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Bright outlook for tech sector in 2H25

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Tariff concerns linger as optimism cautiously builds

TECHNOLOGY

PETALING JAYA: There is renewed optimism in the technology sector for the second half of this year (2H25), buoyed by improving global semiconductor trends, signs of inventory replenishment, and investor appetite for artificial intelligence-driven growth, analysts say.

Yet, lingering concerns over geopolitical tensions and potential tariffs from the United States continue to temper sentiment, keeping research houses cautious.

CIMB Research noted that the risk-reward profile for the sector is balanced, as heightened geopolitical risks and the prospect of targeted semiconductor sector tariffs from the United States weigh on market sentiment.

Hence, the research house maintained its "neutral" stance on the technology sector.

Despite this, it highlighted improving conditions as the year progresses.

"We remain optimistic for a stronger 2H25 performance as the market reassesses the potential tariff impacts and as supply and demand dynamics improve, which should facilitate gradual inventory replenishment, especially across non-AI applications," CIMB Research said.

It pointed to Malaysia Pacific Industries Bhd (MPI) as a standout, citing its resilience despite weakness in automotive demand.

"We favour MPI for its exposure to the Malaysian outsourced semiconductor assembly and test sector, supported by its expanding industrial segment."

Sector performance in the second quarter of this year (2Q25) was mixed, with sales inching up 1.4% quarter-on-quarter (q-o-q) but core net profit falling 9.5% due to weakness in electronics manufacturing services.

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CIMB Research

"ViTrox Corp Bhd was the only outperformer, while Inari Amertron Bhd and MPI were broadly in line with expectations," CIMB Research said.

For the current quarter, it projects 2.2% q-o-q sales growth, driven by ViTrox, Inari and MPI, aided by infrastructure rollouts, new smartphone launches, and silicon carbide demand.

Looking further ahead, global semiconductor trends are supportive.

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The World Semiconductor Trade Statistics also upgraded its growth forecast for this year to 15.4%, underscoring logic and memory demand from AI data centres and edge applications.

Meanwhile, Hong Leong Investment Bank Research (HLIB Research) offered a similarly balanced view, stressing that tariff risks, though not ignored, appear less severe than initially feared.

"The latest update on sectoral tariffs came from US President Donald Trump during a dinner with US tech chief execu-

tive officers last week, where he reiterated plans to impose 'fairly substantial' tariffs (previously flagged at 100%) on chip imports.

"The market is largely looking right past this for now, treating it more as background noise than an imminent threat, with reactions muted," it noted.

The research house pointed to easing concerns from two key developments: softer US rhetoric signalling possible exemptions, and a US-EU framework capping tariffs at 15%.

"In our view, this suggests that the worst-case scenario of severe supply chain disruption is likely off the table, though a 15% tariff, while manageable, would still put pressure on margins and demand," it explained.

Within stock picks, HLIB Research maintained a preference for domestic-driven plays.

"We continue to favour domestic-focused names, with ITMAX System Bhd and SMRT Holdings Bhd as our top picks given their resilient recurring revenue base and structural growth story in smart-city systems, Tenaga Nasional Bhd grid upgrades."

It also reiterated a positive stance on Frontken Corp Bhd and UWC Bhd in the tech hardware space.