

COMPANY RESULTS

Lenovo Group (992 HK)

4QFY24: Solid Results; AI PCs Are Just Around The Corner

Lenovo's 4QFY24 results are solid, with a slight beat across all segments on both revenue and profitability. FY25 will be a backloaded year, as AI PCs and AI servers, the key sales and profitability drivers, should start contributing meaningfully by the December quarter, whereas the pace of recovery in the June and September quarters will be more gradual. Maintain BUY and raise target price to HK\$13.50 as we expect a revaluation story with the rise of AI PCs, and their expanding exposure in AI servers.

4QFY24 RESULTS

Year to 31 Mar	4QFY23	3QFY24	4QFY24	yoy (%)	qoq (%)	FY23	FY24	yoy(%)
Revenue (US\$m)	12,635	15,721	13,833	9.5	(12.0)	61,947	56,864	(8.2)
Intelligent Devices Group (IDG)	9,796	12,362	10,463	6.8	(15.4)	49,371	44,599	(9.7)
Infrastructure Solutions Group (ISG)	2,200	2,473	2,533	15.1	2.4	9,756	8,922	(8.5)
Solutions and Services Group (SSG)	1,650	2,021	1,820	10.3	(9.9)	6,663	7,472	12.1
Gross profit	2,143	2,601	2,428	13.3	(6.7)	10,501	9,803	(6.6)
Net profit	114	337	248	118.1	(26.5)	1,608	1,011	(37.1)
Operating margin (OPM) (%)	2.3	3.9	3.5	1.2	(0.4)	4.3	3.5	(0.8)
Intelligent Devices Group (IDG)	6.7	7.4	7.4	0.6	0.0	7.3	7.1	(0.2)
Infrastructure Solutions Group (ISG)	0.3	(1.5)	(3.8)	(4.2)	(2.3)	1.0	(2.8)	(3.8)
Solutions and Services Group (SSG)	19.7	20.4	21.4	1.7	1.0	20.9	20.7	(0.2)

Source: Lenovo Group, UOB Kay Hian

RESULTS

• **4QFY24 results a beat, driven by better revenue and gross margins.** The beat mainly came from: a) higher-than-expected revenue (6.0% above our estimates) for the IDG business; b) strong operating margins for the IDG business at 7.4% (0.4ppt above our estimates), and c) solid beat in operating margins for the SSG business at 21.4% (2.4ppt above our estimates). This is partially offset by a worse-than-expected ISG business, as its operating loss further widened with margins declining to -3.8% (0.5ppt below our estimates) during the quarter. As a result, net profit arrived at US\$248m, representing a robust yoy growth of 118.1%, higher than our estimates of US\$180m but largely in line with the bullish consensus estimates.

KEY FINANCIALS

Year to 31 Mar (US\$m)	2023	2024	2025F	2026F	2027F
Net turnover	61,947	56,864	62,779	69,993	78,330
EBITDA	4,027	3,419	3,824	4,557	5,169
Operating profit	2,669	2,006	2,323	2,940	3,447
Net profit (rep./act.)	1,608	1,011	1,289	1,953	2,335
Net profit (adj.)	1,608	1,011	1,289	1,953	2,335
EPS (cent)	13.5	8.4	10.8	16.4	19.6
PE (x)	10.8	17.3	13.4	8.8	7.4
P/B (x)	3.1	3.1	2.8	2.3	1.8
EV/EBITDA (x)	4.3	5.1	4.5	3.8	3.3
Dividend yield (%)	3.4	3.4	3.4	3.4	3.4
Net margin (%)	2.6	1.8	2.1	2.8	3.0
Net debt/(cash) to equity (%)	(6.6)	(0.1)	21.5	(5.6)	(2.7)
Interest cover (x)	5.2	3.3	4.3	12.0	15.4
ROE (%)	30.4	18.1	21.7	28.0	27.4
Consensus net profit	-	-	1,302	1,756	1,954
UOBKH/Consensus (x)	-	-	0.99	1.11	1.20

Source: Lenovo Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$11.32
Target Price	HK\$13.50
Upside	+19.3%
(Previous TP)	HK\$10.50

COMPANY DESCRIPTION

Lenovo Group develops, manufactures and distributes intelligent devices. The company provides laptops, desktops, table PCs, accessories, and data centre equipment such as servers and storage devices, as well as infrastructure solutions and software services. Lenovo Group serves customers worldwide

STOCK DATA

GICS sector	Computer Hardware & Storage
Bloomberg ticker:	992 HK
Shares issued (m):	12,391
Market cap (HK\$m):	140,266
Market cap (US\$m):	20,627
3-mth avg daily t'over (US\$m):	70.2

Price Performance (%)

52-week high/low	HK\$11.60 / HK\$6.90			
1mth	3mth	6mth	1yr	YTD
37.2	32.4	17.2	44.4	3.7

