

# Technology Stocks - Rebound on Bargain Hunting

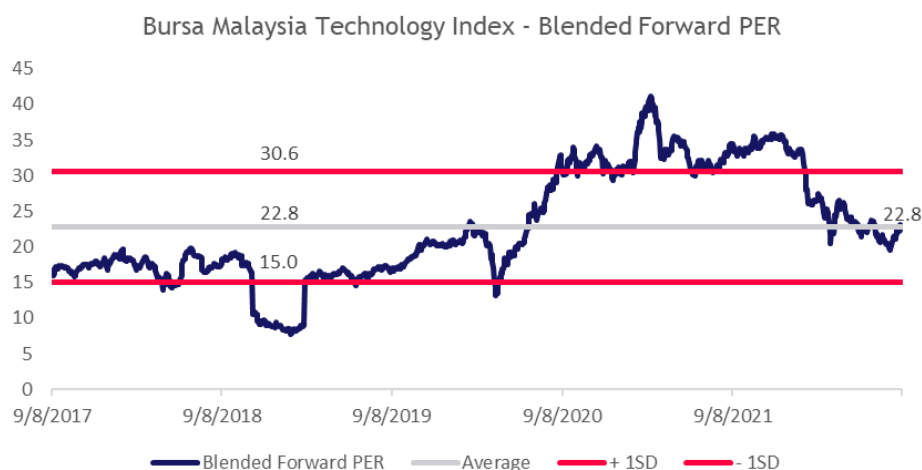
15 AUGUST 2022



The Bursa Malaysia Technology index (KLTECH) has rebounded slightly over 16% in the last three weeks, off its July low, its lowest level since October 2020. The rebound is broad-based as it saw 37 out of the 42 index's component stocks advancing off from their July lows.

**Sector's valuations have compressed.** The KLTECH's forward PER has compressed from slightly above 30x at the start of this year to 22.9x currently (please refer to Figure 1). This valued the index at around its 5-year average forward PER but at the top-end of its pre-pandemic PER valuation band.

**Figure 1: KLTECH - Forward PER has compressed**



Source: Bloomberg

Granted that sector valuations are merely a gross filter in screening for investment opportunities as they do not provide insights into the sector/specific company's dynamics or macro developments, including economic cycles and monetary policies. For this, investors may take the next step by referring to analysts' recommendations on specific companies.

**Analysts remain positive on the sector.** In general, the YTD earnings trend and target price revisions for the sector were negative. However, analysts are on an overall basis keeping a positive bias on the sector. Figure 2 tabulates consensus recommendations on selected technology stocks listed on Bursa Malaysia.

**Figure 2: Selected technology stocks - consensus recommendations**

Name	Market Cap (MYR'm)	Price (MYR)	Consensus Recommendation	Consensus Target Price (MYR)	Implied Share Price Return (%)	Avg Volume - 30 Days ('000)
INARI AMERTRON	10,829	2.92	4.8	3.60	23.3	10,016
VITROX CORP	7,189	7.61	3.7	8.42	10.7	340
MALAYSIAN PAC INDUST	6,540	32.88	4.7	42.24	28.5	219
MY EG SERVICES	5,982	0.81	4.9	1.26	55.2	40,357
D&O GREEN TECH	5,023	4.06	5.0	4.73	16.6	1,702
GREATECH	4,996	3.99	4.1	4.50	12.9	1,859
UNISEM	4,952	3.07	4.7	3.70	20.5	1,523
UWC	4,427	4.02	4.5	4.13	2.7	1,800
FRONTKEN	4,403	2.8	4.3	3.24	15.5	4,564
CTOS DIGITAL	3,303	1.43	4.8	1.75	22.0	3,343
PENTAMASTER	2,881	4.05	4.4	4.42	9.1	1,569
DATASONIC	1,461	0.51	4.0	0.70	36.8	6,592
GHL SYSTEMS	1,370	1.2	3.0	1.46	21.8	364
MI TECHNOVATION	1,353	1.51	4.0	1.82	20.7	1,032
GLOBETRONICS	850	1.27	3.7	1.48	16.5	699
JHM	753	1.35	3.7	1.40	4.1	972
REVENUE	496	1.04	4.5	1.46	39.9	2,329
KESM INDUSTRIES	324	7.53	3.0	7.69	2.1	13

Bloomberg consensus recommendations scale: 5 = Strong Buy, 4 = Buy, 3 = Neutral, 2 = Sell and 1 = Strong Sell.

For reference only stocks with at least three analysts covering are featured in the table.

Data closing date: 5 August 2022

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**Is the rebound sustainable?** Naturally, the one question in investors' minds would be the sustainability of the rebound. Besides considering the sector/companies' fundamentals, price signals / technical analysis may be able to assist investors in forming their investment thesis on the sector.

**Rebound at the crossroad.** The latest rebound phase started after the KLTECH's multi-month mid-cycle retracement hit the crucial support area that consists of the 50% and 61.8% Fibonacci Retracement in Mid-July, and at the same time, it flashed out positive divergence in its Daily RSI readings. The index attempted a technical breakout from a resistance zone that consists of the 50- and 100-day SMA lines recently.

**Price signals around resistance zone (50- and 100-day SMA lines).** For chartists, a security/index's price actions around its resistance zone are crucial in determining the security/index's next directional bias at least over the immediate term. Typically, in the case of an index, a breakout from a resistance zone that comes with healthy participations amongst the index' members and a strong volume profile can be interpreted as a possible signal that the ongoing trend is likely to extend. On the other hand, a price rejection from a resistance zone may signal the index's recent rebound may have reached an interim top and is due for a pullback/consolidation.

**Figure 3: KLTECH's price actions around the 50- and 100-day SMA lines would likely signal its next price directional bias in the immediate-term**



**Volume needs to pick up to add strength to the rebound.** While KLTECH's price has been rebounding over the past three weeks, volume throughout the rebound phase thus far has been relatively low vis-a-vis its historical volume profile. From a technical perspective, should the volume profile improve over the immediate term, traders/investors may become even more convinced with the durability of the rebound.

**Global peers' price signals are equally important.** It is worth noting that KLTECH's chart pattern is closely correlated to the Philadelphia Stock Exchange Semiconductor Index (SOX), a modified capitalization-weighted index comprised of companies that are involved in the design, distribution, manufacturing, and sale of semiconductors. These similar price patterns infer that most of the big technology stocks listed on Bursa Malaysia are heavily exposed to the global semiconductors supply chain and the industry's cycles. Hence, it is worth investing some time to analyse the current technical state of SOX.

Figure 4: Chart patterns: Similarities between KLTECH and SOX



**SOX: 100-day SMA line acting as key immediate-term support.** SOX has been trading in a possible mid-cycle consolidation phase since the beginning of this year. Similar to the KLTECH, the index entered the zone that consists of the 50% and 61.8% Fibonacci Retracement in Early-July on the back of a positive RSI divergence reading before rebounding. The index has gained around 28% since its July low.

The index attempted a breakout from its multi-month resistance line recently. Towards the upside, a valid breakout may signal that the index’s rebound could extend further, at least over the immediate-term. Meanwhile, a price rejection from this line may be seen as a signal that the index is likely developing a pullback/consolidation following its recent weeks’ sharp gains.

Figure 5: Taking clues from global peers - SOX is hovering around the multi-month resistance line



**Conclusion.** Despite trading in a consolidation phase YTD, the technology sector remains as one of the most favoured sectors by analysts. Over the immediate-term, investors with a relatively short investment time horizon would likely pay a close attention on KLTECH’s price reactions around the 50- and 100-day SMA lines - for clues on the sector’s next directional bias.