

Company Report: Lenovo Group (00992 HK)

公司报告: 联想集团 (00992 HK)

Gin Yu 余劲同
(86755)2397 6686
gin.yu@gtjas.com.hk
31 December 2020

PC Business to Remain Strong, "Accumulate"

PC业务仍然强劲, “收集”

- **We expect PC shipments to remain strong in 2021.** Currently, there is a shortage of certain components such as processors, panels and other sub-components. Given that the shortage is more due to inadequate business planning rather than technical problems, we do not expect a sudden increase in production capacity. Therefore, we expect the backlog of unfulfilled orders to carry into 2021. Besides, in the long term, we expect PC shipments and average selling prices to be strong as the market is changing from one PC per family to one PC per person.
- **We expect mobile business to recover in 2021.** Despite ongoing lockdowns and economic concerns, consumers in many markets have shifted their spending habits from traveling, dining out, and general leisure to consumer electronics. Besides, 5G is also expected to drive the industry gradually as the cost of 5G hardware continuously declines.
- **We expect data center group business to remain strong in 2021 given robust demand from the cloud service market.** Due to economic pressure brought by the COVID-19 pandemic, global demand for enterprise servers weakened in 3Q20. However, demand for cloud services is very strong.
- **We revise up the TP from HK\$5.80 to HK\$7.70 and maintain the investment rating as "Accumulate".** We have revised up FY21-FY23 EPS forecasts by 1.9%/ 2.5%/ 4.0%, respectively. The TP represents 13.3x, 13.0x and 12.1x FY21-FY23 PER.
- **我们预计 2021 年 PC 出货量将保持强劲。**当前, 多个零部件出现短缺, 例如处理器、面板和其他子组件。鉴于短缺更多是由于业务计划不足而不是技术故障造成的, 我们预计产能不会突然增加。因此, 我们预计积压的未完成订单将会进入 2021 年。此外, 从长期来看, 随着市场从每个家庭一台 PC 变为每人一台 PC, 我们预计 PC 出货量和平均售价将强势。
- **我们预计移动业务将在 2021 年恢复。**尽管面临持续的封锁和经济问题, 许多市场的消费者已将其消费习惯从旅行、外出就餐和一般休闲活动转移到了消费电子产品上。此外, 随着 5G 硬件成本不断下降, 预计 5G 也将逐步推动行业发展。
- **鉴于云服务市场的强劲需求, 我们预计数据中心集团业务在 2021 年仍将保持强劲。**由于新冠肺炎疫情带来的经济压力, 全球对企业服务器的需求在 2020 年第三季度有所下降。但是, 来自云服务的需求非常强劲。
- **我们将目标价由 5.80 港元上调至 7.70 港元, 并维持投资评级为“收集”。**我们分别上调 2021-2023 财年的每股盈利预测 1.9%/ 2.5%/ 4.0%。目标价相当于 13.3 倍、13.0 倍和 12.1 倍 2021-2023 财年市盈率。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$7.70

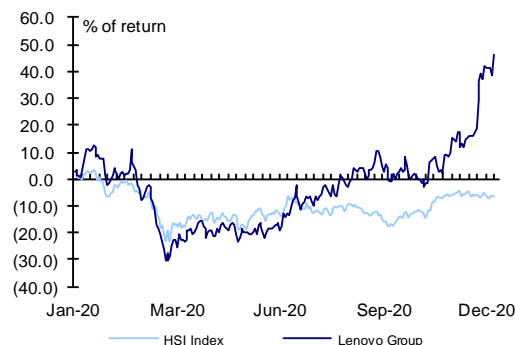
HK\$5.80

Share price 股价:

HK\$7.150

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	29.3	39.9	36.2
Rel. % to HS Index			
相对恒指变动 %	26.2	24.2	40.3
Avg. share price (HK\$)			
平均股价 (港元)	6.3	5.6	4.8

