

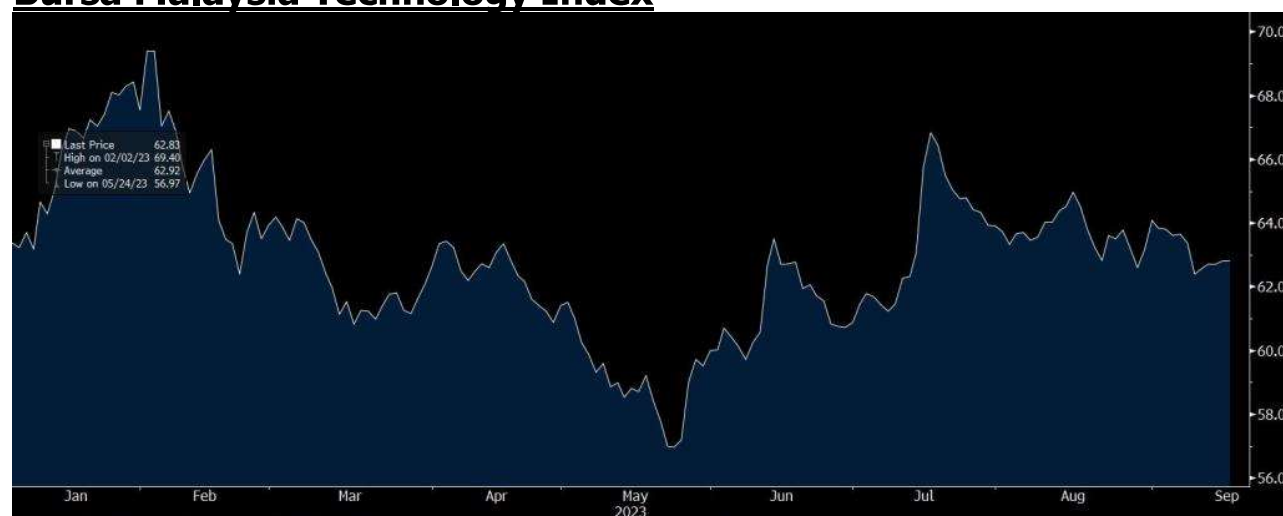
Technology sector

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Lingering uncertainty tempers recovery path

- Review.** Bursa Malaysia Technology Index rebounded from May 2023, supported by the spillover positive sentiment from US tech-sector on the anticipation of less hawkish US Federal Reserve interest rate hikes and AI craze. World Semiconductor Trade Statistics (WSTS) organisation's data exhibit global semiconductor sales dropped 19.5% YoY in 2Q23. In addition, global chip sales registered fifth consecutive quarter of MoM growth. This implies that rate of decline is softening, riding onto the dispersion of excess inventory and improved demand from recovery in China. Local companies OSAT and EMS players delivered disappointing 2Q23 results in terms of both topline and margins, attributed to lower demand and weaker economic of scale. However, ATE player and soft-tech companies whom serve domestic market posted resilient performance, given their wide clientele portfolio that was driven by the strong demand from automotive and medical segment from robust domestic economic that cushioned the weak demand from electro-optical and consumer industrial products.

