

Lenovo Group (992 HK)

2QFY27 Results Preview: ISG To Register Another Quarter Of Strong Growth

Highlights

- We expect 2QFY27 non-IFRS net profit to grow 88% yoy to US\$1,226m, primarily driven by robust 120% yoy revenue growth in the ISG business, and a resilient 11.0% yoy revenue growth in the IDG business.
- The non-cash fair value loss from the warrant issued alongside the ALAT CB is estimated to be US\$1.9b. This will push reported net profit to a US\$680m loss.
- Maintain BUY and target price of HK\$49.00.

2QFY27 Results Preview

Year to 31 Mar (US\$m)	2Q26	1Q27	2Q27F	yoy (%)	qoq (%)
Revenue	20,452	26,943	27,268	33.3	1.2
IDG	15,107	17,106	16,769	11.0	(2.0)
ISG	4,087	8,510	8,992	120.0	5.7
SSG	2,556	2,884	3,067	20.0	6.4
Operating profit	756	1,523	1,827	141.7	20.0
Net profit	340	(609)	(680)	(299.9)	(11.8)
Net profit (adj.)	652	1,075	1,226	88.0	14.0
Margin (%)					
Operating margin	3.7	5.7	6.7	3.0	1.0
IDG	7.3	7.1	7.0	(0.3)	(0.1)
ISG	(0.8)	9.1	9.5	10.3	0.4
SSG	22.3	24.2	22.0	(0.3)	(2.2)

Source: Lenovo, UOB Kay Hian

Analysis

- We are expecting strong print across the board.** We expect 2QFY27 revenue of US\$27,268m, +33.3% yoy and +1.2% qoq, adjusted operating margin of 6.7%, +3.0ppt yoy and +1.0ppt qoq, and core operating profit of US\$1,827m, +20.0% yoy and 6.4% qoq. With Lenovo's share price surging from HK\$23.02 to HK\$34.54 during the quarter, we are estimating a US\$1.9b non-cash fair value loss due to its warrant issued along with the ALAT convertible bonds which have an adjusted strike price of HK\$11.92. This will push reported net profit to a US\$680m loss (vs 2Q26 profit at US\$340m). Stripping that off, non-IFRS net profit is expected to surge 88.0% yoy and 14.0% qoq to US\$1,226m.

Key Financials

Year to 31 Mar (US\$m)	2025	2026	2027F	2028F	2029F
Net turnover	69,077	83,075	106,966	122,130	136,835
EBITDA	3,583	4,680	4,948	10,736	11,790
Operating profit	2,164	3,262	3,374	9,060	10,026
Net profit	1,384	1,912	1,009	6,054	6,792
Net profit (adj.)	1,441	2,049	4,675	6,134	6,872
EPS (cents)	11.8	16.7	28.9	38.0	56.0
P/E (x)	27.5	19.4	11.2	8.5	5.8
P/BV (x)	6.5	5.2	3.4	2.3	0.3
EV/EBITDA (x)	11.9	9.1	8.6	4.0	3.6
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Net margin (%)	2.0	2.3	0.9	5.0	5.0
Net debt to equity (%)	9.1	(3.2)	28.6	(41.0)	(26.1)
Interest cover (x)	3.3	5.7	6.1	15.0	18.3
ROE (%)	24.7	29.9	48.4	42.5	33.8
Consensus net profit	-	-	3,724	5,653	6,911
UOBKH/Consensus (x)	-	-	1.26	1.09	0.99

Source: Lenovo, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK\$25.26
Target Price	HK\$49.00
Upside	+94.0%

Stock Data

Sector	Computer Hardware & Storage
Bloomberg ticker	992 HK
Shares issued (m)	12,826
Market cap (HK\$m)	323,986
Market cap (US\$m)	41,537
3-mth avg daily t'over (US\$m)	390

Price Performance (%)

52-week high/low			HK\$37.88/HK\$8.52	
1mth	3mth	6mth	1yr	YTD
(32.8)	17.9	125.3	122.8	172.8

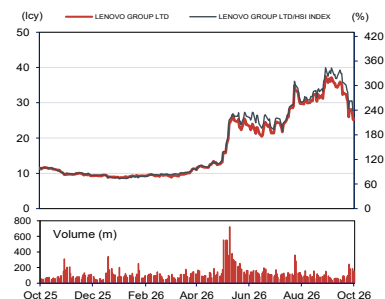
Major Shareholders (%)

Legends Holdings Corp	31.28
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Balance Sheet Metrics

FY27 NAV/Share (HK\$)	3.19
FY27 Net Debt/Share (HK\$)	2.13

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 continues to lead as the biggest growth driver.** We expect Infrastructure Service Group (ISG) to register revenue of US\$8,992m, +120.0% yoy and 5.7% qoq, and operating margin to reach 9.5%, surging 10.3ppt yoy and 0.4ppt qoq. The strong growth in revenue represents further acceleration in growth compared with 1QFY27, driven by robust server orders, price hikes on the back of rising component costs as well as strengthening bargaining power.
- **IDG's performance should be supported by premiumisation and ASP hikes.** Intelligent Device Group (IDG) revenue is expected to register revenue of US\$16,769m, +11.0% yoy and -2.0% qoq, as the ASP hikes and mix improvements had more than offset a 23.2% decline in PC shipment during the quarter. Operating margin is expected to remain stable at 7.0% as guided previously, driven by better mix and cost management. Going forward, we expect shipment growth to remain sluggish as device purchases are starting to slow down due to the mounting prices.
- **SSG to remain steady.** Solutions and service group (SSG) revenue is expected to grow 20.0% yoy and 6.4% qoq to US\$3,067m with operating margin stable at 22.0%.

