

China Hardware Technology

3Q13 PC update: Lenovo's No.1 position further strengthened

Both IDC and Gartner released global PC shipment data for 3Q13, -7.6% YoY and -8.6 YoY respectively, better than IDC's previous estimate of -9.5%. As tablet cannibalization and slow transition to touch-based Windows 8 system continue, we expect demand weakness to remain in the following quarters. Despite these challenges, Lenovo has further solidified its leadership in the PC market, with continuing share gain and network expansion. We are also bullish on its smartphone segment and potential catalyst in M&A. We reiterate our BUY rating on Lenovo with TP of HK\$9.2.

Event Market research firms IDC and Gartner released preliminary PC quarterly shipment data for 3Q13 on 9 Oct, with a YoY decline of -7.6% and -8.6% respectively, beating previous IDC estimate of -9.5%. This was attributed to 1) cannibalization of tablets for daily content consumption, 2) first-time consumers in EM shifting to inexpensive Android tablets, and 3) slow transition to touch-based ultrabooks/laptops due to high price points. IDC expected worldwide PC shipments to fall by -9.7% in 2013.

Lenovo's PC leading position solidified. Smartphone strength fuels upside Lenovo has topped the PC ranking for 2 consecutive quarters, and regained shipment momentum in 3Q13. We believe Lenovo's 3Q growth drivers include continued channel expansion, new laptop form factors and strong shipment gain in the U.S. (+26% YoY) and EMEA markets. Looking ahead, amid an unfavorable macro environment, we expect its PC business to remain solid given its product strength, continued share gain in AP/AG/EMEA, and sustained margin expansion in China/AP regions. In addition, we are positive on Lenovo's smartphone segment on its strong shipment momentum and improving operating leverage, supported by scaling benefits (profitable for last 2 qtrs), expanding EM network coverage (+10 new markets in 14'), new premium models (~40 in 2013), and continued brand building efforts (promotion with Kobe Bryant).

Catalysts M&A has been part of Lenovo's growth strategy over the past decade. We believe upcoming catalysts include Lenovo's investments in tablets/smartphones (for IP and design capability) and server/enterprise business to leverage corporate channel advantages, while near-term ones include FY2Q14 results in 2nd week of Nov and product launches on new smartphone premium series (Vibe X/Z).

Top 5 Vendors Worldwide PC Shipment and Market Share

	3Q13 shipment	Market Share	3Q12 shipment	Market Share	YoY Growth	QoQ Growth
Lenovo	14,136	17.3%	13,828	15.7%	2.2%	12.0%
HP	13,992	17.1%	13,931	15.8%	0.4%	13.0%
Dell	9,519	11.7%	9,493	10.8%	0.3%	3.1%
Acer	5,467	6.7%	8,349	9.5%	-34.5%	-12.2%
ASUS	4,208	5.2%	6,384	7.2%	-34.1%	-8.3%
Others	34,287	42.0%	36,314	41.1%	-5.6%	12.1%
Total	81,609	100.0%	88,298	100.0%	-7.6%	7.9%

Source: IDC, CMS(HK)

OVERWEIGHT

(Prior: Overweight)

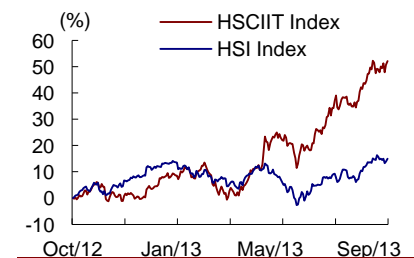
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10 Oct 2013

HSI Index 23033.97
HSCEI Index 10,505.51

Sector performance

%	1m	6m	12m
Absolute return	2	45	51
Relative return	2	38	37



Source: Bloomberg

Related research

- China Hardware Technology - The Rise of Local Winners - 13 Aug, 2013
- China Hardware Technology - 3Q product wave to benefit local brands; BUY TCL C/Truly/Sunny - 24 Sept, 2013