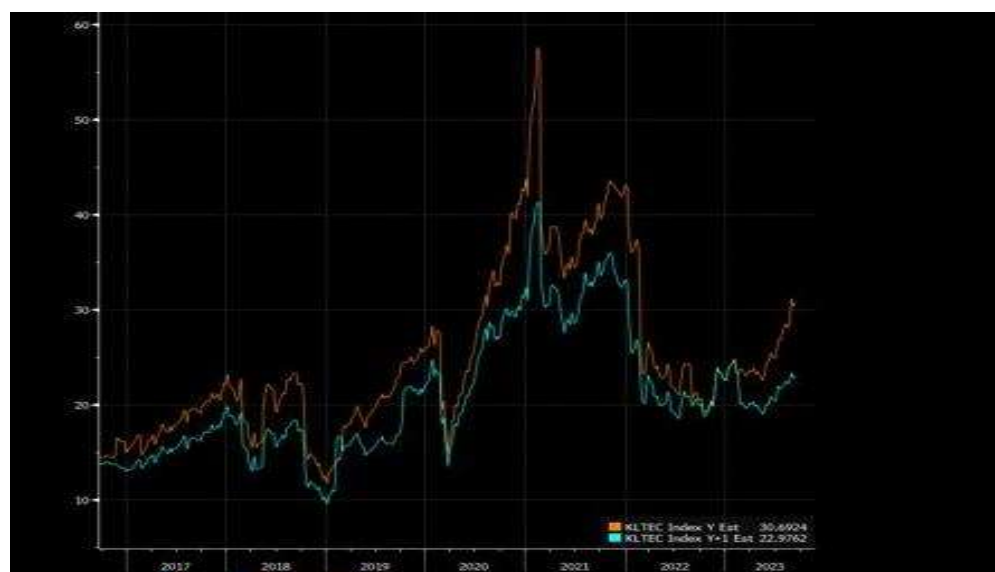
Bursa Malaysia Technology Index



Source: Bloomberg

- Outlook.** In anticipation of uptick in stock replenishment cycle and the seasonally stronger technology sector in 2H, we expect in coming months ahead. However, the said improvement may be capped by softer seasonal demand against previous years owing to the weaker global worldwide consumer demand and inventory adjustments. In fact, WSTS adjusted 2023F semiconductor forecast multiple instances to -10.3% YoY in 2023, while anticipates strong recovery of +11.8% YoY in 2024F. We remained cautious on FY24F full-recovery, attributed to the prolonged high interest rate environment, rise of Huawei latest flagship device (home-grown 7nm chip) and ban of iPhone models in China that may spark further trade tension which potentially impact to the full-recovery progress.
- Valuation & Recommendation.** Bursa Technology index is trading at 30.71x 2023F PER and 23x 2024F PER with EPS anticipate to decrease 22.3% YoY in 2023F, before staging a rebound of 33.6% YoY in 2024F. At present, Bursa Technology index is trading higher than pre-pandemic trailing and forward 1Y PER (refer below) mainly attributed to the spillover sentiment from US tech stocks and pricing in high recovery growth prospects for FY24F. We opine the sector's current valuation are not attractive as the timing of recovery remained ambiguous. Our top pick would be **Aurelius Technology (BUY ; FV: RM 3.22)** due to its exposure to IoT, which sees relatively lower impact from the cooling demand, strong profit growth and prospects with massive expansion coupled with margin enhancement expecting with higher margin product mix. Meanwhile, we like **QES Group Bhd (BUY; FV: RM 0.725)** for its diversification of customer segments beyond a heavy reliance on semiconductors industry has positioned itself to mitigate risks during the semiconductor downturn and gain resilience in fluctuating markets compares to its peers.

Bursa Malaysia Technology Index



Source: Bloomberg

- **Key Risk.** Softer seasonal demand and slower-than-expected inventory adjustment. Prolonged high interest rate may keep valuations on the lower end against historical average
- **Summary.** We believe the technology sector in general will deliver better 2H23 results compared to 1H23, but remained cautious on the relatively high valuation due to the timing of full-recovery that remain ambiguous. In short, we are **Neutral** on the technology sector while monitoring onto a clearer global central banks interest rate decisions and further signs for a meaningful recovery of the sector.

Top Picks

Company	Price (RM)		P/E (x)			Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F				
QES Group Bhd	0.55	18.70	19.50	17.30	0.91	0.72	30.91%	
Kronologi Asia Bhd#	0.41	11.60	15.70	16.10	-	0.53	29.27%	
Aurelius Technologies Bhd#	2.65	22.10	20.90	17.80	1.51	2.90	9.43%	
Frontken Corporation Bhd	3.15	46.30	41.50	32.20	1.33	3.32	5.40%	
Inari Amerton Bhd*	2.90	32.87	20.43	27.50	2.83	3.39	16.90%	

Kronologi Asia Bhd & Aurelius Technologies Bhd data based on FYE Jan

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg