Lenovo Group (992 HK)

1QFY27 Preview: Core Results Remain Solid, But GAAP Profit Impacted By Non-Cash Items

Highlights

- We expect 1QFY27 non-IFRS net profit of US$609m, +56.3% yoy and +8.9% qoq, on revenue of US$22,434m, +19.1% yoy and +3.9% qoq. ISG is the standout.
- However, we are also expecting a US$1.68b non-cash fair value loss due to the ALAT warrant issued in 2024. This will swing reported net profit to a US$1b loss during the quarter.
- Maintain BUY and target price of HK$32.80. The market is already expecting the warrant-related fair value losses, and as such we should be focusing on the non-IFRS adjusted earnings instead.

1QFY27 Results Preview

Year to 31 Mar (US$m)	1Q26	4Q26	1Q27F	yoy (%)	qoq (%)
Revenue	18,830	21,588	22,434	19.1	3.9
IDG	13,459	14,614	15,075	12.0	3.2
ISG	4,290	5,635	5,963	39.0	5.8
SSG	2,258	2,563	2,596	15.0	1.3
Operating profit	785	886	(665)	n.m.	n.m.
Adjusted Net profit	389	559	609	56.3	8.9
Margin (%)					
Operating margin	4.2	4.1	(3.0)	n.m.	n.m.
IDG	7.1	6.9	7.0	(0.1)	0.1
ISG	(2.0)	3.6	4.5	6.5	0.9
SSG	22.2	22.4	22.5	0.3	0.1

Source: Lenovo, UOB Kay Hian

Analysis

- **Strong operating quarter, ugly headline.** We expect 1QFY27 revenue of US$22,434m, +19.1% yoy and +3.9% qoq, gross margin of 16.5% (+1.8ppt yoy, +0.1ppt qoq) and adjusted operating profit of US$965m (4.3% margin). However, given that Lenovo Group's (Lenovo) share price surged during the quarter from HK$9.15 to HK$23.02, we estimate a US$1.68b non-cash fair value loss due to its ALAT warrant which has an adjusted strike price of HK$11.92. This will push reported net profit to a US$1,071m loss (1Q26: US$505m profit). Stripping that out, non-IFRS net profit is US$609m, +56.3% yoy and +8.9% qoq.

Key Financials

Year to 31 Mar (US$m)	2025	2026	2027F	2028F	2029F
Net turnover	69,077	83,075	92,900	101,328	111,328
EBITDA	3,583	4,680	3,788	6,237	7,230
Operating profit	2,164	3,262	2,215	4,561	5,466
Net profit (rep./act.)	1,384	1,912	695	2,822	3,493
Net profit (adj.)	1,441	2,049	2,455	2,902	3,573
EPS (cents)	11.8	16.7	20.0	23.6	29.1
PE (x)	25.2	17.8	14.9	12.6	10.2
P/B (x)	n.a.	6.5	6.0	4.8	3.9
EV/EBITDA (x)	n.a.	7.8	10.8	5.4	5.2
Dividend yield (%)	1.7	1.7	1.7	1.7	1.7
Net margin (%)	2.0	2.3	0.7	2.8	3.1
Net debt/(cash) to equity (%)	9.1	(3.2)	40.4	(25.0)	3.0
Interest cover (x)	3.3	5.7	3.8	7.6	9.6
ROE (%)	24.7	29.9	28.7	27.3	27.0
Consensus adjusted net profit	-	-	2,350	2,852	3,555
UOBKH/Consensus (x)	-	-	1.04	1.02	1.01

Source: Lenovo, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	HK$23.16
Target Price	HK$32.80
Upside	+41.6%

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Stock Data

GICS sector	Computer Hardware & Storage
Bloomberg ticker:	992 HK
Shares issued (m):	12,405
Market cap (HK$m):	287,290
Market cap (US$m):	36,832
3-mth avg daily t'over (US$m):	300.0

Price Performance (%)

