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Technology Sector

Overweight (↔)

Valuation De-Rating Creates Opportunity

- **The Malaysian technology sector remains weighed down by ongoing tariff risks and muted global consumer electronics demand. Many companies continue to adopt a cautious stance, deferring major investments amid unresolved trade policy clarity.**
- **Key policy watch: The 90-day tariff truce is set to expire by July. Sector sentiment remains tightly linked to Section 232 tariff decisions and the broader trade negotiation outcome. A resolution could restore investment visibility and demand confidence.**
- **Maintain Overweight, with selective picks within our coverage that are well-positioned to benefit from a more stable trade backdrop and long-term structural tailwinds. The sector is currently trading at -1SD below its 5-year forward P/E, reflecting de-rated valuations. We believe risks are largely priced in, and catalysts such as Fed rate cuts and greater policy clarity in 2H25 could drive a sector re-rating.**

Tariff uncertainties continue to weigh on sentiment. The Malaysian technology sector remains clouded by ongoing tariff threats amid persistent global consumer electronics demand uncertainties and cautious investment sentiment. Many technology companies, in their recent quarterly results, have explicitly cited a cautious outlook, reflecting prudence as firms await greater clarity on trade and tariffs policy developments and market conditions before committing to substantial new investments. Through the latest channel checks, despite the lingering tariff uncertainties, most Malaysian technology companies have not been asked by clients for price discounts nor experienced any direct impact from tariffs, particularly as semiconductor products remain exempted.

Highly consumers centric limits performance. Despite global semiconductor sales remaining resilient and others regions tech indices (mainly in US and EU) delivering strong performances, mainly driven by developments in AI and high-performance computing (HPC), Malaysia's technology index continues to underperform, mirroring broader regional market trends. This is largely due to local tech players limited direct exposure to these high-growth segments, making them more susceptible to cyclical volatility in consumer electronics and industrial applications, which are still in a soft patch.

No explicit frontloading observed. So far, no explicit signs of frontloading have been observed across Malaysian tech and EMS companies, based on management commentary in recent briefings and quarterly disclosures. Most companies indicated that customer order patterns remain steady, with no unusual pull-ins or accelerated shipments ahead of potential tariff decisions. This is likely due to unremarkable end-demand, adequate inventory levels across the supply chain, and the fast-evolving nature of tech products, causing customers and producers alike to avoid overcommitting to components that could soon become obsolete.

Forex fluctuations remain a key risk. The volatility and strengthening of the ringgit have contributed to the underwhelming performance of Malaysia's technology sector. Since the sharp decline in the USD/MYR exchange rate in August last year, forex fluctuations have emerged as a key concern, particularly for semiconductor-related companies. While 1QCY25 results showed a relatively smaller forex impact thanks to the stabilisation of the exchange rate at c.RM4.40 versus RM4.70 a year ago, the stronger ringgit still exerts downward pressure on earnings. Looking ahead, the sector remains vulnerable to continued forex swings, especially as the USD weakened further to c.RM4.20 in April. Nonetheless, many companies have stepped up risk management efforts, including the use of hedging strategies, which should help mitigate part of the impact. That said, any further ringgit strengthening could undermine export competitiveness and pressure bottom lines.

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Potential entry of Tata a structural catalyst. Our channel checks indicate that Tata Electronics, a subsidiary of India's Tata Group and a key Apple supply chain partner, is in advanced discussions to acquire a semiconductor fab or OSAT plant in Malaysia. While details are still preliminary, such a move could serve as a significant catalyst for the sector. If materialised, it would elevate Malaysia's standing as a preferred destination for high-value technology investments and further integrate the country into the global premium electronics supply chain.

