



**Data**

Price (09/02/2012)	HK\$6.49
Issued shares	10,328.09mn
Market cap	HK\$67,029mn
52week high/low	HK\$6.55/3.9
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	8.3%	12.3%	25.3%
HSI Index	11.5%	5.1%	14.1%
HSCIIT Index	18.0%	10.9%	19.4%

**Stock performance**



Source: Bloomberg, ABCI Securities estimates

**Report date: 09 Feb, 2012**

**Analyst:**

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**Previous reports**

Lenovo (992) issued on 12 Jan,2012

Lenovo (992) issued on 04 Nov,2011

Lenovo (992) issued on 13 Oct,2011

Lenovo (992) issued on 06 Oct,2011

**Lenovo Group Limited (992)**

Maintain 12-mth target price at HK\$6.7

**Net profit up 53.5%yoy or 6.3%qoq for 3Q FY2012**

Lenovo (992) released better-than-expected financial results for the 3Q FY2012. Its sales jumped 44.1%yoy or 7.5%qoq US\$8,371.86mn for the 3Q FY2012, or 8.2% above consensus and 4.6% above our expectation, due to strong PC shipment growth. Its quarterly net profit surged by 53.5%yoy or 6.3% qoq to US\$153.46mn (or US\$0.0149/share in fully-diluted basis).

**Robust PC shipment growth in the PRC market**

Lenovo's worldwide market share rose 3.7ppts to 14.0% in 3Q FY2012, or 2.2ppts below HP. Its market share in China expanded 3.1ppts to 35.3% in 3Q FY2012. Its PC shipments in China grew by 28%yoy in 3Q FY2012, against market average growth rate of 17%yoy. The group is able to enjoy cost advantages in view of its relatively high market shares locally or worldwide basis.

**High growth potential of its MIDH business**

Lenovo has expanded its footprint into the mobile internet area under the Mobile Internet and Digital Home (MIDH) group. Its mid-to-low end tablet and smartphone received warm feedback in the PRC market. It has become the second largest tablet player in China with 16.5% market share in 4Q 2011 (Apple ranked No.1 with 70% market share). Its smartphone shipment grew by over 400% qoq in China with 7.5% market share. We expect its MIDH (including smartphone, tablet, smart TV) business to be above breakeven in 2012 and to become an earnings growth driver in coming years.

**Reiterate "Buy" rating with target price at HK\$6.7**

We estimate its FD EPS at US 4.39cents (up 54.7% yoy) and US 6.14cents (up 39.9% yoy) for FY2012 and FY2013 respectively. We set our 12-month target price at HK\$7.70, which represent PE of 14x for FY2013. Excluding net cash of HK\$2.91/share, our target price implies a FD PE of 8x. As 1Q 2012 (ie. 4Q FY2012) is low season for PC vendors, we advise to buy on share price dips after the results.

**Financial Summary**

Yr to Mar31(US\$m)	2011	2012F	2013F	2014F
Revenue	21,594	28,709	33,582	38,784
Chg (yoy)	30.0%	32.9%	17.0%	15.5%
Net Income	273	454	634	763
Chg (yoy)	111.2%	66.3%	39.4%	20.4%
FD EPS(US cents)	2.73	4.39	6.14	7.39
Chg (yoy)	105.3%	60.9%	39.7%	20.4%
P/E	30.48	18.94	13.56	11.26
NBV(US cents)	18.08	22.19	28.33	35.72
P/B	4.60	3.75	2.94	2.33
DPS(US cents)	0.68	1.10	1.53	1.85
Dividend yield	0.81%	1.32%	1.84%	2.22%

Source: Lenovo, ABCI Securities estimates @hkd/usd:7.8



Lenovo's 3Q FY12 financial results

(US\$m)	3Q FY2012 Actual	3Q FY2012 est.	Difference	Bloomberg Consensus	Difference	qoq	yoy
Revenues	8,372	8,002	4.6%	7,735	8.2%	7.5%	44.1%
Gross profit	954	896	6.4%			0.7%	47.1%
Operating profit	193	166	15.9%			16.2%	54.9%
Pretax profit	192	168	14.0%			16.5%	59.0%
Net profit	153	146	4.5%	140	9.5%	6.3%	53.5%
Gross profit margin	11.4%	11.2%		11.6%			
Operating profit margin	2.3%	2.1%					
Net profit margin	1.8%	1.8%		1.8%			

