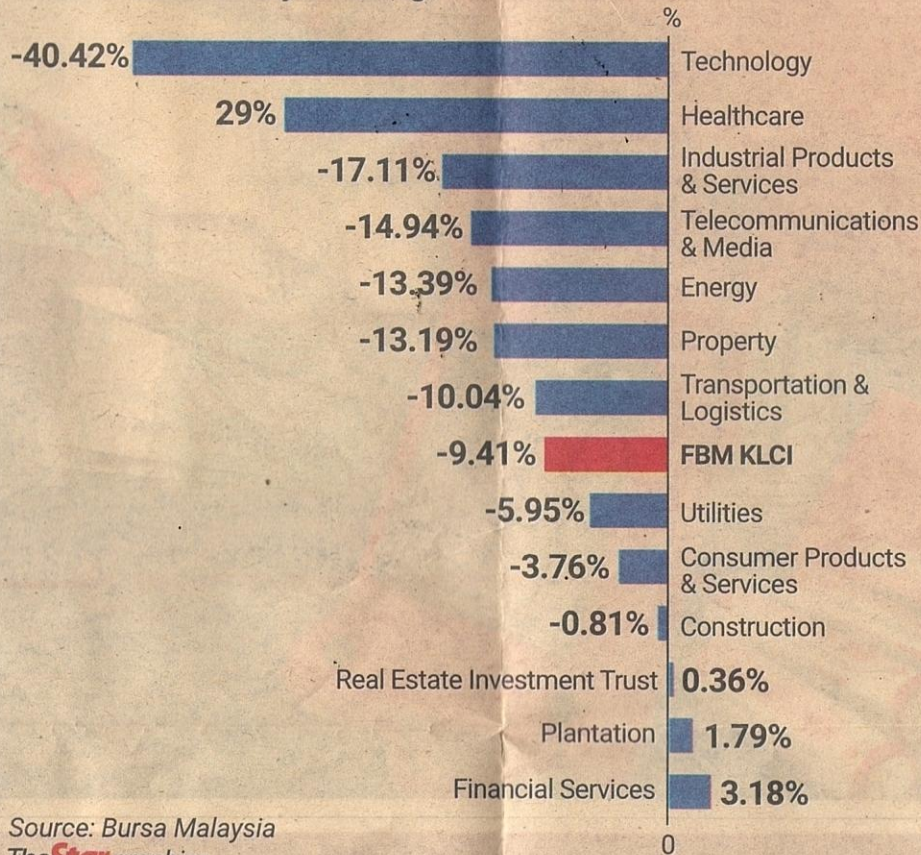


# Technology stocks: Poised for a rebound?

## Major disconnect between earnings and share prices

### Sector Index and FBM KLCI Performance Year-to-date till July 14 change



Source: Bursa Malaysia  
TheStar graphics

By GANESHWARAN KANA  
ganeshwaran@thestar.com.my

THERE is clearly a major disconnect between the technology sector's earnings and the share prices.

Despite the ever-growing demand for electronics and the robust earnings outlook, technology stocks have been on a free-fall this year.

The sell-down is not surprising though, as bearish market sentiment has overwhelmed fundamentals.

In Malaysia, technology is the worst-performing sector so far in 2022, with the Bursa Malaysia Technology Index falling by 40.42% year-to-date (see chart).

The sector has well underperformed Malaysia's benchmark index, FBM KLCI, which has declined by about 9.4%.

Second to the technology sector is healthcare, whereby the index has fallen by 29%.

The drop in the healthcare index is understandable, considering that glove stocks have been declining on the back of normalising earnings.

But that is not the case for technology stocks.

Many companies, especially those related to semiconductors, have been seeing stronger earnings with comfortable order book levels.

For example, for the quarter ended March 31, Inari Amertron Bhd's net profit surged by 25.9% year-on-year (y-o-y) and Vitrox Corp Bhd saw its net profit jumping by almost 63% y-o-y.

Meanwhile, Frontken Corp Bhd's net profit was up by 15.7% y-o-y in the quarter ended March 31.

