SECTOR STAR RATINGS

TECHNOLOGY (4.0 STARS – VERY ATTRACTIVE)

1) The global technology sector (as represented by the NASDAQ 100) trades at an estimated PE ratio of 24.0X and 20.8X for 2009 and 2010 respectively (as at 31 March 2009).
2) Earnings are expected to decline by 19.7% in 2009, but growth of 15.4% is expected in 2010. The semiconductor space could still post a loss in 2009 and large earnings declines are expected for technology manufacturers, but other areas of technology like online advertising and software may still see growth. While earnings growth is not strong, we note that earnings in 2009 are coming off a relatively high base.
3) The North American Semiconductor Equipment Industry book-to-bill ratio was 0.48 in Feb 09, after Jan 09's figure was revised down to 0.47, the lowest since Apr 2001. Feb 09 bookings were the lowest since data was first compiled in 1991.
4) The Japanese semiconductor manufacturing equipment book-to-bill ratio fell to 0.35 in Feb 09, the lowest on record, from 0.55 in Jan 09. Semiconductor equipment sales tend to lead the technology cycle and current dismal figures suggest that we are close to a bottom in the cycle.
5) US New Orders for Computer and Electronic Products fell to US$23.9 billion in Jan 09, down 3.9% m-o-m and down a hefty 12.3% y-o-y. There have been 7 consecutive months of y-o-y declines and order levels have hit lows last seen in 2005.
6) Seasonally adjusted total US inventories of Computer and Electronic Products in Jan 09 gained 4.7% y-o-y, but fell 1.3% m-o-m. Inventory levels have more room to fall, but given the sharp decline in orders, inventory drawdown may occur quickly if demand picks up significantly.
7) 2008 saw the first annual decline in global semiconductor sales since 2001. Global chip revenue declined 2.8% in 2008 to US$248.6 billion, and is expected to decline further in 2009. Global sales declined 28.6% y-o-y in Jan 09, reflective of weak global demand.
8) Year-to-date (as at 26 March 2009, in USD terms), technology stocks (as represented by the NASDAQ 100) have outperformed the broader market (represented by the S&P 500) with a 5.7% return compared to the 7.8% decline in the S&P 500.
9) Technology is highly pro-cyclic and a prolonged economic slowdown will hurt profits. However, the sector tends to outperform at the start of an economic recovery. We feel that the Tech cycle has possibly bottomed and are hence upgrading the sector to 4.0 stars (Very Attractive). We prefer diversified large-cap global technology exposure as opposed to more focused Asian tech.