

Lenovo (992 HK)

Not Rated

PC giant flexing its muscles



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Stock performance (HK\$)



Source: Bloomberg

Key data

Jun 01 close (HK\$)	12.32
Share in issue (m)	11,109
Major shareholder	Legend Holdings (30.6%)
Market cap (HK\$b)	136.9
3M avg. vol. (m)	46.2
52W high/low (HK\$)	13.85 /9.44

Source: Bloomberg

What's new? Lenovo officially announced the re-launch of its Motorola mobile business in China and showcased several concept products and technologies at the company's first Tech World conference held on May 28 in Beijing.

Can Bingbing save Motorola/Lenovo mobile business? Top Chinese actress Fan Bingbing was appointed as ambassador for Lenovo & Motorola smartphones. Users can order tailor-made Moto X smartphones via Moto Maker (price point starts from RMB2,799 in China, US\$399 in the US). Lenovo jumped to become the world's no. 3 smartphone maker after combining Motorola Mobile in Oct 2014. In 1Q15, the two companies had a 5.6% global market share, following Samsung (no.1) and Apple (no.2). Management is sticking to its plan to turn around the loss-making Motorola business in four to six quarters after the acquisition completion (i.e. late 2015, early 2016). In our view, the cost savings from the centralization of component procurement is a key driver of the turnaround plan. We remain cautious on the market response to the re-launch of the Motorola business in China given the highly competitive smartphone market in the country.

"Innovation Never Stands Still" This is the slogan highlighted by management during the conference. In our view, the concept product demonstrations did showcase the R&D capabilities at Lenovo. Such technologies include the Lenovo smartwatch (concept product) with Virtual Interactive Display (VID), which overcomes the limitations of its display size by producing a virtual image 20x larger than the actual display, and the Lenovo Smart Cast smartphone with a laser projector to generate a virtual keyboard for users.

Replicating another Xiaomi? We noticed groups of young Lenovo fans at the venue similar to those at Xiaomi's product conferences; in our view, capturing future young consumers is one of the key success factors in the consumer electronics market. Shenqi (神奇工厂), a new start-up fostered by Lenovo focuses on developing smartphones and smart-home appliances and sales via the internet, is another way in which the company is targeting the youth segment, in our opinion. The new start-up is majority owned by Lenovo and might become a platform for Lenovo to form partnership with other Internet companies, in our opinion.

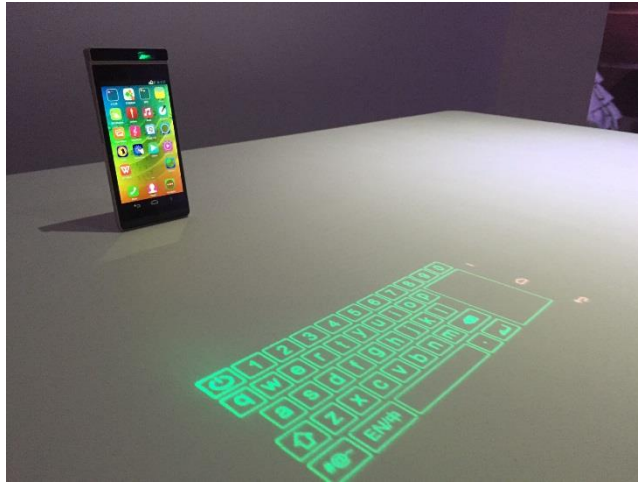
Trading at a high-teen forward P/E Investors, in general, have lost interest in the ex-growth PC business. For instance, shares in HP (HPQ US, NR) have fallen 17% YTD and are now trading at 9.1x forward P/E. However, we see Lenovo as a unique case in the PC industry given its potential for improved profitability, underpinned by a turnaround in its loss-making Motorola mobile business and the barely profitable IBM x86 server business. The stock is currently trading at 18.0x FY16 Bloomberg EPS estimate (FYE Mar 31, 2016). Its shares have risen 21% YTD.

