

8 October 2019

## Technology

### Change In Sector Dynamics

Technology | Technology

**Neutral** (Maintained)

Stocks Covered 8  
Ratings (Buy/Neutral/Sell): 5 / 3 / 0  
Last 12m Earnings Negative

- **Staying NEUTRAL.** Our approach has remained unchanged, focusing on key selection of stocks that have sound fundamentals, as well as those that can potentially benefit from the relocation of production. Among our Top Picks: Venture Corp, Fu Yu Corp, and Frencken. We keep our sector call and stick with our picks for FY19 while awaiting a conclusion to the US-China trade war, as both sides are scheduled to resume talks next month.
- **South-East Asia a strong competitor for manufacturing.** Low-cost labour in places like Myanmar, Cambodia, and Laos – coupled with cost-effective manufacturers in Thailand, Vietnam, Indonesia, and the Philippines, as well as higher-end producers in Singapore and Malaysia – empowers the region to be a strong competitor to China for manufacturing. This is especially with the surge in labour costs in China and tariffs from the trade dispute between the US and the East Asian giant. Since 2015, South-East Asian nations have been committed towards establishing an ASEAN community, where goods, services, capital, and labour can move freely between the member states. Australia & New Zealand Banking Group estimates that South-East Asian nations could lift intra- regional trade to SGD1trn by 2025. Foreign direct investment into ASEAN from the major economies could surge to SGD106bn in the latter year, having already eclipsed investments into China for the first time in 2013.
- **Still awaiting a conclusion.** Since US President Donald Trump initiated a trade war against China and its other key deficit trading partners, this has caused a rethink in strategy for companies globally. It has also caused a big change in the global manufacturing supply chain. Relationships have worsened in 2Q19, with additional tariffs being implemented by both sides. In recent months, though, both parties have expressed slight optimism and shown some keen interest to work towards a trade deal in front of the media, with talks scheduled for Oct 2019. While both countries have also given measures of goodwill, we think it remains difficult to expect a positive conclusion from these talks so soon. A delay in a possible trade agreement is highly likely, in our view.
- **Winners of relocation: Venture, Fu Yu, and Frencken.** Fu Yu and Venture have sizable manufacturing capabilities in Singapore and Malaysia, as does Frencken – with the addition of Europe. As a result, shifting production from their China facilities to avoid tariffs should be much easier and faster – they do not need to set up new factories from scratch. In addition, they will likely benefit from new customers that want to shift production out of China and require such production to be ramped up in a short period of time. Our Top Picks within the manufacturing sector also include Fu Yu and Frencken.

#### Top Picks

Fu Yu Corp (FUYU SP) – BUY  
Venture Corp (VMS SP) – BUY  
Frencken (FRKN SP) – BUY

#### Target Price

SGD0.24  
SGD16.30  
SGD0.82

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Company Name	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
CSE Global	Buy	0.69	50.0	9.6	1.3	6.0
Silverlake Axis**	Buy	0.56	28.7	16.1	5.4	6.8
Frencken	Buy	0.82	21.5	7.4	1.0	4.1
Fu Yu Corp	Buy	0.24	6.7	12.6	1.1	7.6
Venture Corp	Buy	16.30	6.1	12.4	1.8	4.6
Avi-Tech Electronics**	Neutral	0.31	-8.8	12.1	1.2	6.8
GSS Energy	Neutral	0.08	19.4	9.2	0.7	2.2
Valuetronics Group*	Neutral	0.61	-1.6	9.0	1.2	6.1

Source: Company data, RHB; Note: \*FY20 (Mar), \*\*FY20 (Jun)