Figure 1: Gartner Worldwide PC Vendor Shipments for 3Q13 (Preliminary)

(mn units)	3Q12	4Q12	1Q13	2Q13	3Q13	Market Share	3Q12	4Q12	1Q13	2Q13	3Q13	YoY Growth	3Q12	4Q12	1Q13	2Q13	3Q13
Lenovo	13.77	13.98	11.67	12.68	14.15	Lenovo	15.7%	15.5%	14.7%	16.7%	17.6%	Lenovo	9.8%	8.2%	0.1%	-0.6%	2.8%
HP	13.53	14.65	11.69	12.40	13.73	HP	15.5%	16.2%	14.8%	16.3%	17.1%	HP	-16.4%	-0.5%	-23.6%	-4.8%	1.5%
Dell	9.22	9.21	8.73	8.98	9.31	Dell	10.5%	10.2%	11.0%	11.8%	11.6%	Dell	-13.7%	-20.9%	-11.2%	-3.9%	1.0%
Acer	8.62	8.62	6.84	6.31	6.67	Acer	9.9%	9.5%	8.6%	8.3%	8.3%	Acer	11.8%	-11.0%	-29.3%	-35.3%	-22.6%
ASUS	6.35	6.53	5.36	4.59	4.92	ASUS	7.3%	7.2%	6.8%	6.0%	6.1%	ASUS	-10.2%	6.4%	-3.5%	-20.5%	-22.5%
Others	36.31	37.39	34.91	31.04	31.50	Others	41.1%	56.9%	44.1%	40.8%	39.2%	Others	-11.6%	-6.4%	-6.1%	-10.5%	-13.3%
Total	87.81	90.37	79.21	76.00	80.28		100.0%	100.0%	100.0%	100.0%	100.0%		-8.3%	-4.9%	-11.2%	-10.9%	-8.6%

Source: Gartner, CMS(HK)

Figure 2: IDC Worldwide PC Vendor Shipments for 3Q13 (Preliminary)

(mn units)	3Q12	4Q12	1Q13	2Q13	3Q13	Market Share	3Q12	4Q12	1Q13	2Q13	3Q13	YoY Growth	3Q12	4Q12	1Q13	2Q13	3Q13
Lenovo	13.83	14.11	11.70	12.62	14.14	Lenovo	15.7%	15.7%	15.3%	16.7%	17.3%	Lenovo	10.2%	8.2%	0.0%	-1.4%	2.2%
HP	13.93	15.02	12.00	12.38	13.99	HP	15.8%	16.7%	15.7%	16.4%	17.1%	HP	-16.4%	-0.6%	-23.7%	-7.7%	0.4%
Dell	9.49	9.48	9.01	9.23	9.52	Dell	10.8%	10.6%	11.8%	12.2%	11.7%	Dell	-14.0%	-20.8%	-10.9%	-4.2%	0.3%
Acer	8.35	6.96	6.15	6.23	5.47	Acer	9.5%	7.8%	8.1%	8.2%	6.7%	Acer	-9.6%	-28.2%	-31.3%	-32.6%	-34.5%
ASUS	6.38	6.47	4.36	4.59	4.21	ASUS	7.2%	7.2%	5.7%	6.1%	5.2%	ASUS	10.0%	5.6%	-19.2%	-21.1%	-34.1%
Others	36.31	37.75	33.08	30.59	34.29	Others	41.1%	42.0%	43.4%	40.4%	42.0%	Others	-12.2%	-5.6%	-10.0%	-11.2%	-5.6%
Total	88.30	89.79	76.29	75.63	81.61	Total	100.0%	100.0%	100.0%	100.0%	100.0%		-8.6%	-6.4%	-13.9%	-11.4%	-7.6%

Source: IDC, CMS(HK)

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RATING	DEFINITION
OVERWEIGHT	Expected to outperform the market index by > 10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
UNDERWEIGHT	Expected to underperform the market index by >10% over the next 12 months

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