

19 March 2019

Technology

Technology | Technology

Neutral (Maintained)

Awaiting Conclusion On Trade Deal

Stocks Covered 6
 Ratings (Buy/Neutral/Sell): 4 / 2 / 0
 Last 12m Earnings Positive

- **Our approach has remained unchanged, focusing on key selection of stocks in this space which have sound fundamentals and balance sheet** as well as good growth despite the ongoing trade war issues. Our Top Picks – Venture, Fu Yu and Silverlake – reported positive results and their share prices have also rallied since the start of the year. While we explore new names which we consider laggards like Memtech and Frencken, maintain NEUTRAL on the sector.
- **Positive news on trade deal lighting up the technology sector.** Since US President Donald Trump initiated the possibility of a trade war against China and its other key deficit trading partners in Mar 2018, Singapore stocks, especially those in the manufacturing sector, have taken a significant hit. However, since end-Jan 2019, there has been positive news on this front coming out from both parties as they have met and held talks during 1Q19 – Mr Trump has agreed to extend the 1 Mar trade deal truce deadline, citing positive progress in trade talks. Both parties have also expressed optimism towards a trade deal in front of the media, which improved market sentiment generally, mostly tech stocks, as the market seems to be positioning for a trade deal by end Mar 2019.
- **Still sticking to bottom up approach.** While we do note that sentiment has improved generally among most technology stocks, we still prefer to stick to the bottom up approach for stock selection in this space. We focus on companies with sound fundamentals and decent growth, as we feel these stocks will continue to rerate as they deliver their results. We do note that not all technology share prices have rallied – some have even derailed due to negative earnings, or a slowdown due to loss of projects, or cut in orders by their customers, like Sunningdale Tech (SUNN SP, NR) and Valuetronics (downgraded after its recent results). The semi-conductor sector remains weak across the whole supply chain, with orders still recovering at a slow pace. As such, our Top 3 picks remain unchanged, namely Venture Corp, Fu Yu Corp and Silverlaks Axis, as we continue to see potential positive earnings growth momentum into 1Q19. On the sector, we maintain NEUTRAL, as there is no certainty that a trade deal can be met, which would be detrimental to sentiment among stocks in this space, if otherwise.
- **Looking into laggards with sound fundamentals.** We continue to explore the sector and try to identify stocks which have not yet been rerated or rerated less than its peers in the tech space, ie laggards. We believe these stocks might rerate as they deliver earnings growth going forward, coupled with further positive news on the US-China trade deal. These include Frencken (FRKN SP, NR) and Memtech International (MTEC SP, NR) which we do not have coverage at the moment.

Top Picks

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

Target Price

SGD19.00
 SGD0.24

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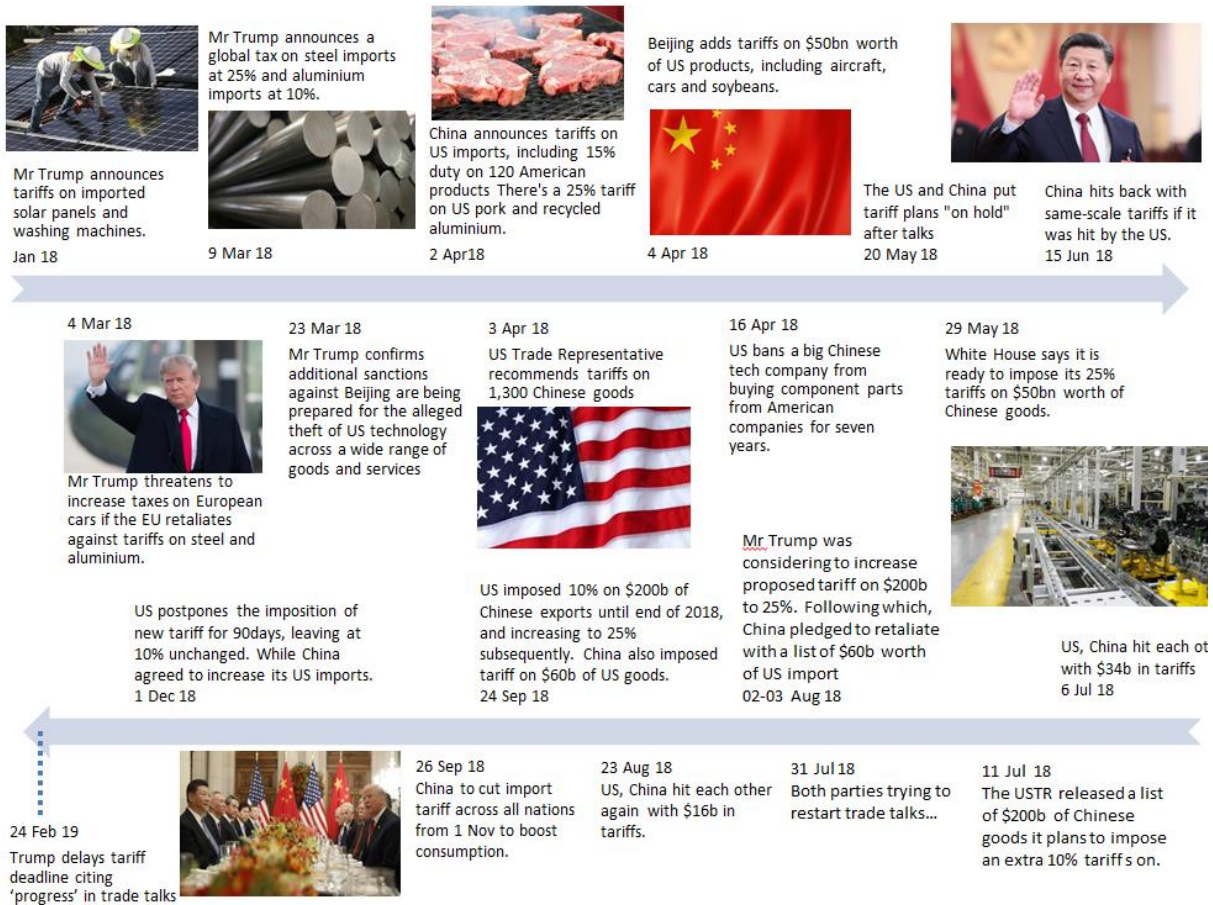


Company Name	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
Fu Yu Corp	Buy	0.24	17.1	11.5	0.9	7.8
GSS Energy	Buy	0.17	58.9	8.6	1.0	1.9
Silverlake Axis**	Buy	0.65	18.2	20.1	7.8	5.4
Venture Corp	Buy	19.00	6.8	13.2	2.0	3.9
Valuetronics Group*	Neutral	0.78	10.6	9.2	1.5	5.4
Avi-Tech Electronics**	Neutral	0.30	3.5	12.2	1.0	6.2

Note: *FY19 (Mar) **FY19 (June)

Source: Company data, RHB

Figure 1: US-China trade war updated timeline



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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