Source: Lenovo, Bloomberg, ABCI Securities estimates

Quarterly results

3 months end at (US\$m)	FY31/3/2011		FY31/3/2012			yoy	qoq
	31/12/2010	31/3/2011	30/6/2011	30/9/2011	31/12/2011		
<b>Sales breakdown:</b>							
China	2,682.00	2,195.00	2,836.00	3,175.09	3,516.18	31.10%	10.74%
Emerging markets (non- China)	1,117.33	850.38	1,036.92	1,294.04	1,255.78	12.39%	-2.96%
Mature market	2,009.00	1,834.00	2,047.00	3,317.26	3,599.90	79.19%	8.52%
<b>Total sales</b>	<b>5,808.33</b>	<b>4,879.39</b>	<b>5,919.92</b>	<b>7,786.39</b>	<b>8,371.86</b>	<b>44.14%</b>	<b>7.52%</b>
Cost of sales	(5,159.94)	(4,279.80)	(5,181.42)	(6,838.55)	(7,417.70)	43.76%	8.47%
<b>Gross profit</b>	<b>648.39</b>	<b>599.58</b>	<b>738.50</b>	<b>947.83</b>	<b>954.16</b>	<b>47.16%</b>	<b>0.67%</b>
Other income	0.12	0.13	0.00	0.00	1.20	-	-
Selling and distribution expense	(291.27)	(281.31)	(349.55)	(458.49)	(458.41)	57.38%	-0.02%
Admin expense	(173.99)	(204.11)	(173.72)	(197.35)	(169.91)	-2.34%	-13.91%
R&D expense	(75.78)	(81.67)	(77.52)	(118.80)	(117.72)	55.34%	-0.90%
Others	17.13	36.81	(14.65)	(7.11)	(15.85)	-	-
<b>EBIT</b>	<b>124.59</b>	<b>69.43</b>	<b>123.06</b>	<b>166.09</b>	<b>193.47</b>	<b>55.28%</b>	<b>16.48%</b>
Interest income	6.80	6.84	8.93	10.21	12.57	-	-
Interest cost	(10.82)	(15.90)	(8.20)	(11.34)	(13.58)	-	-
Associates	0.18	(0.33)	(0.31)	(0.09)	(0.10)	-	-
<b>PBT</b>	<b>120.75</b>	<b>60.04</b>	<b>123.49</b>	<b>164.86</b>	<b>192.35</b>	<b>59.30%</b>	<b>16.67%</b>
Taxation	(21.10)	(17.91)	(14.70)	(20.19)	(37.98)	-	-
Net profit	99.65	42.14	108.80	144.67	154.38	54.92%	6.71%
<b>Net profit attributable to equity holders of the co.</b>	<b>99.65</b>	<b>42.14</b>	<b>108.80</b>	<b>143.92</b>	<b>153.46</b>	<b>54.00%</b>	<b>6.63%</b>
<b>Diluted EPS(US cent)</b>	0.98	0.42	1.08	1.39	1.49	51.62%	6.90%
Gross profit margin	11.16%	12.29%	12.47%	12.17%	11.40%		
Operating profit margin	2.15%	1.42%	2.08%	2.13%	2.31%		
Net profit margin	1.72%	0.86%	1.84%	1.86%	1.83%		
Expenses-to-revenue ratio	9.02%	10.87%	10.40%	10.04%	9.09%		