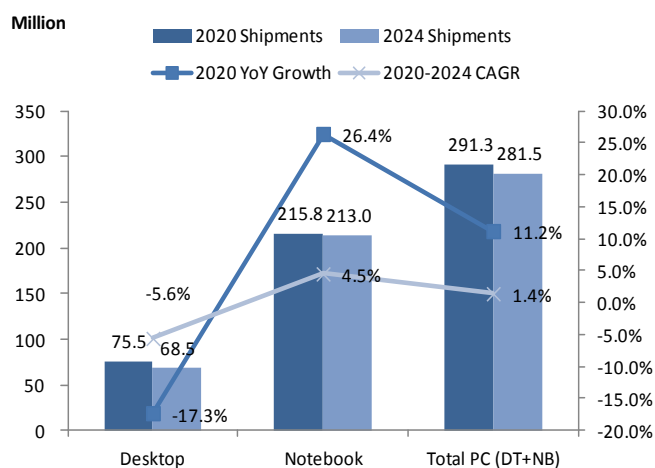
Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
03/31	(US\$ m)	(US\$ m)	(US\$ Cent)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2019A	51,038	596	5.014	n.a.	18.3	0.286	3.2	0.035	3.9	17.2
2020A	50,716	665	5.578	11.2	16.6	0.268	3.4	0.036	3.9	20.2
2021F	54,683	888	7.445	33.5	12.5	0.304	3.1	0.048	5.2	26.0
2022F	57,412	911	7.643	2.7	12.2	0.331	2.8	0.053	5.7	24.1
2023F	58,823	979	8.211	7.4	11.3	0.359	2.6	0.057	6.1	23.8
Shares in issue (m) 总股数 (m)				12,041.7	Major shareholder 大股东		Legend Holdings Limited 29.1%			
Market cap. (HK\$ m) 市值 (HK\$ m)				86,700.2	Free float (%) 自由流通比率 (%)		70.9			
3 month average vol. 3 个月平均成交股数 ('000)				57,898.8	FY21 Net gearing (%) FY21 净负债/股东资金 (%)		13.9			
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				7.470 / 3.540	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)		7.9			

Source: the Company, Guotai Junan International.

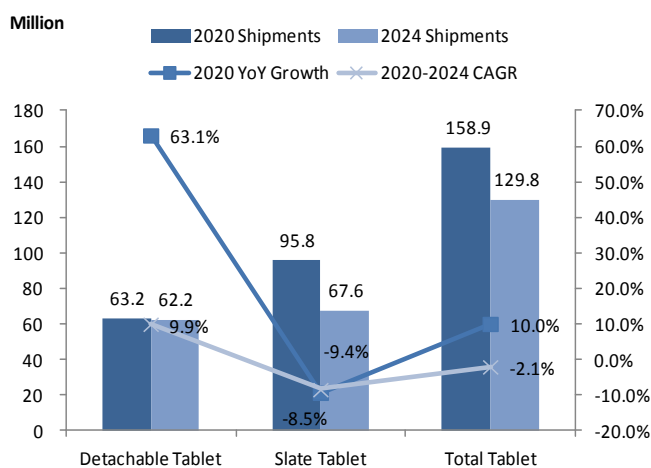
We expect PC shipments to remain strong in 2021. Due to increasing demand for work-from-home applications, online education, online entertainment and PC demand is still very strong. IDC forecasts shipments of desktops and notebook PCs to grow by 18.2% yoy in 4Q20. Currently, there is a shortage of certain components such as processors, panels and other sub-components; if the market was not hindered by with the shortage of components, then notebook shipments would have soared even higher. Given that the shortage is more due to inadequate business planning rather than technical failure, we do not expect a sudden increase in production capacity. Therefore, we expect the backlog of unfulfilled orders to carry into 2021. Besides, in the long term, we expect PC shipments and average selling prices to be strong as the market is changing from one PC per family to one PC per person.

Figure-1: Global PC Shipments



Source: IDC, Guotai Junan International.

