UOBKayHian

Company – Results | Greater China

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Lenovo Group (992 HK)

1QFY27: Broad-Based Beat Led By ISG; Long-term Revenue Target Raised To US$130b

Highlights

- 1QFY27 revenue rose 43% yoy to US$27b and adjusted net profit surged 176% yoy to US$1.1b, beating our estimate by 77%.
- ISG revenue nearly doubled yoy to US$9b and operating margin swung positive to 9.1%, with the AI server pipeline up 157% qoq to US$54b.
- We raise FY27-29 adjusted net profit by 55-69% and lift our target price to HK$49.00 (19.1x FY27F PE). Maintain BUY.

1QFY27 Results

Year to 31 Mar (US$m)	1Q26	4Q26	1Q27	yoy%	qoq%
Revenue	18,830	21,588	26,943	43.1	24.8
IDG	13,459	14,614	17,106	27.1	17.1
ISG	4,290	5,635	8,510	98.4	51.0
SSG	2,258	2,563	2,884	27.7	12.5
Gross profit	785	886	19	(97.6)	(97.8)
Reported NP	505	521	(609)	(220.4)	(216.9)
Net profit (adj.)	389	559	1,075	176.0	92.3
Margin (%)					
Operating margin	4.2	4.1	0.1	(4.1)	(4.0)
IDG	7.1	6.9	7.1	0.0	0.1
ISG	(2.0)	3.6	9.1	11.1	5.5
SSG	22.2	22.4	24.2	2.0	1.8

Source: Lenovo, UOB Kay Hian

Analysis

- **Significant beat across the board spearheaded by ISG segment.** Revenue expanded 43.1% yoy and 24.8% qoq to US$26.9b, beating our/consensus estimates by 20% on the back of a broad-based outperformance across all segments. Notably, infrastructure service group (ISG) revenue surged 98.4% yoy and 51.0% qoq to US$8.5b, which is 42.7%/36.1% above our/consensus estimates; Intelligent Device Group (IDG) and Solution & Service Group (SSG) had also registered solid growth (27.1% yoy, 17.1% qoq for IDG and 27.7% yoy, 12.5% qoq for SSG) with revenue beating our/consensus forecasts by low-teens %. Core operating margin expanded 2.3ppt yoy and 1.8ppt qoq to 5.7%, primarily bolstered by a 11.1ppt yoy and 5.5ppt qoq margin expansion from ISG. This resulted in an adjusted (non-HKFRS) net profit of US$1.1b, up 176% yoy, beating our bottom line estimate by 77%.

Key Financials

Year to 31 Mar (US$m)	2025	2026	2027F	2028F	2029F
Net turnover	69,077	83,075	101,395	113,151	125,490
EBITDA	3,583	4,680	5,979	9,044	9,946
Operating profit	2,164	3,262	4,405	7,368	8,182
Net profit	1,384	1,912	2,272	4,834	5,460
Net profit (adj.)	1,441	2,049	4,032	4,914	5,540
EPS (fen)	11.8	16.7	32.8	40.0	45.1
P/E (x)	38.0	26.8	13.6	11.2	9.9
P/BV (x)	9.0	7.2	5.0	3.6	0.4
EV/EBITDA (x)	16.6	12.7	10.0	6.6	6.0
Dividend yield (%)	1.1	1.1	1.1	1.1	1.1
Net margin (%)	2.0	2.3	2.2	4.3	4.4
Net debt to equity (%)	9.1	(3.2)	46.7	(37.4)	(9.4)
Interest cover (x)	3.3	5.7	7.6	12.1	14.8
ROE (%)	24.7	29.9	43.2	37.2	31.1
Consensus net profit	-	-	2,658	3,436	4,237
UOBKH/Consensus (x)	-	-	1.52	1.43	1.31

Source: Lenovo, Bloomberg, UOB Kay Hian

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Buy (Maintained)