Source: Lenovo, ABCI Securities estimates



Consolidated Income Statements

Yr to Mar 31 (US\$mn)	2010	2011	2012F	2013F	2014F
<b>Sales</b>	<b>16,604.82</b>	<b>21,594.37</b>	<b>28,708.78</b>	<b>33,581.51</b>	<b>38,784.36</b>
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
<b>EBITDA</b>	<b>395.48</b>	<b>558.36</b>	<b>685.58</b>	<b>946.37</b>	<b>1,066.17</b>
Depreciation & amortization	176.79	176.14	146.15	140.41	135.35
<b>EBIT</b>	<b>218.69</b>	<b>382.22</b>	<b>539.43</b>	<b>805.96</b>	<b>930.82</b>
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
<b>PBT</b>	<b>176.30</b>	<b>357.75</b>	<b>542.70</b>	<b>792.15</b>	<b>953.72</b>
Taxation	(46.94)	(84.52)	(88.25)	(158.43)	(190.74)
<b>Net profit to the group</b>	<b>129.37</b>	<b>273.24</b>	<b>454.45</b>	<b>633.72</b>	<b>762.97</b>
<b>Net profit attributable to equity holders of the co.</b>	<b>129.37</b>	<b>273.23</b>	<b>453.70</b>	<b>633.72</b>	<b>762.97</b>
Non-controlling interests	0.00	0.00	0.75	0.00	0.00
<b>Basic EPS(US cents)</b>	<b>1.42</b>	<b>2.84</b>	<b>4.39</b>	<b>6.14</b>	<b>7.39</b>
<b>Diluted EPS(US cents)</b>	<b>1.33</b>	<b>2.73</b>	<b>4.39</b>	<b>6.14</b>	<b>7.39</b>
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%
	<b>2010</b>	<b>2011</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>
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: Lenovo, ABCI Securities estimates



Consolidated Balance Sheets

Yr to Mar 31 (US\$m)	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
<b>Total current assets</b>	<b>6,235.61</b>	<b>7,936.46</b>	<b>10,611.78</b>	<b>12,077.24</b>	<b>16,726.87</b>
Property, plant & 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
<b>Total asset</b>	<b>8,955.93</b>	<b>10,705.94</b>	<b>13,278.89</b>	<b>14,648.19</b>	<b>19,207.41</b>
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
<b>Total current liabilities</b>	<b>6,419.35</b>	<b>8,032.65</b>	<b>10,114.19</b>	<b>10,849.77</b>	<b>14,646.03</b>
<b>Non-current liabilities:</b>	<b>930.56</b>	<b>838.39</b>	<b>875.35</b>	<b>875.35</b>	<b>875.35</b>
<b>Total liabilities</b>	<b>7,349.91</b>	<b>8,871.04</b>	<b>10,989.53</b>	<b>11,725.12</b>	<b>15,521.37</b>
<b>Total equity</b>	<b>1,606.02</b>	<b>1,834.90</b>	<b>2,289.35</b>	<b>2,923.07</b>	<b>3,686.04</b>
<b>BVPS(US cents)</b>	<b>18.08</b>	<b>22.19</b>	<b>28.33</b>	<b>35.72</b>	<b>18.08</b>
<b>Ratios</b>					
		<b>2011</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>
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 cash/share(US cents)		19.90	24.39	34.87	39.48
<b>Valuation(price at HK\$6.49)</b>					
		<b>2011</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>
P/E		30.48	18.94	13.56	11.26
P/B		4.60	3.75	2.94	2.33
Dividend yield		0.81%	1.32%	1.84%	2.22%

Source: Lenovo, ABCI Securities estimates



**Cash flow statement**

Yr to Mar31 (US\$m)	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
<b>Cash flow from operations</b>	<b>834.75</b>	<b>965.25</b>	<b>1,283.25</b>	<b>833.27</b>	<b>969.02</b>
Acquisition	(106.70)	0.00	(210.00)	(200.00)	(100.00)
Others	(148.35)	65.52	0.00	0.00	0.00
<b>Cash flow from investing</b>	<b>(255.06)</b>	<b>65.52</b>	<b>(210.00)</b>	<b>(200.00)</b>	<b>(100.00)</b>
Dividend paid	(11.90)	(87.87)	(113.61)	(158.43)	(190.74)
issue shares	0.00	0.00	210.00	0.00	0.00
<b>Cash flow from financing</b>	<b>(217.14)</b>	<b>(372.51)</b>	<b>96.39</b>	<b>(158.43)</b>	<b>(190.74)</b>
<b>Net change in cash</b>	<b>375.00</b>	<b>716.30</b>	<b>1,169.64</b>	<b>474.84</b>	<b>678.27</b>
<b>Beginning cash</b>	<b>1,863.00</b>	<b>2,238.20</b>	<b>2,954.50</b>	<b>4,124.13</b>	<b>4,598.97</b>
<b>Ending cash</b>	<b>2,238.00</b>	<b>2,954.50</b>	<b>4,124.13</b>	<b>4,598.97</b>	<b>5,277.24</b>

Source: Lenovo, ABCI Securities estimates



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## Quarterly Results Review

### **Lenovo Group**

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