Figure 1: Lenovo Tech World 2015



Sources: Lenovo

Figure 2: Lenovo Smart Cast keyboard

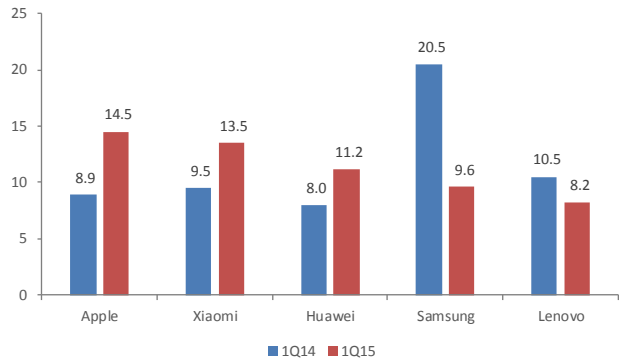


Sources: Lenovo
 *Jun Liu (President of Mobile Business Group)
 Colin Giles (VP of Mobile Business Group)

Figure 3: Top Lenovo mobile executives, Jun Liu & Colin Giles*



Figure 4: 1Q15 smartphone shipments in China (m units)



Sources: IDC

Figure 5: China smartphone market share (1Q15)

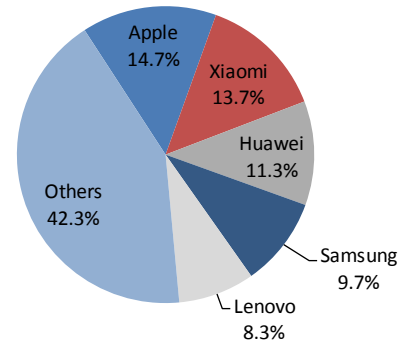
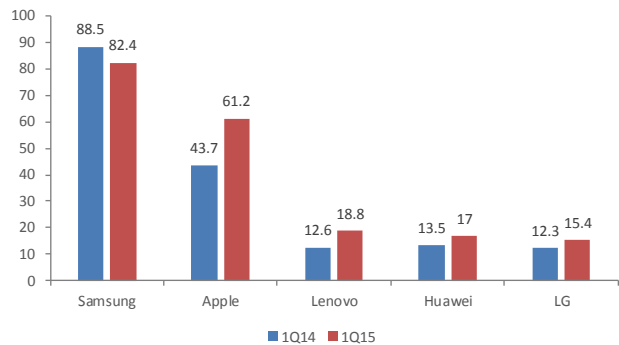


Figure 6: 1Q15 global smartphone shipments (m units)



Sources: IDC

Figure 7: Global smartphone market share (1Q15)

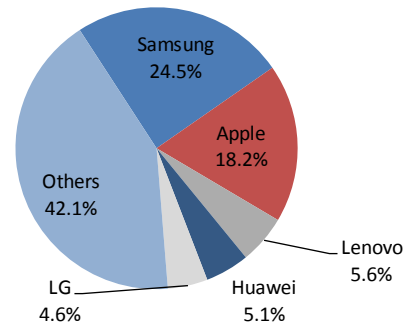


Figure 8: Lenovo - Quarterly sales and margin trend

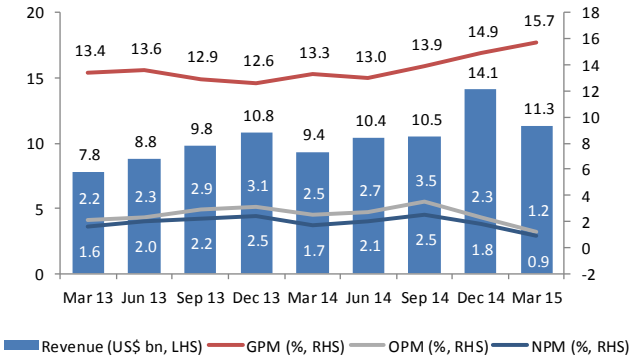
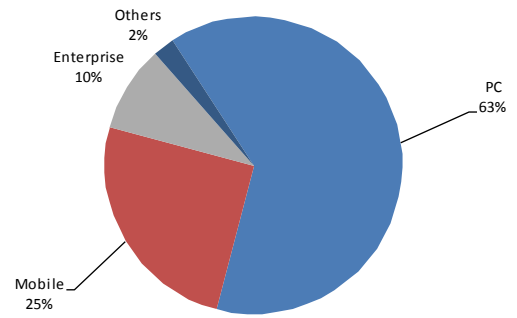


Figure 9: Lenovo - Sales mix by division (Jan-Mar 2015)



Sources: Company data

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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