Share Price	HK$34.90
Target Price	HK$49.00
Upside	+40.4%
Previous TP	HK$32.80

Stock Data

Sector	Computer Hardware & Storage
Bloomberg ticker	992 HK
Shares issued (m)	12,282
Market cap (HK$m)	428,626
Market cap (US$m)	63,033
3-mth avg daily t'over (US$m)	471

Price Performance (%)

52-week high/low				HK$35.46/HK$8.52
1mth	3mth	6mth	1yr	YTD
21.5	124.0	19.6	151.6	213.0

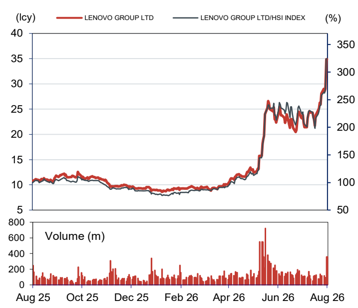
Major Shareholders (%)

Legends Holdings Corp	31.41

Balance Sheet Metrics

FY27 NAV/Share (HK$)	2.73
FY27 Net Debt/Share (HK$)	3.27

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 business registered strong growth across both CSPs and ESMBs with revenue growing 98% yoy in both subsegments,** mainly driven by surging AI-related servers as well as traditional servers, as reflected in the robust 157% qoq growth in AI server pipeline to US$54.0b during the quarter. Management expects the strong momentum to continue going forward, on the back of mounting AI inferencing and agentic AI demand.
- **ISG's 9.1% operating margin looks sustainable in the near term**, underpinned by an improvement in enterprise and small and medium business (ESMB) profitability, significant improvement in scale, as well as the mounting bargaining power given the on-going supply shortages. As such, while management guided for a high single-digit margin % for FY27, we believe risks likely leans on the upside vs FY1Q27's 9.1%.
- **IDG momentum remains solid despite memory cost pressures.** Management expects revenue growth to moderate to low double digits in 2QFY27 and single digits for FY27, weighed by cost pressure in both PC and smartphone shipments. Nonetheless, Lenovo maintained a 7% operating margin target for the segment, as premiumisation and economies of scale allow strong pricing power to offset rising component costs and compensate for volume contraction.
- **SSG expansion accelerated by cross-group synergies and rapid AI integration.** Driven by robust growth in infrastructure as a service and projects and solutions businesses, Lenovo is expecting the SSG business to maintain an elevated 20% yoy growth in FY27, with margins expanding to 22.0%.
- **FY27 revenue target of US$100b will be achievable,** driven by the robust ISG business. As such, the 3-5-year target revenue is now raised to US$130b, while the 5.0% net margin target remains unchanged.

Valuation/Recommendation

- Maintain BUY, and raise target price to HK$49.00, now based on 19.1x FY27F PE, on a par with peers' average. The significantly higher target is primarily due to a much higher bottom line assumption, driven mainly by a much stronger-than-expected ISG business.

Earnings Revision/Risk

- **We significantly raise our FY27-29 adjusted (non-HKFRS) net profit estimates by 64.2%/69.3%/55.0% respectively** to US$4.0b/US$4.9b/US$5.5b. We have factored in: a) a much higher assumption for ISG business where revenue is lifted by 34-39%, and operating margins are raised by 4.3-5.0ppt respectively; b) higher assumptions for SSG's revenue and profitability; and c) better cost control measures overall.
- **Note that we are keeping our IDG sales assumptions unchanged** despite the solid revenue beat in the June quarter, as we remain cautious on the potential demand destruction effect from cost-driven price hikes.

Share Price Catalyst

- Further AI server order wins; sustained upside surprises in sales/profitability, particularly in the ISG business.