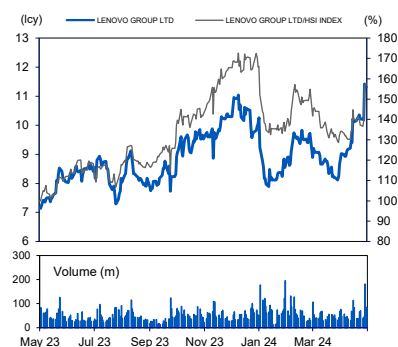
Major Shareholders

Legend Holdings Corp	29.73%
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FY24 NAV/Share (RMB) (1.84)

FY24 Net Cash/Share (RMB) 0.00

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- PC market to register a slow recovery in June quarter; AI PC to start contributing more meaningfully in December quarter.** We are now expecting the PC market to register a gradual 5% qoq recovery in the June quarter, primarily fuelled by a lower base effect. The contribution from AI PCs should be largely similar to our previous expectations as well, mostly backloaded in FY24, with AI PCs driving the enterprise PC replacement cycle more meaningfully by the December quarter. Note that we are expecting a flattish/very slight yoy shipment growth for Lenovo in the June and September quarters, before a more meaningful 11% yoy recovery in the December quarter. Our estimates also represent a 21% hoh growth in shipment, as pent-up replacement demand coincides with the launch of more competing AI PC models.
- ISG business – Still focused on cost control and narrowing losses, but higher involvement in AI data centres a plus.** Due to chip shortages, and the reduced spending on general purpose servers, the ISG business' loss further expanded in the March quarter to 3.8%. Going forward, we expect an improvement in demand for GP servers, elevated demand growth for storages, and Lenovo's higher involvement in the AI servers supply chain to narrow operating loss margins to -1% to 2% in the June and September quarters, before breaking even/turning around in the December quarter.

Nevertheless, management provided more optimistic guidance on the AI server business. Lenovo is now expected to be more involved in the AI server supply chain thanks to a better supply allocation; the company is now partnered with NVIDIA for the H200 and GB200 GPUs; partnered with AMD on the MI300X, and is working with Intel on Gaudi 3. The increasing demand for inference applications is also more beneficial for Lenovo (as the company has more experience with inference servers) going forward. Management stated that Lenovo is now looking at a US\$7b addressable market for its AI server business, which is a significant expansion vs its previous order backlog of US\$2b.

EARNINGS REVISION/RISKS

- For the June quarter**, we expect revenue to reach US\$14.2b (+10% yoy and +2.6% qoq), operating expenses to reach US\$483m (+23.8% yoy and -1.2% qoq), and net profit to reach US\$228m (+29.2% yoy and -7.9% qoq). Note that the qoq decline for opex and net profit is primarily due to a combination of higher opex and tax rate.
- Factoring in a slower ISG recovery and a higher opex, we trim FY25-26 earnings by 4/5% to US\$1,289m/1,953m.** We also introduce our FY27F estimates, with net profit growing by 19.6% yoy to US\$2,335m.

VALUATION/RECOMMENDATION

- Maintain BUY and raise target price to HK\$13.50**, based on a higher PE multiple of 16.0x and FY25F PE, now on a par with peers' average. We remove our discount to peers' average, given that a) the surge in AI PC demand is just around the corner, and Lenovo among its peers has the most extensive product portfolio and exposure to AI PCs; and b) Lenovo's higher levels of involvement in AI servers can also help narrow the valuation gap.
- Do note that there could be some profit-taking pressure**, with limited upside in the June quarter's earnings estimates, and the strong rally in the past few days. But given Lenovo's high exposure to the AI PC market, we believe that any corrections in share price will be a golden opportunity to accumulate shares.

OLD KEY ESTIMATE

(US\$m)	OLD		
	2024	2025F	2026F
Revenue	56,078	61,366	68,456
IDG	44,084	47,566	52,445
ISG	8,603	9,533	10,496
SSG	7,500	8,367	9,614
OPM (%)	3.4	3.9	4.5
IDG	7.1	7.2	7.2
ISG	(2.6)	(1.5)	0.8
SSG	20.0	20.0	20.0
EBIT (US\$m)	1,891	2,393	3,081
Net Profit (US\$m)	943	1,342	2,062

Source: Lenovo, UOBKH

NEW KEY ESTIMATES

(US\$m)	New			
	2024	2025F	2026F	2027F
Revenue	56,864	62,779	69,993	78,330
IDG	44,599	48,884	53,875	59,782
ISG	8,922	9,533	10,496	11,662
SSG	7,472	8,461	9,722	10,986
OPM (%)	3.5	3.7	4.2	4.4
IDG	7.1	7.2	7.2	7.2
ISG	(2.8)	(1.5)	0.2	0.8
SSG	20.7	20.0	20.0	20.0
EBIT (US\$m)	2,006	2,323	2,940	3,447
Net Profit (US\$m)	1,011	1,289	1,953	2,335

