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HLIB Research retains 'neutral' rating on technology sector

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UNEVEN IMPROVEMENTS

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KUALA LUMPUR: The second quarter of 2025 earnings season for the technology and electronics manufacturing services (EMS) sector showed improvement but remained uneven, said Hong Leong Investment Bank Bhd (HLIB Research).

Of the 15 companies reviewed, it said five missed consensus estimates, nine were in line and one beat. This compared with nine misses and five in-lines in the previous quarter.

HLIB Research said consensus estimates had been prudently reset following widespread disappointments in the previous quarter, setting a more reasonable bar for the second quarter.

It said the sector had so far remained largely insulated from United States tariff impacts, as semiconductors and major electronics products, such as personal computers and smartphones, remain exempt until further notice. This has allowed forward guidance to stay fairly positive.

Misses were mainly company-specific, with Unisem (M) Bhd, SAM Engineering & Equipment (M) Bhd and D&O Green Technologies Bhd continuing to post weak results.

EMS players, such as Nategate Holdings Bhd and PIE Industrial Bhd, also saw softer numbers as customer caution

amid tariff uncertainty weighed on order flows.

Malaysian Pacific Industries Bhd showed early signs of an analogue semiconductor recovery, while Frontken Corp Bhd surprised positively with margin expansion at its Taiwan unit.

"For the in-lines, some results were based on expectations of a stronger second half to meet full-year targets. This would typically hold under normal seasonal patterns, but front-loading effects and macroeconomic headwinds from tariffs could derail the usual second-half strength," HLIB Research said, adding that it kept its "neutral" call on the technology sector but remained selective.

It favours domestic-focused names, citing Itmax System Bhd and SMRT Holdings Bhd as top picks due to their recurring revenue base and structural growth prospects, including smart city systems and Tenaga Nasional Bhd's grid upgrade.

It assigned "buy" calls to Itmax and SMRT, with target prices of RM5.71 and RM2.07, respectively.

Among technology hardware players, HLIB Research prefers companies with exposure to foundries or front-end equipment makers. It recommended "buy" calls on Frontken and UWC Bhd with target prices of RM4.95 and RM3.30, respectively.