Changes to FY27-29 estimates

Year to 31 Mar	--------- Old estimates ---------			------------ New estimates ----------			------- Differences (%) ----------		
(US$m)	2027	2028	2029	2027F	2028F	2029F	2027F	2028F	2029F
Revenue	92,900	101,328	111,328	101,395	113,151	125,490	9.1	11.7	12.7
IDG	60,199	61,962	63,715	60,199	61,962	63,715	-	-	-
ISG	25,672	30,928	37,424	34,492	43,085	52,090	34.4	39.3	39.2
SSG	12,128	13,539	15,289	12,304	13,904	15,685	1.4	2.7	2.6
OPM (%)	2.4	4.5	4.9	4.3	6.5	6.5	2.0	2.0	1.6
IDG	6.8	6.8	7.0	7.0	6.9	7.1	0.2	0.1	0.1
ISG	4.0	4.5	5.0	9.0	9.5	9.3	5.0	5.0	4.3
SSG	20.0	20.0	20.0	22.5	22.5	22.5	2.5	2.5	2.5
EBIT (US$m)	2,215	4,561	5,466	4,405	7,368	8,182	98.9	61.5	49.7
Adjusted Net Profit (US$m)	2,455	2,902	3,573	4,032	4,914	5,540	64.2	69.3	55.0

Source: Lenovo, UOB Kay Hian

Profit & Loss

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Net turnover	83,075	101,395	113,151	125,490
EBITDA	4,680	5,979	9,044	9,946
Depreciation & amortization	(1,418)	(1,574)	(1,676)	(1,764)
EBIT	3,262	4,405	7,368	8,182
Total other non-operating income	0	-	-	-
Associate contributions	(15)	(20)	(20)	(20)
Net interest income/(expense)	(577)	(576)	(610)	(555)
Pre-tax profit	2,670	3,809	6,738	7,608
Tax	(510)	(1,098)	(1,368)	(1,542)
Minorities	(248)	(439)	(537)	(607)
Net profit	1,912	2,272	4,834	5,460
Net profit (recurrent)	2,049	4,032	4,914	5,540

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	(511)	10,388	6,546
Other current assets	34,315	43,071	42,668	52,034
Total assets	57,129	59,986	70,058	75,062
ST debt	878	878	878	878
Other current liabilities	40,479	39,483	44,724	44,200
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	11,048
Minority interest	809	1,248	1,785	2,391
Total liabilities & equity	57,129	59,986	70,058	75,062

Cash Flow

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Operating	4,609	(2,968)	13,379	(1,425)
Pre-tax profit	2,670	3,809	6,738	7,608
Tax	(695)	(1,098)	(1,368)	(1,542)
Depreciation/amortization	1,418	1,574	1,676	1,764
Associates	15	20	20	20
Working capital changes	(1,795)	(9,751)	5,643	(9,890)
Non-cash items	2,996	2,478	670	615
Other operating cashflows	-	-	-	-
Investing	(1,909)	(1,138)	(1,208)	(1,144)
Capex (growth)	(654)	(420)	(420)	(420)
Investments	(7)	-	-	-
Proceeds from sale of assets	168	-	-	-
Others	(1,416)	(718)	(788)	(724)
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	(5,398)	10,899	(3,842)
Beginning cash & cash equivalent	4,728	4,887	(511)	10,388
Changes due to forex impact	42	-	-	-
Ending cash & cash equivalent	4,887	(511)	10,388	6,546

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	5.6	5.9	8.0	7.9
Pretax margin	3.2	3.8	6.0	6.1
Net margin	2.3	2.2	4.3	4.4
ROA	4.0	6.9	7.6	7.6
ROE	29.9	43.2	37.2	31.1
Growth				
Turnover	20.3	22.1	11.6	10.9
Gross profit	15.4	33.0	12.9	8.9
Pre-tax profit	80.3	42.7	76.9	12.9
Net profit	38.1	18.8	112.7	13.0
Net profit (adj)	42.1	96.8	21.9	12.7
EPS (adj.)	41.8	96.8	21.9	12.7
Leverage				
Debt to total capital	8.3	7.9	6.8	6.3
Debt to equity	62.1	42.9	30.9	23.4
Net debt to equity	(3.2)	46.7	(37.4)	(9.4)
Interest cover (x)	5.7	7.6	12.1	14.8