Figure-2: Global PC Shipments by Company

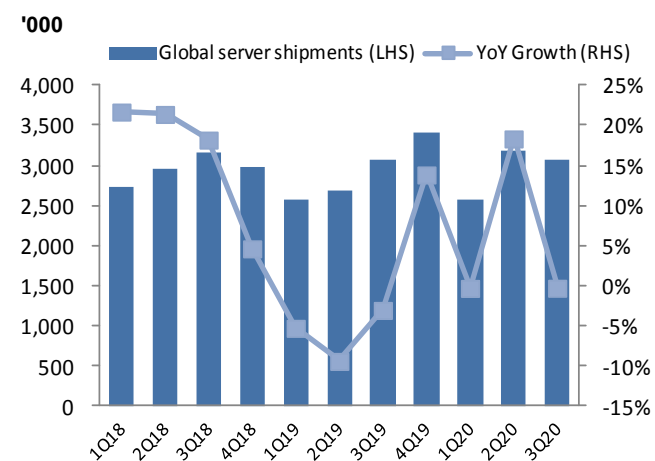


Source: IDC, Guotai Junan International.

We expect mobile business to recover in 2021. In 3Q20, smartphone shipments quickly recovered, and yoy decline quickly narrowed from 16.6% in 2Q20 to 1.3%. In 4Q20, we expect market demand to remain strong, however, the supply shortage of some key components is likely to affect global smartphone shipments. Despite ongoing lockdowns and economic concerns, consumers in many markets have shifted their spending habits from traveling, dining out, and general leisure to consumer electronics. Besides, 5G is also expected to drive the industry gradually as the cost of 5G hardware continuously declines.

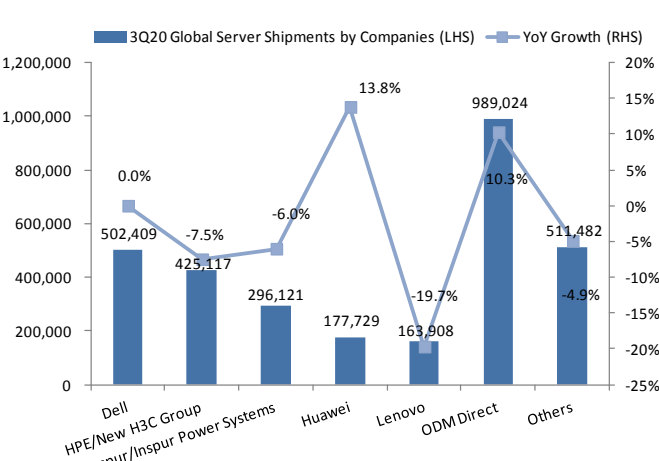
We expect data center group (DCG) business to remain strong in 2021 given robust demand from the cloud service market. Due to economic pressure brought by the COVID-19 pandemic, global demand for enterprise servers weakened in 3Q20. However, demand for cloud services is very strong; according to Synergy Research Group, enterprise spending on cloud infrastructure services was up 33% yoy to US\$33 million in 3Q20. Going forward into 2021, we expect that strong market demand for cloud services will continue to drive the development of DCG business.

Figure-3: Global Server Shipments

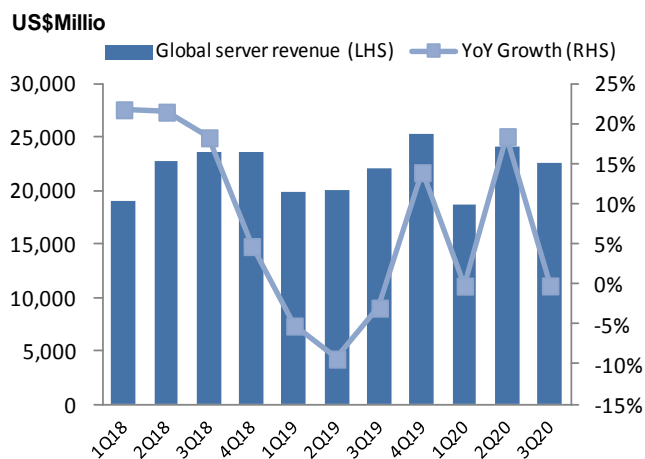


Source: IDC, Guotai Junan International.

