

COMPANY UPDATE

Lenovo Group (992 HK)

Management Expects IDG Business' Growth To Accelerate In 2025-26

Lenovo hosted a post CES call yesterday and provided insights to its IDG business' outlook in 2025. The company expects a 5-10% yoy shipment growth for the global PC market as the Windows 10 EOS replacement cycle kicks in and AI PC penetration accelerates. The company also sees strong double-digit growth in smartphones being sustainable in the coming 1-2 years as it penetrates more new markets. Maintain BUY and keep target price unchanged at HK\$12.00.

WHAT'S NEW

- **Lenovo launched a wide range of products ranging from PCs to smartphones at this year's Consumer Electronics Show (CES).** Notable hardware showcases include ThinkBook Plus Jet 7, the world's first notebook with a rollable display; ThinkPad X9 Ultra, a high-end laptop mounted with Intel's Lunar Lake; and AI agents such as Copilot+ and Lenovo's inhouse AI assistant Lenovo Now (equivalent to XiaoTian).
- **Lenovo also unveiled its concept of "Action Assistant" that is powered by a Large Action Model (LAM).** Instead of providing recommendations and advice like today's chatbots, Action Assistant has the properties of a GenAI-based chatbot, and it will be able to execute tasks on its own, with capabilities ranging from navigating through apps and the operating system to complex tasks such as image editing and creation.
- **Microsoft may expand Copilot+'s capabilities meaningfully in 2025.** When asked about "killer applications" for AI PCs, management stated that earlier killer applications include a significant increase in Copilot+'s applications in the next few months, productivity boost for enterprise use case and AI twin + Action assistant for personal use. These killer applications are expected to arrive in 2025-26, which should kickstart a new device replacement cycle from 2H25 onwards.
- **Lenovo believes they are significantly ahead in the development of on-device AI,** and pointed out their leadership in small language model and model compression algorithms among other PC brands. While it is difficult to quantify just how much they are ahead, management suggested that their development progress is at least one quarter ahead of everyone else.
- **Having ownership of the entire AI ecosystem is also a significant advantage.** Having ownership of an ecosystem across multiple device types like PCs, smartphones and tablets will become more important in the edge AI era, as it can eliminate the need for the user to train multiple models on each device. A similar scenario will also apply for its infrastructure, software solution and commercial device businesses. This also implies that brand image will become increasingly important going forward.

KEY FINANCIALS

Year to 31 Mar (US\$m)	2023	2024	2025F	2026F	2027F
Net turnover	61,947	56,864	66,436	73,775	82,234
EBITDA	4,027	3,419	3,760	4,494	5,177
Operating profit	2,669	2,006	2,259	2,877	3,454
Net profit (rep./act.)	1,608	1,011	1,261	1,886	2,318
Net profit (adj.)	1,608	1,011	1,261	1,886	2,318
EPS (cent)	13.5	8.4	10.6	15.8	19.5
PE (x)	10.8	17.3	11.1	7.4	6.0
P/B (x)	3.1	3.1	2.2	1.9	1.5
EV/EBITDA (x)	4.3	5.1	3.7	3.1	2.7
Dividend yield (%)	3.4	3.4	4.2	4.2	4.2
Net margin (%)	2.6	1.8	1.9	2.6	2.8
Net debt/(cash) to equity (%)	(6.6)	(0.1)	37.3	(2.8)	9.4
Interest cover (x)	5.2	3.3	3.8	10.5	13.5
ROE (%)	30.4	18.1	21.3	27.3	27.5
Consensus net profit	-	-	1,286	1,662	1,964
UOBKH/Consensus (x)	-	-	0.98	1.13	1.18

Source: Lenovo Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$9.18
Target Price	HK\$12.00
Upside	+30.7%

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):	12,405
Market cap (HK\$m):	113,875
Market cap (US\$m):	16,746
3-mth avg daily t'over (US\$m):	70.8

Price Performance (%)

52-week high/low HK\$12.26 / HK\$7.80

1mth	3mth	1mth	3mth	1mth
0.4	(15.9)	0.4	(15.9)	0.4

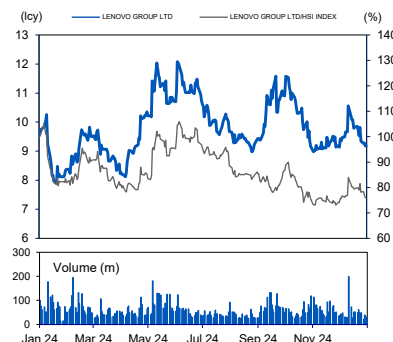
Major Shareholders

Legend Holdings Corp	31.41
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FY25 NAV/Share (RMB) (1.30)

FY25 Net Cash/Share (RMB) (1.53)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Management expects global PC shipments to grow 5-10% yoy in 2025.** The growth in 2025 will be driven by Windows 10 end-of-service (EOS) by Oct 25, and a significant acceleration in AI PC's penetration in 2H25.
 - a) Management stated that some 250m Windows devices are unable to upgrade to Windows 11 and 400m PCs are over four years old. There will be mounting demand from the commercial sector to start replacing their older devices from 2H25 onwards.
 - b) Lenovo expects AI PC penetration in the company to expand from around 10% in 2024 to 20-30% (of PC sales) in 2025, and accelerate further to 80% by 2027. Growth in 2025 will be primarily driven by better availability of competitive AI SoCs, notably the mid-range focused SoCs recently launched by AMD (Kraken Point) and Qualcomm (Snapdragon X Elite) which can help expand AI PCs' reach.
- **Lenovo's guidance of 5-10% growth is significantly above IDC's and the market's expectations of low- to mid-single-digit growth.** Management sees that their enterprise clients have higher interest in investing in PC replacements in 2025, thanks to better AI PC selections and the imminent Windows 10 EOS. Management also expects the upcoming Copilot+ updates to provide more incentives for PC replacement.
- **In the PC market, Lenovo targets to achieve 0.5-0.7ppt share gains per year going forward,** on the back of a historical high level of 24.5% in 2024.
- **For the smartphone market, Lenovo targets to reach annual shipments of 80m-90m units by 2027,** essentially doubling the shipments in 2023. This will be primarily achieved through: a) maintaining its leadership position in the Americas, b) exploring new markets in Europe, and c) the penetration into new emerging markets such as the Middle East, Africa, India and South East Asia.

EARNINGS REVISION/RISKS

- **Earnings revision:** None for now as we remain cautious on the potential risk from US tariffs.
- **Risks: US tariffs will be a major risk for Lenovo** as the US is a key market for Lenovo, accounting for 20-30% of its revenue. However, in case of a broad-based import tariff that impacts all of Lenovo's global product base, it is likely that Lenovo will have better control vs its competitors given that Lenovo manufactures half of its devices in-house and has a diversified geographic exposure.

VALUATION/RECOMMENDATION

- **Maintain BUY and keep target price at HK\$12.00,** based on PE multiple of 14.5x FY25F PE. We believe Lenovo remains one of the biggest beneficiaries of the rise in Edge AI adoption and the upcoming PC replacement cycle.

PROFIT & LOSS

Year to 31 Mar (US\$m)	2024	2025F	2026F	2027F
Net turnover	56,864	66,436	73,775	82,234
EBITDA	3,419	3,760	4,494	5,177
Deprec. & amort.	(1,413)	(1,501)	(1,617)	(1,723)
EBIT	2,006	2,259	2,877	3,454
Associate contributions	(26)	-	-	-
Net interest income/(expense)	(615)	(602)	(274)	(255)
Pre-tax profit	1,365	1,657	2,603	3,199
Tax	(263)	(323)	(508)	(624)
Minorities	(92)	(73)	(210)	(258)
Net profit	1,011	1,261	1,886	2,318
Net profit (adj.)	1,011	1,261	1,886	2,318

CASH FLOW

Year to 31 Mar (US\$m)	2024	2025F	2026F	2027F
Operating	2,755	585	5,005	1,420
Pre-tax profit	1,365	1,657	2,603	3,199
Tax	(614)	(323)	(508)	(624)
Depreciation/amortization	1,413	1,501	1,617	1,723
Associates	26	-	-	-
Working capital changes	157	(2,852)	1,018	(3,133)
Non-cash items	408	602	274	255
Other operating cashflows	-	-	-	-
Investing	(1,283)	(1,672)	(1,528)	(1,580)
Capex (growth)	(275)	(420)	(420)	(420)
Investments	(147)	-	-	-
Proceeds from sale of assets	153	-	-	-
Others	(1,014)	(1,252)	(1,108)	(1,160)
Financing	(2,080)	(1,253)	(928)	(928)
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)	(665)	(340)	(340)
Net cash inflow (outflow)	(609)	(2,340)	2,549	(1,088)
Beginning cash & cash equivalent	4,250	3,560	1,220	3,769
Changes due to forex impact	(82)	-	-	-
Ending cash & cash equivalent	3,560	1,220	3,769	2,681

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	1,220	3,769	2,681
Other current assets	19,127	24,786	23,528	29,855
Total assets	38,751	42,304	43,572	48,753
ST debt	50	50	50	50
Other current liabilities	26,009	28,816	28,576	31,770
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	6,255
Minority interest	499	572	782	1,039
Total liabilities & equity	38,751	42,304	43,572	48,753

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	17.2	16.8	17.0	17.2
Pre-tax margin	2.4	2.5	3.5	3.9
Net margin	1.8	1.9	2.6	2.8
ROA	2.6	3.1	4.4	5.0
ROE	18.1	21.3	27.3	27.5
Growth				
Turnover	(8.2)	16.8	11.0	11.5
EBITDA	(6.6)	13.9	12.4	12.8
Pre-tax profit	(36.1)	21.4	57.1	22.9
Net profit	(37.1)	24.7	49.6	22.9
Net profit (adj.)	(37.1)	24.7	49.6	22.9
EPS	(37.7)	25.9	49.6	22.9
Leverage				
Debt to total capital	9.3	8.6	8.3	7.4
Debt to equity	64.8	57.9	47.9	39.0
Net debt/(cash) to equity	(0.1)	37.3	(2.8)	9.4
Interest cover (x)	3.3	3.8	10.5	13.5

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