Lenovo Group (992 HK)

2QFY27: Robust AI Infrastructure Demand Drives Earnings Beat

Highlights

- ISG continues to drive robust top-line growth, supported by robust AI demand and a US$80b pipeline; and IDG's sales and profitability are guided to remain resilient amid shipment declines, with PC volumes potentially reaching an inflection point in mid-27.
- Maintain BUY with a lower target price of HK$30.50..

2QFY27 Results

Year to 31 Mar (US$m)	2Q26	1Q27	2Q27	yoy (%)	qoq (%)
Revenue	**20,452**	**26,943**	**30,238**	**47.8**	**12.2**
IDG	15,107	17,106	17,365	14.9	1.5
ISG	4,087	8,510	11,345	177.6	33.3
SSG	2,556	2,884	3,077	20.4	6.7
Operating profit	756	1,523	1,936	156.1	27.1
Adjusted net profit	512	1,075	1,361	166.0	26.6
Margins (%)					
Operating margin	**3.7**	**5.7**	**6.4**	**2.7**	**0.8**
IDG	7.3	7.1	7.1	(0.2)	(0.0)
ISG	(0.8)	9.1	9.6	10.4	0.5
SSG	22.3	24.2	26.0	3.7	1.9

Source: Lenovo, UOB Kay Hian

Analysis

- **ISG surge led a broad-based beat.** Lenovo's 2QFY27 revenue rose 47.8% yoy and 12.2% qoq to US$30.2b, beating our and consensus estimates by 10.9% and 8.8%, respectively. By segment, intelligent devices group (IDG) revenue increased 14.9% yoy and 1.5% qoq to US$17.4b, 3.6% and 2.4% above our and consensus estimates respectively. Infrastructure solutions group (ISG) revenue surged 177.6% yoy and 33.3% qoq to US$11.3b, exceeding our and consensus estimates by 26.2% and 18.6% respectively. Solutions and services group (SSG) revenue grew 20.4% yoy and 6.7% qoq to US$3.1b, broadly in line with expectations. Operating margins were a solid beat across all three segments as effective cost controls had more than offset the weaker-than-expected gross margins. As a result, adjusted net profit rose 166.0% yoy and 26.6% qoq to US$1.4b, beating our and consensus estimates by 11.0% and 6.8% respectively.

Key Financials

Year to 31 Mar (US$m)	2025	2026	2027F	2028F	2029F
Net turnover	69,077	83,075	114,819	130,909	137,500
EBITDA	3,583	4,680	5,351	11,001	11,839
Operating profit	2,164	3,262	3,777	9,325	10,075
Net profit (rep./act.)	1,384	1,912	1,300	6,230	6,814
Net profit (adj.)	1,441	2,049	4,966	6,310	6,894
EPS (US cents)	11.8	16.7	30.7	39.0	56.1
PE (x)	17.7	12.5	6.8	5.3	3.7
P/B (x)	4.2	3.4	2.1	1.4	0.3
EV/EBITDA (x)	8.6	6.6	5.8	2.8	2.6
Dividend yield (%)	2.4	2.4	2.4	2.4	2.4
Net margin (%)	2.0	2.3	1.1	4.8	5.0
Net debt/(cash) to equity (%)	9.1	(3.2)	45.7	(41.2)	(28.2)
Interest cover (x)	3.3	5.7	6.8	14.9	17.8
ROE (%)	24.7	29.9	50.6	42.6	33.1
Consensus net profit	-	-	4,520	5,964	7,193
UOBKH/Consensus (x)	-	-	1.10	1.06	0.96

Source: Lenovo, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$16.25
Target Price	HK$30.50
Upside	87.7%
Previous TP	HK$49.00

Stock Data

Sector	Computer Hardware & Storage
Bloomberg ticker	992 HK
Shares issued (m)	12,826
Market cap (HK$m)	220,608
Market cap (US$m)	28,283
3-mth avg daily t'over (US$m)	351.7

Price Performance (%)

52-week high/low				HK$37.88/HK$8.52
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(35.7)	(48.1)	27.9	68.7	70.2

Major Shareholders (%)

Legend Holdings Corp	31.28

Balance Sheet Metrics

FY27 NAV/Share (US$)	3.39
FY27 Net Cash/Share (US$)	(3.48)

Price Chart



Source: Bloomberg

Company Description

Lenovo Group develops, manufactures and distributes intelligent devices. The company provides laptops, desktops, tablet 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.