Source: Lenovo, UOBKH

% CHANGES TO KEY ESTIMATES

(%)	New			
	2024	2025F	2026F	2027F
Revenue	1.4	2.3	2.2	n.a.
IDG	1.2	2.8	2.7	n.a.
ISG	3.7	-	-	n.a.
SSG	(0.4)	1.1	1.1	n.a.
OPM (%)	0.2	(0.2)	(0.3)	n.a.
IDG	0.1	-	-	n.a.
ISG	(0.2)	-	(0.6)	n.a.
SSG	0.7	-	-	n.a.
EBIT (US\$m)	6.1	(2.9)	(4.6)	n.a.
Net Profit (US\$m)	7.2	(4.0)	(5.3)	n.a.

Source: Lenovo, UOBKH

PROFIT & LOSS

Year to 31 Mar (US\$m)	2024	2025F	2026F	2027F
Net turnover	56,864	62,779	69,993	78,330
EBITDA	3,419	3,824	4,557	5,169
Deprec. & amort.	(1,413)	(1,501)	(1,617)	(1,723)
EBIT	2,006	2,323	2,940	3,447
Associate contributions	(26)	-	-	-
Net interest income/(expense)	(615)	(544)	(244)	(223)
Pre-tax profit	1,365	1,779	2,696	3,223
Tax	(263)	(347)	(526)	(629)
Minorities	(92)	(143)	(217)	(259)
Net profit	1,011	1,289	1,953	2,335
Net profit (adj.)	1,011	1,289	1,953	2,335

CASH FLOW

Year to 31 Mar (US\$m)	2024	2025F	2026F	2027F
Operating	2,755	1,510	4,205	2,305
Pre-tax profit	1,365	1,779	2,696	3,223
Tax	(614)	(347)	(526)	(629)
Depreciation/amortization	1,413	1,501	1,617	1,723
Associates	26	-	-	-
Working capital changes	157	(1,967)	174	(2,236)
Non-cash items	408	544	244	223
Other operating cashflows	-	-	-	1
Investing	(1,283)	(1,660)	(1,512)	(1,562)
Capex (growth)	(275)	(420)	(420)	(420)
Investments	(147)	-	-	-
Proceeds from sale of assets	153	-	-	-
Others	(1,014)	(1,240)	(1,092)	(1,142)
Financing	(2,080)	(1,208)	(914)	(914)
Dividend payments	(583)	(588)	(588)	(588)
Issue of shares	-	-	-	-
Proceeds from borrowings	11,793	11,387	11,590	11,488
Loan repayment	(11,799)	(11,387)	(11,590)	(11,488)
Others/interest paid	(1,491)	(620)	(326)	(326)
Net cash inflow (outflow)	(609)	(1,358)	1,779	(171)
Beginning cash & cash equivalent	4,250	3,560	2,202	3,981
Changes due to forex impact	(82)	-	-	-
Ending cash & cash equivalent	3,560	2,202	3,981	3,810

BALANCE SHEET

Year to 31 Mar (US\$m)	2024	2025F	2026F	2027F
Fixed assets	2,010	2,419	2,536	2,588
Other LT assets	14,054	13,879	13,739	13,629
Cash/ST investment	3,560	2,202	3,981	3,810
Other current assets	19,127	22,536	23,470	27,576
Total assets	38,751	41,037	43,727	47,604
ST debt	50	50	50	50
Other current liabilities	26,009	27,451	28,559	30,429
LT debt	3,569	3,569	3,569	3,569
Other LT liabilities	3,097	3,041	3,041	3,041
Shareholders' equity	4,991	5,588	5,583	6,283
Minority interest	499	642	859	1,118
Total liabilities & equity	38,751	41,037	43,727	47,604

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	17.2	17.0	17.1	17.1
Pre-tax margin	2.4	2.8	3.9	4.1
Net margin	1.8	2.1	2.8	3.0
ROA	2.6	3.2	4.6	5.1
ROE	18.1	21.7	28.0	27.4
Growth				
Turnover	(8.2)	10.4	11.5	11.9
EBITDA	(6.6)	8.9	12.1	11.9
Pre-tax profit	(36.1)	30.3	51.5	19.6
Net profit	(37.1)	27.5	51.5	19.6
Net profit (adj.)	(37.1)	27.5	51.5	19.6
EPS	(37.7)	28.8	51.5	19.6
Leverage				
Debt to total capital	9.3	8.8	8.3	7.6
Debt to equity	64.8	57.6	47.3	38.5
Net debt/(cash) to equity	(0.1)	21.5	(5.6)	(2.7)
Interest cover (x)	3.3	4.3	12.0	15.4

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