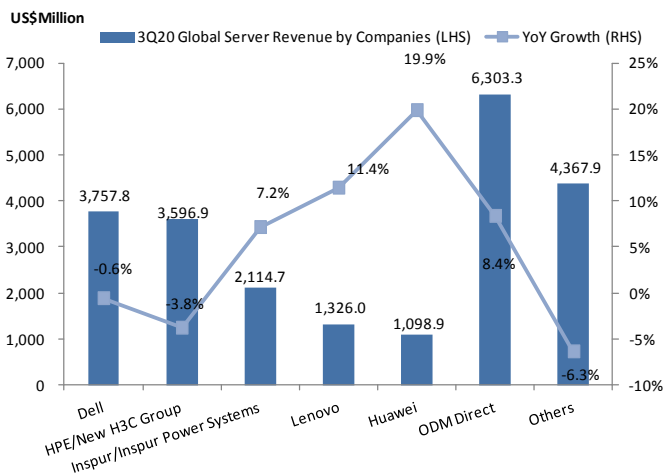
Figure-4: Global Server Shipments by Company



Source: IDC, Guotai Junan International.

Figure-5: Global Server Revenue


Source: IDC, Guotai Junan International.

Figure-6: Global Server Revenue by Company


Source: IDC, Guotai Junan International.

Profit Revisions

We revise up FY21-FY23 EPS forecasts by 1.9%/ 2.5%/ 4.0%, respectively. We have revised up FY21-FY23 revenue forecasts by 1.6%/ 1.9%/ 3.3%, respectively, due to strong PC demand. We have revised up FY21-FY23 shareholders' net profit forecasts by 1.9%/ 2.5%/ 4.0%, respectively, to reflect our adjustments on revenue forecasts, margin forecasts and other items.

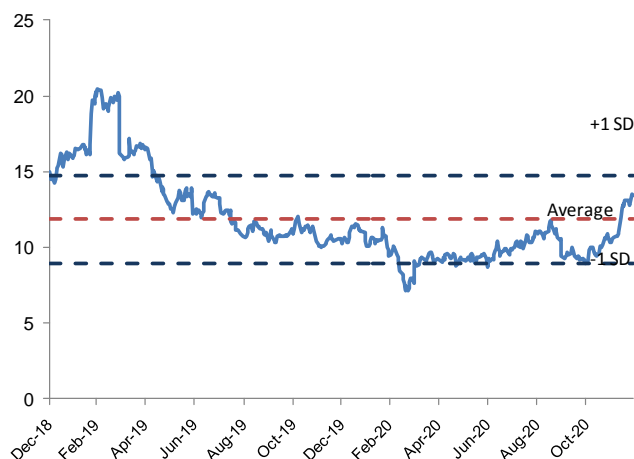
Table-1: Financial Estimations Revisions

USD (Million)	OLD			NEW			CHANGE		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Total revenue	53,840	56,316	56,961	54,683	57,412	58,823	1.6%	1.9%	3.3%
Shareholders' net profit	871	889	941	888	911	979	1.9%	2.5%	4.0%
EPS (US\$ cents)	7.307	7.460	7.892	7.445	7.643	8.211	1.9%	2.5%	4.0%

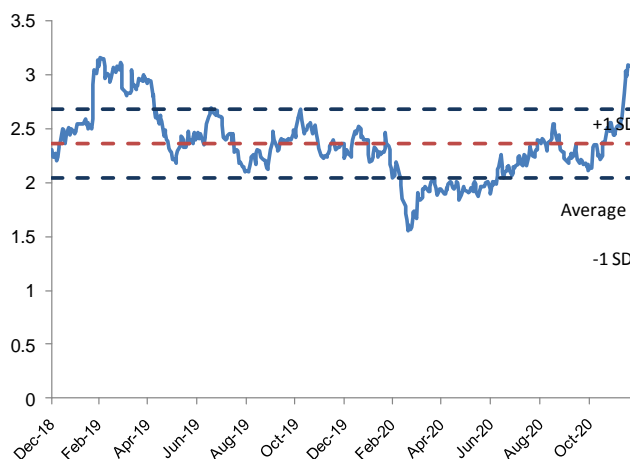
Source: the Company, Guotai Junan International.