Earnings Revision/Risk

- **We raise our estimates for Lenovo, and our non-IFRS adjusted net profit is lifted by 17.6%/24.3%/23.5% to US\$4,675m/US\$6,134m/US\$6,872m respectively.** We raised our revenue estimates across all three key segments, raised our estimates on ISG margins, and fine-tuned our IDG operating margin assumptions for FY28-29. Note that after factoring in the US\$1.9b fair value loss, our reported net profit estimates are slashed by 54.5% to US\$1,009m.

Valuation/Recommendation

- **Maintain BUY, keep target price at HK\$49.00.** We are: a) rolling over to FY28F estimates; b) updating our PE multiple to 16.5x, which is still 20% premium vs peers average given Lenovo's transformation from a PC supplier to a server OEM; and c) shifting from basic EPS to diluted EPS as we approach the ALAT CB's conversion date in Jan 28.

Changes To 2027-29 Estimates

Year to 31 Mar	----- Old estimates -----			----- New estimates -----			----- Differences (%) -----		
(US\$m)	2027F	2028F	2029F	2027F	2028F	2029F	2027F	2028F	2029F
Revenue	100,129	113,349	125,912	106,966	122,130	136,835	6.8	7.7	8.7
IDG	59,007	62,148	64,112	64,309	67,264	68,333	9.0	8.2	6.6
ISG	34,492	43,085	52,090	35,628	46,245	58,175	3.3	7.3	11.7
SSG	12,230	13,916	15,709	12,629	14,420	16,327	3.3	3.6	3.9
OPM (%)	4.3	6.5	6.5	3.2	7.4	7.3	(1.2)	0.9	0.8
IDG	7.0	6.9	7.1	7.0	7.0	7.0	-	0.1	(0.1)
ISG	9.0	9.5	9.3	9.6	9.8	10.0	0.6	0.3	0.7
SSG	22.5	22.5	22.5	22.5	22.5	22.5	-	-	-
EBIT (US\$m)	4,328	7,381	8,210	3,374	9,060	10,026	(22.0)	22.7	22.1
Reported Net Profit (US\$m)	2,216	4,856	5,484	1,009	6,054	6,792	(54.5)	24.7	23.8
Adjusted Net Profit (US\$m)	3,976	4,936	5,564	4,675	6,134	6,872	17.6	24.3	23.5

Source: Lenovo, UOB Kay Hian

Profit & Loss

Year to 31 Mar (US\$m)	2026	2027F	2028F	2029F
Net turnover	83,075	106,966	122,130	136,835
EBITDA	4,680	4,948	10,736	11,790
Depreciation & amortization	(1,418)	(1,574)	(1,676)	(1,764)
EBIT	3,262	3,374	9,060	10,026
Total other non-operating income	0	-	-	-
Associate contributions	(15)	(20)	(20)	(20)
Net interest income/(expense)	(577)	(557)	(606)	(547)
Pre-tax profit	2,670	2,796	8,434	9,459
Tax	(510)	(1,276)	(1,707)	(1,912)
Minorities	(248)	(511)	(673)	(755)
Net profit	1,912	1,009	6,054	6,792
Net profit (recurrent)	2,049	4,675	6,134	6,872

Cash Flow

Year to 31 Mar (US\$m)	2026	2027F	2028F	2029F
Operating	4,609	(1,180)	12,883	1,464
Pre-tax profit	2,670	2,796	8,434	9,459
Tax	(695)	(1,276)	(1,707)	(1,912)
Depreciation/amortization	1,418	1,574	1,676	1,764
Associates	15	20	20	20
Working capital changes	(1,795)	(8,659)	3,795	(8,474)
Non-cash items	2,996	4,365	666	607
Other operating cashflows	-	-	-	-
Investing	(1,909)	(1,138)	(1,190)	(1,113)
Capex (growth)	(654)	(420)	(420)	(420)
Investments	(7)	-	-	-
Proceeds from sale of assets	168	-	-	-
Others	(1,416)	(718)	(770)	(693)
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	(3,590)	10,407	(945)
Beginning cash & cash equivalent	4,728	4,887	1,297	11,704
Changes due to forex impact	42	-	-	-
Ending cash & cash equivalent	4,887	1,297	11,704	10,758

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	1,297	11,704	10,758
Other current assets	34,315	44,085	44,682	54,254
Total assets	57,129	62,807	73,387	81,493
ST debt	878	878	878	878
Other current liabilities	40,479	41,590	45,982	47,080
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	11,692
Minority interest	809	1,319	1,992	2,747
Total liabilities & equity	57,129	62,807	73,387	81,493

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	5.6	4.6	8.8	8.6
Pretax margin	3.2	2.6	6.9	6.9
Net margin	2.3	0.9	5.0	5.0
Adjusted Net margin	2.5	4.4	5.0	5.0
ROA	4.0	7.8	9.0	8.9
ROE	29.9	48.4	42.5	33.8
Growth				
Turnover	20.3	28.8	14.2	12.0
Gross profit	15.4	39.5	15.5	11.4
Pre-tax profit	80.3	4.7	201.6	12.2
Net profit	38.1	(47.2)	499.8	12.2
Net profit (adj)	42.1	128.2	31.2	12.0
EPS (adj.)	41.8	128.2	31.2	12.0
Leverage				
Debt to total capital	8.3	7.5	6.5	5.8
Debt to equity	62.1	40.6	27.6	20.2
Net debt to equity	(3.2)	28.6	(41.0)	(26.1)
Interest cover (x)	5.7	6.1	15.0	18.3

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