52-week high/low: HK$27.42/ HK$8.52

1mth	3mth	6mth	1yr	YTD
3.7	122.1	158.8	135.6	150.1

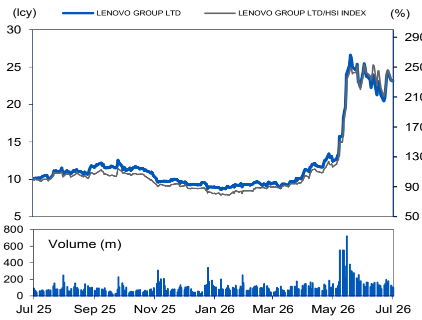
Major Shareholders

	%
Legend Holdings Corp	31.41

Balance Sheet Metrics

FY27 NAV/Share (US$)	1.62
FY27 Net Debt/Share (US$)	(0.31)

Price Chart



Source: Bloomberg

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.

- **ISG remains the bright spot.** We expect Infrastructure Service Group (ISG) revenue of US$5,963m, +39.0% yoy and +5.8% qoq, and operating margin to reach to reach 4.5%, +6.5ppt yoy and +0.9ppt qoq, which is also above management's baseline guidance of "no less than last quarter's levels at 3.6%). The strong growth in revenue and margins is primarily backed by robust Blackwell server orders from both hyperscalers and neocloud clients.
- **IDG remained resilient in 2Q26, but we may see inventory digestion in 2H26.** Intelligent Device Group (IDG) revenue is expected to grow 12.0% yoy and 3.2% qoq to US$15,075m, despite a weaker shipment growth of -2.4% yoy and +0.6% qoq, primarily driven by: a) ASP hikes, and b) product mix improvements (ie more AI PC sales). Operating margin should have held stable at 7.0% as guided previously by management thanks to better cost management and product mix upgrades. Note that we remain cautious on IDG's revenue growth in the next two quarters as March-June quarter's shipment was boosted by inventory pull-in amid rising memory prices, and we may see some inventory digestion during the next 1-2 quarters. As such, we trim our September/December quarter shipment assumptions to 16.1m/16.0m units respectively.
- **SSG steady.** Solutions and service group (SSG) revenue is expected to grow 15.0% yoy and 1.3% qoq to US$2,596m with operating margin at 22.5%, taking operating profit up 16.7% yoy and 1.9% qoq to US$584m.

Earnings Revision/Risk

- **We fine-tune our assumptions, and our non-IFRS adjusted net profit is slightly lifted by 0.7% to Rmb2,455m.** Note that after factoring in the US$1.68b fair value loss, our reported net profit estimates is slashed by 70.5% to US$695m. Our estimates for 2028-29 remain largely unchanged.

Valuation/Recommendation

- **Maintain BUY, keep target price at HK$32.80,** based on 21.0x FY27F PE, still largely 20% premium to peers' average valuation. At HK$23.16, the stock trades at 14.9x FY27F non-IFRS PE.

Key Changes To Estimates

	OLD Estimates			NEW Estimates			Change (%)		
(US$m)	FY2027F	FY2028F	FY2029F	FY2027F	FY2028F	FY2029F	FY2027F	FY2028F	FY2029F
Revenue	92,900	101,328	111,328	92,900	101,328	111,328	-	-	-
IDG	60,199	61,962	63,715	60,199	61,962	63,715	-	-	-
ISG	25,672	30,928	37,424	25,672	30,928	37,424	-	-	-
SSG	12,128	13,539	15,289	12,128	13,539	15,289	-	-	-
Core OPM (%)	4.2	4.5	4.9	2.4	4.5	4.9	-	-	-
IDG	6.8	6.8	7.0	6.8	6.8	7.0	-	-	-
ISG	3.5	4.0	4.5	3.5	4.0	4.5	-	-	-
SSG	20.0	20.0	20.0	20.0	20.0	20.0	-	-	-
EBIT (US$m)	3,895	4,561	5,466	2,215	4,561	5,466	(43.1)	-	-
Reported Net Profit (US$m)	2,357	2,822	3,493	695	2,822	3,493	(70.5)	-	-
Non-IFRS Net Profit (US$m)	2,437	2,902	3,573	2,455	2,902	3,573	0.7	-	-