Valuation

We revise up the TP from HK\$5.80 to HK\$7.70, and maintain the Company's investment rating as "Accumulate". The Company's PC business is expected to maintain strong growth thanks to strong demand for work-from-home applications, online education and entertainment applications. But the Company has not yet achieved profitability in mobile business and data center business. The TP represents 13.3x, 13.0x and 12.1x FY21-FY23 PER.

Figure-7: Lenovo's PE Graph


Source: Bloomberg, Guotai Junan International.

Figure-8: Lenovo's PB Graph


Source: Bloomberg, Guotai Junan International.

Table-2: Peers Comparison

Table 2: P/E Ratio Comparison													
				Market Cap	PER			PBR			ROE (%)	D/Y (%)	EV/EBITDA
Company	Ticker	Currency	Price	(HKD Mil)	20F	21F	22F	20F	21F	22F	20F	20F	20F
HK Listed Companies													
Lenovo Group Ltd	992 HK	HKD	7.150	86,098	12.1	11.9	12.1	3.5	2.4	2.1	20.2	6.7	3.6
Xiaomi Corp-Class B	1810 HK	HKD	32.950	829,872	53.9	39.7	31.4	6.8	5.9	5.0	13.7	0.0	48.3
Zte Corp-H	763 HK	HKD	19.520	168,004	17.3	13.0	10.5	1.7	1.6	1.5	11.4	1.6	18.1
Coolpad Group Ltd	2369 HK	HKD	0.255	1,666	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					27.8	21.5	18.0	4.0	3.3	2.9	15.1	2.7	23.3
Weighted Average					44.9	33.3	26.7	5.8	4.9	4.2	13.8	0.8	40.1
PRC Listed Companies													
Inspur Electronic Informat-A	000977 CH	CNY	26.440	45,660	30.7	22.8	17.0	3.2	2.8	2.4	10.5	0.3	17.8
Dawning Information Indust-A	603019 CH	CNY	33.710	58,095	45.8	34.6	27.5	6.1	5.3	4.5	14.3	0.4	39.4
Tsinghua Tongfang Co Ltd-A	600100 CH	CNY	6.130	21,583	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Greatwall Technology-A	000066 CH	CNY	17.780	61,848	46.2	36.3	30.8	5.6	5.0	4.4	12.9	0.7	n.a.
Simple Average					40.9	31.2	25.1	5.0	4.4	3.8	12.6	0.5	28.6
Weighted Average					41.8	32.0	25.8	5.1	4.5	3.9	12.7	0.5	29.9
Japan Listed Companies													
Toshiba Corp	6502 JP	JPY	2,885.000	98,584	n.a.	21.0	9.5	1.4	1.1	1.0	(9.6)	0.8	4.8
Panasonic Corp	6752 JP	JPY	1,190.500	219,235	12.3	24.9	15.3	1.4	1.3	1.3	11.5	3.6	3.8
Sharp Corp	6753 JP	JPY	1,564.000	62,499	45.6	18.7	16.7	3.1	2.9	2.4	8.3	1.6	9.3
Sony Corp	6758 JP	JPY	10,285.000	973,471	21.8	16.1	20.4	3.0	2.6	2.3	14.8	0.7	5.3
Nec Corp	6701 JP	JPY	5,540.000	113,453	14.4	16.5	14.8	1.6	1.4	1.3	11.3	1.8	5.2
Fujitsu Ltd	6702 JP	JPY	14,905.000	231,574	18.8	17.8	16.3	2.4	2.2	2.0	13.5	1.8	4.6
Simple Average					22.6	19.2	15.5	2.2	1.9	1.7	8.3	1.7	5.5
Weighted Average					20.5	17.9	18.1	2.6	2.2	2.0	12.3	1.3	5.1
Taiwan Listed Companies													
Asustek Computer Inc	2357 TT	TWD	252.500	51,729	8.5	10.0	10.4	1.0	1.0	1.0	12.2	7.1	4.8
Acer Inc	2353 TT	TWD	23.750	20,143	12.1	12.1	14.7	1.1	1.1	1.1	9.8	5.7	5.8
Simple Average					10.3	11.1	12.6	1.1	1.0	1.0	11.0	6.4	5.3
Weighted Average					9.5	10.6	11.6	1.1	1.0	1.0	11.5	6.7	5.1
US Listed Companies													
Apple Inc	AAPL US	USD	134.870	17,776,739	40.7	34.4	31.3	35.0	45.7	49.8	73.7	0.7	23.3
Hp Inc	HPQ US	USD	24.050	240,450	12.0	9.1	8.1	(14.1)	(7.4)	(5.6)	(245.1)	3.9	5.8
Dell Technologies Inc-CI V	DVMT US	USD	71.500	415,619	9.6	9.6	9.6	(56.2)	13.4	7.2	(35.2)	0.0	9.2
Simple Average					20.8	17.7	16.3	(11.7)	17.3	17.1	(68.8)	1.5	12.8
Weighted Average					39.7	33.5	30.5	32.3	44.3	48.1	67.1	0.7	22.7
Overall Average													
					24.5	20.1	17.5	0.1	5.6	5.3	(4.4)	2.6	15.1
Overall Weighted Average													
					31.3	25.4	22.5	9.4	11.4	11.8	23.5	2.0	20.6