- **AI infrastructure demand remains robust.** Management pushed back on concerns over a 2028 capex slowdown, citing no short- or long-term change in demand across cloud service providers (CSP), enterprise and NeoCloud customers. CSP and NeoCoud demand remains high, with visibility supported by an AI-server pipeline of US$80b, up 48% qoq. In the longer term, management cited forecasts for token consumption to grow 24x by 2030, with: a) enterprise agents accounting for 50% of consumption; b) cloud AI compute spending to more than double from 2026; c) enterprise AI spending to double to more than US$1t; and d) enterprise compute spending to triple.
- **IDG is expected to remain resilient despite near-term PC-market weakness.** Elevated memory costs should continue to weigh on shipment volumes over the next two to three quarters, with management expecting the broader consumer-PC market to decline by a high single-digit percentage yoy in 1H27. During this period, Lenovo plans to use premiumisation and cost pass-through to mitigate the pressure from lower volumes and higher input costs. Management expects shipments to rebound by around 5% yoy in 2H27 as memory costs peak, supported by incremental AI-PC demand and the structural replacement cycle for older PCs.
- **Lenovo will not compromise risk controls for growth.** For NeoCloud customers, Lenovo uses a 360-degree screen covering working capital, credit, business viability, offtake, customer set, infrastructure, land and power, prioritising counterparties with clear funding visibility. Risk is mitigated through prepayments, title transfer upon full payment, asset-insured payment terms and third-party financing. NeoCloud represented less than 15% of ISG revenue in the quarter and is expected to remain below 20%.

Valuation/Recommendation

- **Maintain BUY with a reduced target price of HK$30.50, based on 10x FY28F PE,** in line with the peer average. We no longer apply a premium to market multiple to our target valuation, to reflect our greater caution towards a sustained weakness in market sentiment regarding AI infrastructure spending.

Earnings Revision/Risk

- **We fine-tune our FY27-29 adjusted non-HKFRS net profit estimates by +5.8%/+2.9%/0.3% to US$5.0b/US$6.3b/US$6.9b, respectively.** We raise our ISG revenue forecasts on stronger orders momentum, but lower our FY29 IDG revenue forecast as we expect ASP to moderate. We also factor in the solid SSG operating margins in FY2Q27 and raise our assumptions accordingly for FY27 while keeping our FY28-29 numbers unchanged.

Changes to FY27-29 Estimates

Year to 31 Mar	Old estimates			New estimates			Change (%)		
(US$m)	2027F	2028F	2029F	2027F	2028F	2029F	2027F	2028F	2029F
Revenue	**106,966**	**122,130**	**136,835**	**114,819**	**130,909**	**137,500**	**7.3**	**7.2**	**0.5**
IDG	64,309	67,264	68,333	64,309	68,716	67,960	-	2.2	(0.5)
ISG	35,628	46,245	58,175	43,224	53,183	59,175	21.3	15.0	1.7
SSG	12,629	14,420	16,327	12,885	14,810	16,365	2.0	2.7	0.2
Core OPM (%)	**3.2**	**7.4**	**7.3**	**3.3**	**7.1**	**7.3**	**0.1**	**(0.3)**	**0.0**
IDG	7.0	7.0	7.0	7.0	7.0	7.0	-	-	-
ISG	9.6	9.8	10.0	9.6	9.8	10.0	-	(0.0)	(0.0)
SSG	22.5	22.5	22.5	24.0	22.5	22.5	1.5	-	-
EBIT	**3,374**	**9,060**	**10,026**	**3,777**	**9,325**	**10,075**	**12.0**	**2.9**	**0.5**
Reported net profit	**1,009**	**6,054**	**6,792**	**1,300**	**6,230**	**6,814**	**28.8**	**2.9**	**0.3**
Adjusted net profit	**4,675**	**6,134**	**6,872**	**4,966**	**6,310**	**6,894**	**6.2**	**2.9**	**0.3**

