income	0.42	1.20	0.00	0.00	0.00
Selling and distribution expense	(1,038.46)	(1,690.78)	(2,046.98)	(2,497.25)	(3,002.56)
Admin expense	(719.71)	(730.29)	(1,113.69)	(1,359.54)	(1,634.86)
R&D expense	(303.41)	(453.33)	(496.31)	(606.96)	(729.87)
Other operating(expense)/income	79.43	11.07	0.00	0.00	0.00
<b>EBITDA</b>	<b>558.36</b>	<b>438.50</b>	<b>510.34</b>	<b>691.54</b>	<b>0.00</b>
Depreciation & amortization	176.14	(145.58)	(239.59)	(248.97)	0.00
<b>EBIT</b>	<b>382.22</b>	<b>584.08</b>	<b>749.93</b>	<b>940.52</b>	<b>1,131.19</b>
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
<b>PBT</b>	<b>357.75</b>	<b>582.44</b>	<b>752.87</b>	<b>943.46</b>	<b>1,134.13</b>
Taxation	(84.52)	(107.03)	(148.40)	(181.28)	(218.03)
<b>Net Income</b>	<b>273.24</b>	<b>475.42</b>	<b>604.48</b>	<b>762.18</b>	<b>916.10</b>
<b>Net profit attributable to equity holders of the co.</b>	<b>273.23</b>	<b>472.99</b>	<b>604.48</b>	<b>762.18</b>	<b>916.10</b>
Non-controlling interests	0.00	2.42	0.00	0.00	0.00
<b>Diluted EPS(US cents)</b>	<b>2.73</b>	<b>4.57</b>	<b>5.80</b>	<b>7.31</b>	<b>8.78</b>
Dividend	68.73	183.21	151.12	190.55	229.03
DPS(US cents)	0.69	1.77	1.45	1.83	2.20
Dividend payout ratio	25%	39%	25%	25%	25%

<b>Growth&amp;Margin</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2013F</b>
Sales growth	30.05%	36.95%	25.52%	22.07%	20.25%
EBIT growth	74.78%	52.81%	28.39%	25.41%	20.27%
Net income growth	111.21%	73.99%	27.15%	26.09%	20.19%
EPS growth	100.00%	64.44%	25.22%	26.09%	20.19%
Gross profit margin	10.95%	11.65%	11.87%	11.93%	11.92%
EBIT margin	1.77%	1.97%	2.02%	2.08%	2.08%
Net profit margin	1.27%	1.61%	1.63%	1.68%	1.68%

Source:Company data,ABCI Securities estimates



Consolidated Balance Sheet

As of Mar31 (US\$ mn)	2011	2012	2013F	2014F	2015F
<b>Non-current assets:</b>	<b>2,769.48</b>	<b>4,040.35</b>	<b>4,084.13</b>	<b>4,149.85</b>	<b>4,236.12</b>
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
<b>Current assets:</b>	<b>7,936.46</b>	<b>11,820.40</b>	<b>12,996.18</b>	<b>17,833.39</b>	<b>19,905.96</b>
Inventories	803.70	1,218.49	1,313.58	1,775.54	1,939.17
Trade receivables	1,368.92	2,354.91	2,319.41	3,386.74	3,474.96
Notes receivables	391.65	639.33	654.83	925.01	974.77
Derivative financial assets	13.30	62.88	62.88	62.88	62.88
Deposits, prepayments and other receivables	2,305.33	3,303.05	3,734.51	4,856.56	5,474.28
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	4,426.88	6,342.57	7,495.83
<b>Total asset</b>	<b>10,705.94</b>	<b>15,860.75</b>	<b>17,080.31</b>	<b>21,983.24</b>	<b>24,142.08</b>
<b>Current liabilities:</b>	<b>8,032.65</b>	<b>11,809.68</b>	<b>12,630.05</b>	<b>16,940.83</b>	<b>18,392.59</b>
Trade payables	2,179.84	4,050.27	3,750.71	5,766.45	5,678.06
Notes payable	98.96	127.32	156.02	189.65	226.02
Provisions, accruals and other payables	5,096.65	7,074.20	8,165.42	10,426.84	11,930.61
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
<b>Non-current liabilities:</b>	<b>838.39</b>	<b>1,603.10</b>	<b>1,603.10</b>	<b>1,603.10</b>	<b>1,603.10</b>
<b>Total liabilities</b>	<b>8,871.04</b>	<b>13,412.78</b>	<b>14,233.15</b>	<b>18,543.93</b>	<b>19,995.69</b>
<b>Total equity</b>	<b>1,834.90</b>	<b>2,447.97</b>	<b>2,847.17</b>	<b>3,439.31</b>	<b>4,146.39</b>
<b>Ratios</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
ROAE	15.88%	22.09%	22.83%	24.25%	24.15%
ROAA	2.78%	3.56%	3.67%	3.90%	3.97%
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	1.68	1.95	1.89
Book value per share(US cents)	18.33	23.65	27.30	32.98	39.76

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	752.87	943.46	1,134.13
D&A add-back	217.52	241.82	236.61	239.73	249.11
Change in working capital	597.97	1,388.79	313.82	1,389.26	532.44
Cash flow from operations	965.25	1,939.96	1,119.18	2,355.44	1,661.93
Cash flow from investing	65.52	(837.07)	(244.67)	(269.71)	(299.65)
Cash flow from financing	(372.51)	(315.52)	(205.28)	(170.04)	(209.02)
Net change in cash	658.26	787.36	669.23	1,915.69	1,153.25
Beginning cash	2,238.20	2,954.50	3,757.65	4,426.88	6,342.57
Ending cash	2,954.50	3,757.65	4,426.88	6,342.57	7,495.83

Source: Company data, ABCI Securities estimates





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## Disclosures

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