Source: Bloomberg.

Financial Statements and Ratios

Income Statement					
Year end 31 March (USD m)	2019A	2020A	2021F	2022F	2023F
PCSD & other business	38,553	39,998	43,535	45,291	45,778
Mobile business	6,460	5,218	4,998	5,479	6,006
Data center business	6,025	5,500	6,149	6,641	7,040
Total Revenue	51,038	50,716	54,683	57,412	58,823
Cost of revenues	(43,667)	(42,359)	(46,097)	(48,226)	(49,294)
Gross profit	7,371	8,357	8,585	9,186	9,529
Selling & distribution costs	(2,658)	(2,972)	(2,734)	(2,985)	(3,059)
Admin costs	(2,209)	(2,525)	(2,734)	(2,928)	(3,000)
R&D costs	(1,266)	(1,336)	(1,367)	(1,493)	(1,588)
Others	(59)	(86)	0	0	0
Operating Profit	1,178	1,439	1,750	1,780	1,882
Finance Income	27	48	41	46	50
Finance costs	(337)	(454)	(397)	(410)	(419)
Profit from associates & JCE	(12)	(15)	(29)	(17)	(17)
Profit Before Tax	857	1,018	1,364	1,399	1,497
Income Tax	(199)	(213)	(341)	(350)	(374)
Profit After Tax	657	805	1,023	1,049	1,123
Non-controlling Interest	(61)	(139)	(136)	(138)	(144)
Shareholders' Profit / Loss	596	665	888	911	979
Basic EPS (USD Cent)	5.014	5.578	7.445	7.643	8.211