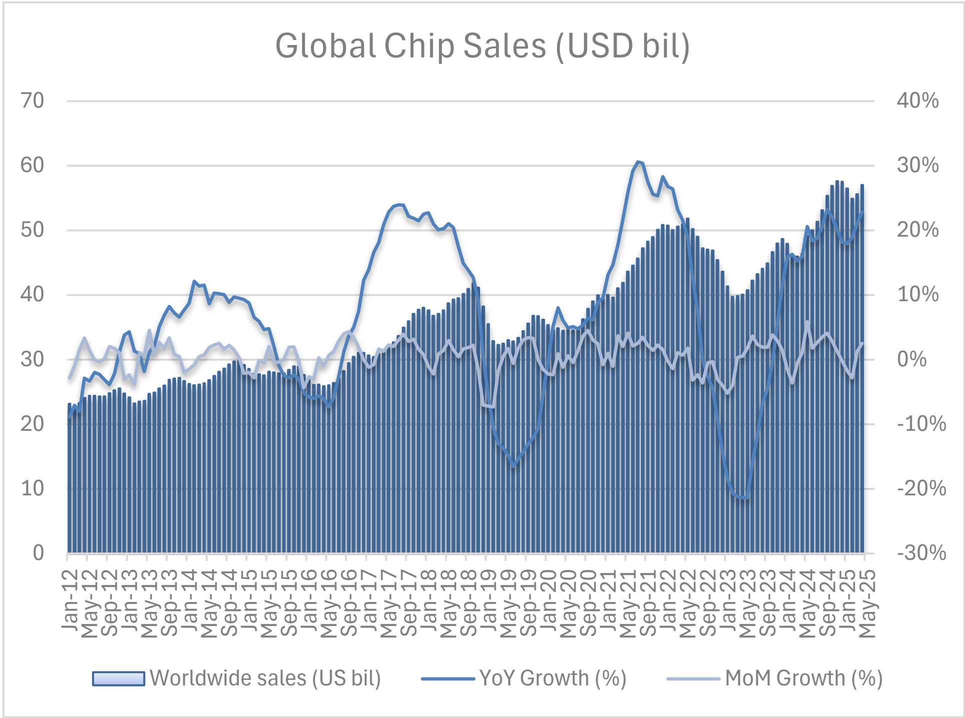
Key tariff decision timeline ahead. The sector remains clouded by uncertainty stemming from the potential inclusion of semiconductors and related equipment under the ongoing Section 232 tariff investigation. With the 90-day tariff truce set to expire by July, this period will be a critical timeline to monitor for policy clarity. A resolution could restore investment confidence and spur a rebound in customer demand, particularly as clients have thus far remained hesitant to commit to long-term procurement amid unresolved trade risks.

Valuation and Recommendation. Despite near-term macro and policy uncertainties, we maintain our **Overweight** stance on the Malaysian technology sector. We believe the sector has largely priced in prevailing risks, including tariff concerns, forex volatility, and weak end-demand. This is reflected in the sector currently trading at approximately -1 standard deviation below its 5-year forward P/E mean. With greater policy clarity anticipated in 2H25 and the potential for Fed rate cuts to boost global consumer spending, sentiment could improve. We believe the sector continues to enjoy structural support from the ongoing supply chain relocation trend, as global brands diversify manufacturing away from China in favour of Malaysia. Additionally, high-growth verticals such as AI infrastructure, EV electronics, and advanced packaging continue to prompt investment across the value chain. We recommend selective exposure to export-oriented names with deep integration into the global supply chain, particularly **Inari Amertron (BUY; FV: RM2.94), Atech (BUY; FV: RM4.17), and Frontken (BUY; FV: RM4.42)**, all of which are well-positioned to benefit from a more stable trade backdrop and long-term structural tailwinds.

Bursa Technology index 5 year forward P/E

Source: Bloomberg

Global semiconductor sales ('USD bil)

