



Malaysia's technology sector to ride imminent upcycle

KUALA LUMPUR (Nov 23): Maybank Kim Eng has upgraded Malaysia's technology hardware sector to positive from neutral as they believe the sector will ride an imminent upcycle that appears to be heralded by positive growth of the global semiconductor industry.

In a note today, the research house's analysts Kevin Wong and Gene Lih Lai said they adopt a positive growth outlook for the tech sector due to rollout of 5G networks, ramp-up of semiconductor components and equipment, development of sub-sectors such as Internet of Things (IoT), artificial intelligence (AI) and electric vehicles (EVs), and Industry 4.0.

"These should bode well for Outsourced Semiconductor Assembly and Test (OSATs), automatic test equipment (ATE)/automation manufacturers and electronics manufacturing services (EMS)/precision engineering companies," they said.

Meanwhile, the World Semiconductor Trade Statistics projected that the global semiconductor market will grow by 6.2% year-on-year to US\$452 billion in 2021 while the global industry association SEMI estimated that global semiconductor manufacturing equipment sales will grow by 11% year-on-year to US\$70 billion in 2021.

"This upcycle would also be driven by the rollout of 5G networks across key cities — accelerated by the growing number of 5G-enabled devices (i.e. smartphones and IoT) and high adoption rates of 5G by key countries (i.e. China, US and South Korea)," they said.

They expect semiconductor equipment component and module suppliers, OSAT companies and ATE manufacturers to be key beneficiaries of such a favourable outlook, attributed to rising supply and demand for advanced chip sets and components (i.e. sensors).

"This, in turn, would also lead to higher spending and stronger demand for semiconductor equipment," they added.

They also anticipated growth from up-and-coming tech sub-sectors — namely IoT, EVs and AI.

"Although such sub-sectors would [be deemed] to be more niche (relative to the larger core semiconductor market), we believe there are selective opportunities for semiconductor equipment/ATE manufacturers while the booming of any tech sub-sectors would generally entail demand for components and chipsets.

"Elsewhere, we believe the progressive transition into Industry 4.0 would benefit automation companies," they said.

While the Malaysia technology universe is trading at an average forward price-to-earnings ratio (PER) of 35 times, they think the rich valuations are justified by the potential earnings growth catalysts and upsides, in tandem with the sector's upcycle, as well as strong domestic equity fund flows.

Their top pick is Inari Amertron Bhd as they expect the company to benefit from the mass deployment of 5G networks and increasing sales of premium 5G smartphones.

They have raised its target price (TP) to RM3.40, from RM2.45 previously, based on a target 36 times 2021 PER, to reflect the strong near-term earnings growth prospects and their expectation of a sector re-rating.

They also upgraded Globetronics Technology Bhd to buy from sell as they believed the worst will be over in FY20 and growth prospects will improve from 1HFY21 onwards.

They have increased its TP to RM3.30, from RM1.95, based on a higher re-rated 32 times FY21 PER.

Meanwhile, they downgraded Greatech Technology Bhd to hold, as they believed most of its near-term positives have been priced in at this juncture.

They, however, raised their FY21 to FY22 earnings for the group by 24% to 28% and revised up their TP to RM8.90 from RM7.20, based on an unchanged 36 times FY21 PER.

They also maintained their sell call on ViTrox Corp Bhd due to lofty valuation.

However, in tandem with their sector upgrade and their expectation of sector upcycle, they have raised their TP for the group to RM11.60, from RM8.80. The TP is based on a higher re-rated 37 times FY21 PER.