



M3

SECTOR REVIEW

MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

SECTOR

TECHNOLOGY (4.5 STARS – VERY ATTRACTIVE)

GLOBAL TECHNOLOGY

- Global semi-conductor sales fell -3.1% y-o-y in Nov 11 following a -1.76% fall in Oct 11
- Shipment of US computer and electronic products fell by -2.4% on a y-o-y basis in Nov 11 after stagnating in Oct 11
- US new orders for computers and electronic products fell by -5.8% on a y-o-y basis in Nov 11 following a rise of 4.4% Oct 11
- US inventory for computers and electronic products grew 4.3% y-o-y in Nov 11 after a 4.6% growth rate in Oct 11

ASIAN TECHNOLOGY

- Japanese Chip making Equipment book-to-bill ratio rose to 0.97 in Nov 11 from 0.83 in Oct 11, rising by 16.9% on a m-o-m basis for Nov 11
- Benchmark DRAM chip prices (represented by the DRAM Exchange Index) fell by -18.9% for the year ended 2011, rebounding by 5.0% on a MTD basis

MARKET OUTLOOK

The Japanese Semiconductor Equipment Manufacturers book-to-bill ratio rose to 0.97 in November from 0.83 in October, Bookings (a measure of new demand) fell by -0.42% on a month-on-month basis, but contracted on a year-on-year basis by -30.62%. Reduced spending activity by chip-making companies on the back of global economic uncertainty and declining sales of memory chips as a result of weak PC sales have significantly reduced new orders and negatively impacted the book-to-bill ratio. The PC industry is estimated to account for 65% of all DRAM purchases according to Bloomberg.

Looking at the chip sector, DRAM chip prices (down -18.9% for 2011) seem set to fall further as growth of PC shipments continue to shrink, despite rebounding by 5.0% on a month-to-date basis. With worries over industry consolidation through the mergers of weaker companies or acquisitions by other parties, limiting of supply has been one of the major worries of the consumers of such chips.

In company news, shares of the likes of Oracle, Research in Motion (RIM) as well as Texas Instruments slumped over the course of the month as the latter two warned over missing analysts' estimates, and Oracle actually missed the estimates. Worryingly, Oracle's missing of estimates could be a sign that companies have started to cut back on enterprise spending including software spending and consulting as they prepared for a slowdown in the US and a potential recession in the Eurozone. Enterprise spending as well as smart phones and tablets have been of the brighter spots for the technology sector.

Consensus earnings estimates for companies in the MSCI AC Information Technology index have estimated earnings growth to be 16.93% for 2012, while 2013 earnings growth estimates are expected to be in the region of 15%. This translates to estimated PE ratios of 10.8X and 9.9X for 2012 and 2013 respectively based on consensus estimates representing a healthy discount to the sector's historical valuations. The global technology sector remains one of the most attractive sectors with a potential upside of over 60% by end 2013 (based on our fair value assessment of 16X PE for the market). We have a "Very Attractive" rating of 4.5 stars on the Technology sector.