



Key data

Share price (HK\$)	7.15
Target price (HK\$)	7.92
Upside potential (%)	10.8
52Wk H/L(HK\$)	5.00 / 7.71
Issued shares (mn)	10,335.6
Market cap (HK\$m)	73,805
30-day avg vol (HK\$m)	372.75
Major shareholders (%):	
Legend Holdings Ltd	33.6
Yuanqing Yang-CEO	9.3

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY3/12 (%)

China	41.9
North America	15.4
Europe-Middle East-Africa	21.3
Asia Pacific/Latin America	21.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	12.4%	12.1%
3-mth	9.4%	0.0%
6-mth	3.9%	(10.8%)

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst

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Previous report

Date: 9 Oct, 2012

Rating: Buy

Lenovo (992 HK) – Buy
Computer Hardware Industry

Key takeaways from the management meeting of Lenovo

We attended Lenovo's management meeting and discussed with its EMEA CFO Mr. Jammi Tu. We reiterate our Buy on Lenovo as we believe it will continue to gain market share of consumer PC segment in the EMEA and the smartphone business will help the group achieve 'PC Plus' strategy.

The management shared with us the consumer business development and outlook of the EMEA segment during the meeting. In the 2Q of FY03/13, the PC shipment grew by 40%YoY compared with 1% drop of overall market. The market share reached 10.8% in 2Q of FY03/13 from 7.8% in 1Q of FY03/13. The rapid growth was mainly generated by consumer business and SMB. Due to acquisition of Medion, Lenovo has enhanced its relationship with the European channel distributors. The group has covered more than 80% of retail channels in Europe (vs 20% in 3quarters earlier). The management is confident to grab more market share in consumer business along with enhancement on the operating profit margin.

Regarding the smartphone business, the group will launch entry-to-mid level smartphones in Russia and cooperate with local retailers to increase sales. Russia's channels are dominated by local retailers rather than telecom operators. The management hints that the gross profit margins of smartphones will surpass those of PCs and the group targets to become the top 5 smartphone vendor in Russia within 3 years. We expect that the smartphone business will help the group achieve 'PC Plus' strategy.

The latest IDC forecasts China PC shipment growth will recover to 1-2%YoY in 4Q of 2012 compared with 2% drop in 3Q of 2012. We estimate that Lenovo will continue to outperform the overall market by 8-9% in 4Q due to its strong presence in emerging markets.

Forecast and Valuation

FY ended Mar 31	FY11	FY12	FY13E	FY14E	FY15E
Revenue(US\$m)	21,594	29,574	34,072	38,283	43,792
Chg (%YoY)	30.0	37.0	15.2	12.4	14.4
Net Income(US\$m)	273	473	569	655	742
Chg (%YoY)	111.2	74.0	20.3	14.6	13.2
Diluted EPS(US cents)	2.730	4.570	5.562	6.372	7.213
Diluted EPS(HK\$)	0.212	0.355	0.432	0.495	0.560
Chg (%YoY)	105.3	67.4	21.7	14.6	13.2
P/E	-	20.14	16.55	14.44	12.77
BVPS(US cents)	18.33	23.65	27.39	32.27	37.79
P/B	-	3.89	3.36	2.85	2.44
DPS(US cents)	0.687	1.774	1.391	1.593	1.803
Dividend yield(%)	-	1.93	1.51	1.73	1.96

Source: Company data, Bloomberg, ABCI Securities estimates; @HK\$7.765/US\$



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011 (~15%)

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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