Cash Flow Statement					
Year end 31 March (USD m)	2019A	2020A	2021F	2022F	2023F
Profit before tax	857	1,018	1,364	1,399	1,497
D&A	799	869	821	817	801
Finance cost, net	310	406	356	364	369
Share-based compensation	215	259	284	313	344
Other non-cash items	(70)	179	489	83	43
Change in working capital	6	276	(171)	(175)	(239)
Interest paid	(324)	(405)	(354)	(365)	(373)
Tax paid	(319)	(392)	(351)	(364)	(392)
Cash from Operating Activities	1,473	2,210	2,440	2,071	2,050
CAPEX	(701)	(937)	(1,017)	(1,023)	(984)
Others	1	(20)	72	71	75
Cash from Investing Activities	(700)	(957)	(945)	(952)	(909)
Dividends paid	(404)	(431)	(460)	(590)	(648)
Borrowings change	0	957	(212)	117	58
Repayment of a note	0	(786)	0	0	0
Others	527	22	(171)	(213)	(246)
Cash from Financing Activities	123	(238)	(843)	(686)	(836)
Net Changes in Cash	895	1,014	652	433	305
Cash at Beg of Year	1,848	2,663	3,551	4,089	4,420
FX change	(81)	(126)	(114)	(102)	(92)
Cash at End of Year	2,663	3,551	4,089	4,420	4,633

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 March (USD m)	2019A	2020A	2021F	2022F	2023F
PP&E	1,431	1,713	1,606	1,489	1,324
Prepaid land lease payment	464	498	0	0	0
Intangible assets	8,325	7,985	8,078	8,173	8,270
Deferred income tax assets	1,863	2,060	2,121	2,185	2,251
Financial assets at FVTPL	449	495	693	727	764
Other non-current assets	571	645	680	705	733
Total Non-current Assets	13,102	13,395	13,178	13,280	13,341
Inventories	3,435	4,947	6,015	6,602	7,059
Trade & notes receivable	6,708	6,275	6,847	7,189	7,366
Deposit, prepayment & other receivable	3,754	3,559	3,838	4,029	4,128
Cash & Cash Equivalents	2,663	3,551	4,089	4,420	4,633
Other current assets	327	402	407	419	433
Total Current Assets	16,886	18,733	21,196	22,660	23,619
Total Assets	29,988	32,128	34,374	35,939	36,960
Trade & notes payable	7,703	8,968	9,885	10,341	10,570
Other payables, accruals & provisions	9,681	9,744	10,576	11,066	11,330
Borrowings	1,953	3,295	2,734	2,756	2,765
Deferred revenue	781	819	883	927	950
Other current liabilities	373	431	442	454	467
Total Current Liabilities	20,490	23,258	24,520	25,544	26,083
Warranty provision	255	259	277	291	298
Deferred revenue	678	865	932	979	1,003
Retirement benefit obligations	434	458	463	468	472
Borrowings	2,427	1,565	1,914	2,009	2,059
Other non-current liabilities	1,607	1,664	1,696	1,693	1,693
Total Non-current Liabilities	5,401	4,811	5,282	5,439	5,525
Total Liabilities	25,891	28,069	29,802	30,983	31,608
Share capital	3,186	3,186	3,186	3,186	3,186
Reserves	211	12	439	760	1,091
Total Shareholders' Equity	3,396	3,198	3,625	3,946	4,277
Minority Interest	701	862	947	1,010	1,076
Total Equity	4,097	4,059	4,572	4,956	5,352

Financial Ratios					
Year end 31 March (USD m)	2019A	2020A	2021F	2022F	2023F
Gross margin (%)	14.4	16.5	15.7	16.0	16.2
Operating margin (%)	2.3	2.8	3.2	3.1	3.2
Net margin (%)	1.2	1.3	1.6	1.6	1.7
ROA (%)	2.0	2.1	2.7	2.6	2.7
ROE (%)	17.2	20.2	26.0	24.1	23.8
Current ratio (x)	0.8	0.8	0.9	0.9	0.9
Quick ratio (x)	0.7	0.6	0.6	0.6	0.6
Debt to equity ratio (x)	1.3	1.5	1.3	1.2	1.1
Net gearing (%)	48.5	38.8	13.9	7.4	3.3

31 December 2020

Lenovo Group 联想集团 (00992 HK)

Company Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN I (01788 HK), JINSHANG BANK (02558 HK), HAITIAN ANTENNA (08227 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2020 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk