

COMPANY RESULTS

Lenovo Group (992 HK)

2QFY25: Strong Set Of Results; Impending PC Replacement Cycle Set To Turbocharge Growth

Lenovo's 2QFY25 results were decent, driven by solid revenue growth across all segments. Moving forward, the upcoming PC replacement cycle is expected to pick up from 4QFY25 onwards and Lenovo is set to be a key beneficiary. For ISG, we expect the GP servers, storage and HPC businesses to support its growth in the near term, with contributions from ESMB to drive profitability, before AI servers start playing a larger role. Maintain BUY but trim target price to HK\$12.00.

2QFY25 RESULTS

Year to 31 Mar (US\$m)	2QFY24	1QFY25	2QFY25	yoy (%)	qoq (%)	1HFY24	1HFY25	yoy (%)
Revenue (US\$m)	14,410	15,447	17,850	23.9	15.6	27,310	33,297	21.9
Intelligent devices group (IDG)	11,515	11,422	13,514	17.4	18.3	21,775	24,936	14.5
Infrastructure solutions group (ISG)	2,002	3,160	3,305	65.1	4.6	3,916	6,465	65.1
Solutions and services group (SSG)	1,918	1,885	2,165	12.9	14.8	3,631	4,050	11.5
Gross profit	2,522	2,560	2,796	10.9	9.2	4,774	5,356	12.2
Net profit	249	243	359	43.9	47.3	426	602	41.4
Operating margin (OPM) (%)	3.6	3.2	3.6	0.1	0.4	3.3	3.4	0.1
Intelligent devices group (IDG)	7.4	7.3	7.3	(0.0)	0.1	6.9	7.3	0.4
Infrastructure solutions group (ISG)	(2.7)	(1.2)	(1.1)	1.6	0.1	(2.9)	(1.1)	1.8
Solutions and services group (SSG)	20.0	21.0	20.4	0.4	(0.6)	20.5	20.7	0.2

Source: Lenovo, UOB Kay Hian

RESULTS

- Revenue and earnings beat but largely expected.** The beat mainly came from: a) higher-than-expected revenue (11.9% above our expectation) for the intelligent devices group (IDG) business due to an improving product mix, b) strong beat on infrastructure solutions group (ISG) revenue, and c) slight beat on solutions and services group (SSG) operating margin at 20.4%, which is 0.4ppt above our forecast.
- Gross margin below expectations.** Lenovo Group's (Lenovo) blended gross margins declined annually and sequentially to 15.7%, against our/consensus estimates of 17.0%. This is most likely due to growing contribution from the lower margin ISG business, along with a shift in the IDG segment's product mix due to increased contribution from consumer PCs, which are less profitable than commercial PCs.
- Overall, net profit arrived at US\$359m,** which translates to a robust yoy growth of 43.9%, 8.6% higher than our estimate of US\$330m and 4.5% higher than the street's forecast of US\$343m.

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	-	-	1,292	1,737	2,042
UOBKH/Consensus (x)	-	-	0.98	1.09	1.13

Source: Lenovo Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$9.17
Target Price	HK\$12.00
Upside	+30.9%
(Previous TP)	HK\$12.90

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):	113,751
Market cap (US\$m):	16,728
3-mth avg daily t'over (US\$m):	70.2

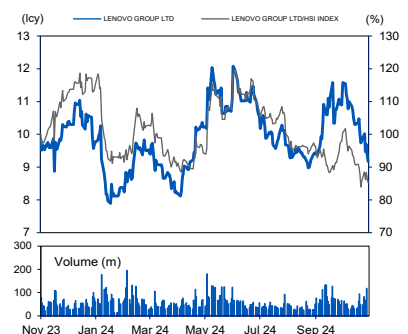
Price Performance (%)

52-week high/low	HK\$12.26 / HK\$7.80			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(15.9)	(5.3)	(10.3)	(4.9)	(16.0)