Notwithstanding the risk of recession and its possible impact, many semiconductor players and related services companies are projecting a continued growth momentum ahead.

Future orders are also expected to be resilient.

The World Semiconductor Trade Statistics has forecast the worldwide semiconductor market to grow by 16.3% to US\$646bil (RM2.87 trillion) in 2022, thanks to strong chip demand

will continue to deliver the orders that have been delayed previously. This would help support us," he says.

Meanwhile, Frontken chairman and CEO Nicholas Ng Wai Pin says the company remains "very positive" on its outlook in the near future.

"The demand for our services has not reduced. We have not been told by our customers that future orders will be reduced. We are also not seeing a slowdown in our current business," he says.

Ng further adds that the company will continue with its expansion plans.

Looking ahead, analysts continue to believe that the technology sector offers good opportunities for investors.

"We remain optimistic on the growth prospects of the sector and view the current price weakness as a buying opportunity," Rakuten Trade says in a note.

Echoing a similar stance, a fund manager says that technology stocks, especially those related to semiconductors, would be among the first to see a strong rebound when market sentiment improves.

UOB Kay Hian Research (UOBKH), on the contrary, is more neutral on the sector.

While the sector's valuation appears more appealing, below the five-year mean, the research house advocates investors to be selective.

It cautions that there could be earnings downside risks that might not have been fully accounted for.

This is following empirical evidence on slower demand and prudent guidance from global tech giants and original equipment manufacturers, according to UOBKH.

It also notes that the semiconductor industry

chip demand.

Next year, the semiconductor market is expected to continue growing, albeit at a slower pace of 5.1%.

However, it seems these projections are not enough to excite the investors amid the bearish market sentiment.

The selldown of technology stocks is not exclusive to Malaysia alone.

In the United States, technology stocks that are more varied are also down big time. The five most-popular technology stocks or the "FAANG" have fallen by double digits this year alone.

In what seems to be a blessing in disguise, the selldown has helped to correct overpriced technology stocks.

Amazon.com Inc, for instance, used to trade at a higher price-to-earnings (PE) ratio of 81.3 times on April 4, but the market only ascribed a PE of 53.4 times to it as of July 14.

Similarly, in Malaysia, the valuations of

many technology stocks have become more palatable as investors shy away from these counters.

Despite what is happening in the stock market, bosses of local technology companies say that business has been running well.

Speaking with *StarBizWeek*, QES Group Bhd president and managing director Chew Ne Weng says that earnings growth for semiconductor and automated test equipment (ATE) players will remain "very good" for the next two to three quarters, at least.

As for QES, which is an ATE player, Chew points out that the outstanding order book continues to be strong.

The company's total combined order book was valued at RM126mil as at end-June 2022.

In terms of book-to-bill ratio for QES' manufacturing division, it was recorded at 2.4 times.

As for the distribution division, the ratio

stood at 1.2 times as at end-June 2022.

"The only question is how fast we can deliver our orders amid the supply chain issues that we are facing globally.

"Because of the supply chain issues that are beyond our control, the delivery of our orders has been delayed into coming quarters," he says.

Looking ahead, Chew acknowledges that some sub-segments of semiconductors may not have a good growth rate compared to others.

However, the production of integrated circuits for automotive and radio frequency chips for consumer gadgets are likely to have better demand.

In the event a recession hits, especially in the United States, Chew says that sentiment will turn more sour and would result in lower demand, including for all Malaysian players.

"As for QES, even if there's a recession, we

It also notes that the semiconductor industry may see a growth deceleration next year.

"While most major categories of semiconductor products are expected to see high-teens y-o-y growth in 2022, slower forecasts were pencilled in for 2023, particularly from the memory and sensor segments.

"We believe this could stem from the expectation of a demand slowdown in the consumer electronics segment," it says.

UOBKH says it likes companies that have strong order book backlogs and are still benefiting from structural growth themes.

Moving forward, it appears that the semiconductor supercycle is unlikely to come to an end anytime soon, although its pace could decelerate as the global pent-up demand dissipates.

The bigger question is, would there be a second round of "super-bull run" for technology stocks on Bursa Malaysia, now that valuations are less demanding?