Source: Lenovo, UOB Kay Hian

Profit & Loss

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Net turnover	**83,075**	**114,819**	**130,909**	**137,500**
EBITDA	4,680	5,351	11,001	11,839
Depreciation & amortization	(1,418)	(1,574)	(1,676)	(1,764)
EBIT	**3,262**	**3,777**	**9,325**	**10,075**
Total other non-operating income	0	-	-	-
Associate contributions	(15)	(20)	(20)	(20)
Net interest income/(expense)	(577)	(557)	(627)	(566)
Pre-tax profit	**2,670**	**3,200**	**8,678**	**9,489**
Tax	(510)	(1,357)	(1,756)	(1,918)
Minorities	(248)	(543)	(692)	(757)
Net profit	**1,912**	**1,300**	**6,230**	**6,814**
Net profit (recurrent)	2,049	4,966	6,310	6,894

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	(835)	11,931	11,409
Other current assets	34,315	49,649	45,337	54,149
Total assets	**57,129**	**66,240**	**74,270**	**82,040**
ST debt	878	878	878	878
Other current liabilities	40,479	44,700	46,346	47,084
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	11,982
Minority interest	809	1,351	2,044	2,801
Total liabilities & equity	**57,129**	**66,240**	**74,270**	**82,040**

Cash Flow

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Operating	**4,609**	**(3,311)**	**15,264**	**1,907**
Pre-tax profit	2,670	3,200	8,678	9,489
Tax	(695)	(1,357)	(1,756)	(1,918)
Depreciation/amortization	1,418	1,574	1,676	1,764
Associates	15	20	20	20
Working capital changes	(1,795)	(11,113)	5,958	(8,074)
Non-cash items	2,996	4,365	687	626
Other operating cashflows	-	-	-	-
Investing	**(1,909)**	**(1,138)**	**(1,211)**	**(1,132)**
Capex (growth)	(654)	(420)	(420)	(420)
Investments	(7)	-	-	-
Proceeds from sale of assets	168	-	-	-
Others	(1,416)	(718)	(791)	(712)
Financing	**(2,583)**	**(1,273)**	**(1,287)**	**(1,297)**
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)	(654)	(668)	(678)
Net cash inflow (outflow)	**117**	**(5,722)**	**12,766**	**(522)**
Beginning cash & cash equivalent	4,728	4,887	(835)	11,931
Changes due to forex impact	42	-	-	-
Ending cash & cash equivalent	**4,887**	**(835)**	**11,931**	**11,409**

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	5.6	4.7	8.4	8.6
Pretax margin	3.2	2.8	6.6	6.9
Net margin	2.3	1.1	4.8	5.0
Adjusted Net margin	2.5	4.3	4.8	5.0
ROA	4.0	8.1	9.0	8.8
ROE	29.9	50.6	42.6	33.1
Growth				
Turnover	20.3	38.2	14.0	5.0
Gross profit	15.4	46.1	15.4	5.7
Pre-tax profit	80.3	19.8	171.2	9.3
Net profit	38.1	(32.0)	379.3	9.4
Net profit (adj)	42.1	142.4	27.1	9.2
EPS (adj.)	41.8	142.4	27.1	9.2
Leverage				
Debt to total capital	8.3	7.2	6.4	5.8
Debt to equity	62.1	39.6	26.8	19.8
Net debt to equity	(3.2)	45.7	(41.2)	(28.2)
Interest cover (x)	5.7	6.8	14.9	17.8

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