Source: Lenovo, UOB Kay Hian

Profit & Loss

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Net turnover	83,075	92,900	101,328	111,328
EBITDA	4,680	3,788	6,237	7,230
Deprec. & amort.	(1,418)	(1,574)	(1,676)	(1,764)
EBIT	3,262	2,215	4,561	5,466
Total other non-operating income	-	-	-	-
Associate contributions	(15)	(20)	(20)	(20)
Net interest income/(expense)	(577)	(576)	(596)	(569)
Pre-tax profit	2,670	1,619	3,945	4,877
Tax	(510)	(660)	(809)	(995)
Minorities	(248)	(264)	(314)	(388)
Net profit	1,912	695	2,822	3,493
Net profit (adj.)	2,049	2,455	2,902	3,573

Balance Sheet

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Fixed assets	2,324	2,596	2,757	2,860
Other LT assets	15,603	14,829	14,245	13,622
Cash/ST investment	4,887	821	7,583	4,196
Other current assets	34,315	37,383	40,361	44,443
Total assets	57,129	55,630	64,945	65,121
ST debt	878	878	878	878
Other current liabilities	40,479	36,880	43,598	40,431
LT debt	3,863	3,863	3,863	3,863
Other LT liabilities	3,239	3,465	3,465	3,465
Shareholders' equity	5,583	6,069	7,635	9,471
Minority interest	809	1,072	1,386	1,774
Total liabilities & equity	57,129	55,630	64,945	65,121

Cash Flow

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Operating	4,609	(1,637)	9,229	(955)
Pre-tax profit	2,670	1,619	3,945	4,877
Tax	(695)	(660)	(809)	(995)
Deprec. & amort.	1,418	1,574	1,676	1,764
Associates	15	20	20	20
Working capital changes	(1,795)	(6,667)	3,741	(7,250)
Non-cash items	2,996	2,478	656	629
Other operating cashflows	-	-	-	-
Investing	(1,909)	(1,138)	(1,194)	(1,159)
Capex (growth)	(654)	(420)	(420)	(420)
Investments	(7)	-	-	-
Proceeds from sale of assets	168	-	-	-
Others	(1,416)	(718)	(774)	(739)
Financing	(2,583)	(1,292)	(1,273)	(1,273)
Dividend payments	(613)	(619)	(619)	(619)
Issue of shares	-	-	-	-
Proceeds from borrowings	13,194	15,104	14,149	14,626
Loan repayment	(12,985)	(15,104)	(14,149)	(14,626)
Others/interest paid	(2,179)	(673)	(654)	(654)
Net cash inflow (outflow)	117	(4,066)	6,761	(3,387)
Beginning cash & cash equivalent	4,728	4,887	821	7,583
Changes due to forex impact	42	-	-	-
Ending cash & cash equivalent	4,887	821	7,583	4,196

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	5.6	4.1	6.2	6.5
Pre-tax margin	3.2	1.7	3.9	4.4
Net margin	2.3	0.7	2.8	3.1
ROA	4.0	4.4	4.8	5.5
ROE	29.9	28.7	27.3	27.0
Growth				
Turnover	20.3	11.8	9.1	9.9
Gross profit	15.4	12.4	9.8	12.7
Pre-tax profit	80.3	(39.4)	143.7	23.6
Net profit	38.1	(63.7)	306.1	23.8
Net profit (adj.)	42.1	19.8	18.2	23.1
EPS (adj.)	41.8	19.8	18.2	23.1
Leverage				
Debt to total capital	8.3	8.5	7.3	7.3
Debt to equity	62.1	50.1	40.3	32.2
Net debt/(cash) to equity	(3.2)	40.4	(25.0)	3.0
Interest cover (x)	5.7	3.8	7.6	9.6