Major Shareholders

Legend Holdings Corp	31.41
FY25 NAV/Share (RMB)	(1.30)
FY25 Net Cash/Share (RMB)	(1.53)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Guidance for 3QFY25 in line.** Revenue is likely to arrive at US\$17.3b (+10% yoy and -3.1% qoq), of which the IDG and ISG businesses are expected to contribute around US\$13b and US\$3.7b respectively. Meanwhile, the SSG business is expected to grow 10% yoy during the same quarter. Management guided for net profit to arrive at about US\$380m (+12.8% yoy and +6.0% qoq), below consensus estimate of US\$407m.
- IDG – AI PC era draws closer.** Contribution from AI PCs has risen from a low single digit % to almost 14% of all Lenovo’s laptop shipments in the China market this quarter. With Microsoft ceasing support for Windows 10 in Oct 25, we expect the PC replacement cycle to kick start from 4QFY25 onwards, with AI PCs likely to play a significant role. As Lenovo has a stranglehold position in the commercial PC space, it is well-positioned to be an early beneficiary of this replacement cycle. Further, this aligns nicely with the rollout of Intel’s Lunar Lake chips in Feb 25. During the briefing, management also noted that AI PCs are expected to represent around 80% of the PC market by 2027.
- Smartphone business continues to gain steam.** Lenovo recorded another strong quarter for its smartphone business, with revenue growing 8% yoy in Latin America, 20% yoy in North America and around 50% yoy in Europe. At the same time, Japan’s revenue grew nearly 500% yoy, propelling Lenovo to a double-digit market share in the country. Notably, this segment is also experiencing the premiumisation trend, with the more premium Edge and Razzr models now comprising close to 36% of the business (vs about 20% in 2QFY24).
- ISG – Traditional server business remains the backbone.** The ISG business registered robust growth in the Sep 24 quarter, thanks to surging business from Cloud Service Providers (CSP) for general purpose (GP) servers. However, do note that profitability likely remains low as the CSP business typically carries lower margins compared with the enterprise & small-and-medium business (ESMB). On the bright side, revenue growth from non-compute businesses such as storage and high-performance computing (HPC) has been robust, now accounting for 33% of the segment’s sales. Overall, operating margin for ISG has narrowed and is on track to return to positive territory in FY26.
- SSG – Support services growth lags behind hardware business.** Managed services and project & solution services continued to enjoy strong yoy revenue growth, with the latter notably supported by Lenovo’s AI-powered solutions. However, growth for the support services business has been slower, primarily due to the lagging revenue recognition tied to the commercial PC business. With the PC replacement cycle expected to begin soon, this will likely translate to much improved revenue growth for the support services business going forward.
- Potential implications of President-elect Donald Trump’s tariff pledge.** The US market accounts for around 34% of Lenovo’s sales. The company has a US production base, but its Mexico base is likely a larger contributor to supply for the US market. If 60% tariffs are implemented on all Chinese companies regardless of the goods’ manufacturing origin, then Lenovo could lose the entire US market before the company expands its US capacity due to the PC market’s highly competitive nature. On the other hand, if the 60% tariffs are only applicable for goods manufactured in China, the situation will be more controllable given Lenovo’s global footprint.

EARNINGS REVISION/RISKS

- Our FY25-27 earnings are adjusted upwards by 2.6%/0.3%/0.8% to US\$1,261m/1,886m/2,318m respectively,** as we factored in: a) accelerated PC shipment growth, b) higher ISG revenue, c) slightly delayed revenue recognition for SSG especially for support services, d) higher operating margin for IDG, and e) higher operating margin for ISG in FY25.

VALUATION/RECOMMENDATION

- Maintain BUY but trim target price to HK\$12.00,** now based on a lower peers average 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.

OLD KEY ESTIMATES

(US\$m)	OLD		
	2025F	2026F	2027F
Revenue	64,160	71,173	79,151
IDG	47,440	52,393	58,114
ISG	12,452	13,448	14,651
SSG	8,568	9,832	11,085
OPM (%)	3.5	4.0	4.3
IDG	7.2	7.2	7.2
ISG	(1.2)	(0.5)	0.1
SSG	20.0	20.0	20.0
EBIT (US\$m)	2,246	2,847	3,403
Net Profit (US\$m)	1,229	1,881	2,299

Source: UOB Kay Hian

NEW KEY ESTIMATES

(US\$m)	NEW		
	2025F	2026F	2027F
Revenue	66,436	73,775	82,234
IDG	48,502	53,328	59,168
ISG	13,600	14,992	16,168
SSG	8,534	9,955	11,599
OPM (%)	3.4	3.9	4.2
IDG	7.4	7.4	7.4
ISG	(0.7)	0.2	0.8
SSG	20.0	20.0	20.0
EBIT (US\$m)	2,259	2,877	3,454
Net Profit (US\$m)	1,261	1,886	2,318

Source: UOB Kay Hian

% CHANGES TO KEY ESTIMATES

(US\$m)	CHANGE		
	2025F	2026F	2027F
Revenue	3.5	3.7	3.9
IDG	2.2	1.8	1.8
ISG	9.2	11.5	10.4
SSG	(0.4)	1.3	4.6
OPM (%)	(0.1)	(0.1)	(0.1)
IDG	0.2	0.2	0.2
ISG	0.6	-	-
SSG	-	-	-
EBIT (US\$m)	0.6	1.1	1.5
Net Profit (US\$m)	2.6	0.3	0.8

Source: UOB Kay Hian

### 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
<b>Total assets</b>	<b>38,751</b>	<b>42,304</b>	<b>43,572</b>	<b>48,753</b>
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
<b>Total liabilities &amp; equity</b>	<b>38,751</b>	<b>42,304</b>	<b>43,572</b>	<b>48,753</b>

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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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