Figure 1: US-China Trade Tariff Timeline

Date	US	China	Link to list of products subjected to tariffs
Current	Total US tariffs applied exclusively to Chinese goods: USD550bn	Total Chinese tariffs applied exclusively to US goods: USD185bn	
Oct-19	US and China are set to resume trade talks on 10 Oct in Washington		
13/9/2019		China will exclude imports of US soybeans, pork, and other farm goods from additional trade war tariffs	
11/9/2019	The US has agreed to delay increasing tariffs on USD250bn worth of Chinese imports from 1 to 15 Oct	China to exempt 16 types of US imports from additional tariffs for a year, which include products such as pesticides, animal feeds, lubricants, and cancer drugs	<a href="#">Exemption List 1</a> <a href="#">Exemption List 2</a>
1/9/2019	US started implementing tariffs on more than USD125bn worth of Chinese imports, as announced on 13 Aug	China began imposing additional tariffs on some USD75bn in goods	<a href="#">1 Sep List 4A</a>
23/8/2019	The US responded by adjusting up the tariff from 10% to 15%, scheduled to be implemented for September and December, and to raise current tariffs to 30% from 25% from 1 Oct	China to impose USD75bn in tariffs on US goods. 5% and 10% tariffs will be imposed on 5,078 goods in two batches from 1 Sep and 15 Dec respectively	<a href="#">1 Sep List</a> <a href="#">15 Dec List</a>
13/8/2019	The Trump administration delays the implementation of tariffs from 1 Sep to 15 Dec on close to half of the USD300bn worth of Chinese goods (including electronic products) announced on 1 Aug		<a href="#">15 Dec List 4B</a>
1/8/2019	US will impose 10% tariffs on USD300bn worth of Chinese goods, including electronic and clothing consumer goods. President Trump also threatened to increase the existing 25% tariff rate on USD250bn worth goods		
9/7/2019	The US will exempt 110 Chinese products from the 25% tariffs (added on 6 Jul 2018). These include medical equipment for cancer for a 1-year period from 9 Jul		
1/6/2019	Total US tariffs applied exclusively to Chinese goods as at 1 Jun: USD250bn	China increased the rate of additional tariffs on some of the about USD60bn worth of US imports to 25%, 20%, and 10%. The 5% additional tariffs applied to some products remained unchanged.	<a href="#">2,493 US products targeted by China's new 25% tariffs</a>
		Total Chinese tariffs applied exclusively to US goods as at 1 Jun: USD110 bn	
10/5/2019	US move to increase tariffs on USD200bn worth of Chinese goods (List 3) from 10% to 25% as of 10 May		
2/12/2018	The US and China agree to a temporary truce. The US will suspend – for three months – a tariff increase from 10-25% (from 1 Jan) on USD200bn of Chinese goods. China agrees to purchase a "very substantial" amount of US products and also suspends additional tariffs added to US-made cars and auto parts for three months starting 1 Jan		
24/9/2018	The US implements tariffs on USD200bn worth of Chinese goods (List 3), bringing the total amount to USD250bn. The tariffs carry an initial rate of 10% and will increased to 25% subsequently	China responds to US tariffs by implementing tariffs on USD60bn worth of US goods, with updated tariff rates of either 5% or 10%	<a href="#">US Tariffs on China– List 3</a> <a href="#">China Tariffs on US– USD60b worth of US goods</a>
23/8/2018	US implements a 25% tariff on 279 goods originating from China (worth USD16bn). Goods targeted include semiconductors, chemicals, plastics, motorbikes, and electric scooters	China implements retaliatory 25% tariffs on 333 goods originating from the US (worth USD16bn), including commodities such as coal, copper scrap, fuel, buses, and medical equipment	<a href="#">US Tariffs on China– List 2</a> <a href="#">China Tariffs on US– List 2</a>
6/7/2018	US implements first China-specific tariffs collecting a 25% tariff on 818 imported Chinese products (List 1) valued at USD34bn, including cars, hard disks, and aircraft parts	China takes retaliatory measures by imposing a 25% tariff on 545 goods originating from the US (worth USD34bn), including agricultural products, automobiles and aquatic products	<a href="#">US Tariffs on China– List 1</a> <a href="#">China Tariffs on US– List 1</a>
2/4/2018		China imposes tariffs (ranging 15-25%) on 128 products (worth USD3bn), including fruit, wine, seamless steel pipes, pork, and recycled aluminium in retaliation to the US' steel and aluminium tariffs	
23/3/2018	The US imposes a 25% tariff on all steel imports (except from Argentina, Australia, Brazil, and South Korea) and a 10% tariff on all aluminium imports, except from Argentina and Australia		
7/2/2018	The US placed a 30% tariff on all solar panel imports, except for those from Canada, (worth USD8.5bn) and a 20% tariff on washing machine imports (worth USD1.8bn)		

Source: [China Briefing](#), [The State Council of the People's Republic of China](#), [Ministry of Finance of the People's Republic of China](#), [Office of the United States Trade Representative](#), Yahoo Finance, [Asiapedia](#), RHB

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