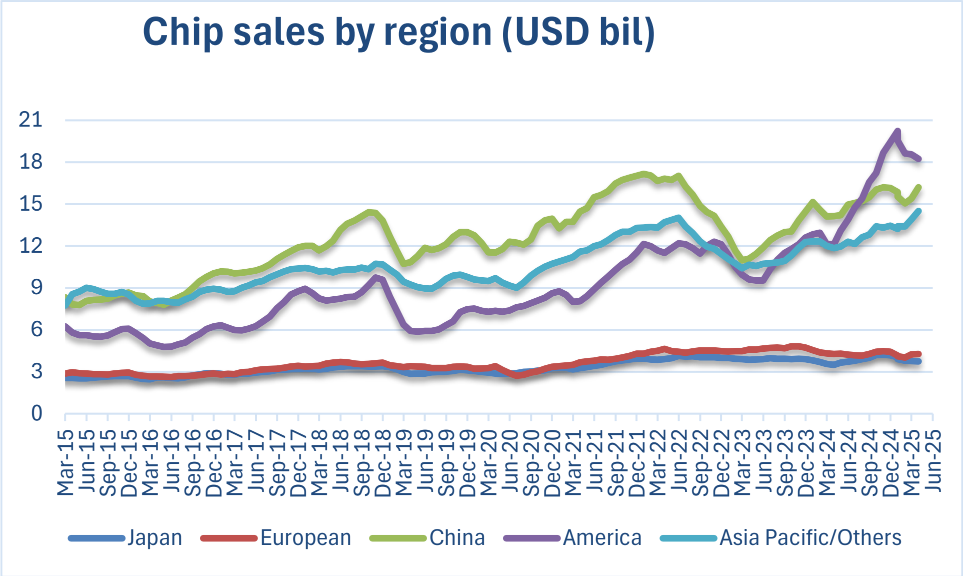


Source: SIA

YoY and MoM higher. Global semiconductor sales reached USD57b in April 2025, representing a 23% yoy increase from April 2024 and a 2.5% mom growth in March 25. We see the strong yoy growth was primarily driven by strong demand in AI-related chips and the low base on March due to seasonality effect.

Global semiconductor trends still supportive. The latest SIA Factbook projects global semiconductor sales to rise to USD697.2b in 2025 and USD738.6b in 2026, from USD630.5b in 2024, mainly driven by advancements in AI and HPC-related technologies. The report also highlights the capital intensity and R&D commitment of the industry, with U.S. semiconductor firms spending USD70b on R&D and USD49.5b on capex in 2024 alone. The Asia Pacific remains the largest regional semiconductor market due to its manufacturing role, positioning Malaysia to benefit from regional growth and rising demand diversification away from China. The U.S.'s over 50% global semiconductor market share further supports the need for Malaysian firms to strengthen alignment with U.S.-linked supply chains.

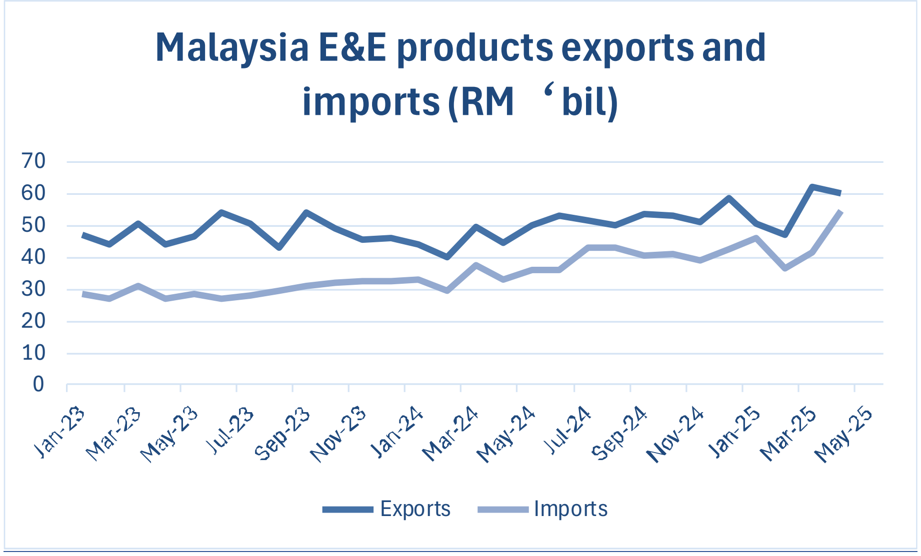
Semiconductor sales by regions ('USD bil)



Source: SIA

Sales breakdown by region. On a yoy basis, all major regions posted higher chip sales in April 2025, with the Americas (+44.4%) and Asia Pacific/All Other (+23.1%) leading the gains, followed by China (+14.4%), Japan (+4.3%), and a marginal increase in Europe (+0.1%). On a mom basis, sales rose in China (+5.5%), Asia Pacific/All Other (+5.3%), and Europe (+0.5%), while the Americas (-1.1%) and Japan (-0.6%) saw slight declines.

Malaysia E&E products exports and imports



Source: DOSM, Apex

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Friday, 13 Jun, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.