



27 JUL, 2024

Market bulls looking for new technology leaders

The Star, Malaysia



Page 1 of 2

STOCK MARKET

By DANIEL KHOO
danielkhoo@thestar.com.my

THE artificial intelligence (AI) and technology-led rally in both Malaysian and global stocks is seen to be fading, even as the market searches for new leaders to emerge and drive growth.

High valuations, coupled with realism and caution on new geopolitical developments, appear to have caused the recent correction in big global tech names, which have seen a strong surge since the beginning of 2023.

Big tech names trading on the US stock markets have seen strong rises, with Nvidia Corp experiencing an 800% gain from 2023 to its peak in June 2024.

The Generative AI theme, regarded as a game-changer in the tech industry, has moved markets, benefiting Malaysian tech names as well with their share prices also rising.

However, the sentiment appears to have cooled in the last two weeks, as investors began to temper their high earnings growth expectations with some realism.

Senior market analyst at Oanda, Kelvin Wong, does not discount a medium-term global risk-off event if further losses are

observed on the US S&P 500 stock exchange.

"Market participants have started to question the earlier high earnings growth prospects placed on the 'Magnificent 7' stocks."

"The cohort, consisting of Apple Inc, Amazon.com Inc, Microsoft Corp, Nvidia, Tesla Inc, Alphabet Inc Class C and Meta Platforms Inc had shed close to US\$760bil in their combined market capitalisation in a single day on Wednesday, July 24," Wong notes in his market update.

At a briefing earlier in the week, HSBC Global Research's head of equity strategy for Asia Pacific, Herald van der Linde, indicated that the AI trade is at its peak, and noted there will be a transition in the AI trade following the recent corrections.

On Bursa Malaysia, the AI-linked trade saw strong gains for companies involved in the data centre supply chain as investments in this area flowed in.

Initially, companies such as YTL Power International Bhd and Tenaga Nasional Bhd saw gains of almost 600% and 50%, respectively.

Later on, the positive sentiment from the data centre trade also extended to the property and construction sectors, which experienced significant gains.

As profits are taken, dealers suggest that investors are looking to reinvest their gains into new sectors that could drive the market rally forward even further.

"The majority of technology stocks in Bursa Malaysia have run ahead of fundamentals on the data centre theme and on the back of the torrential flood of investment into the technology space in Penang, the technology hub of South-East Asia."

"Malaysia also benefits from semiconductor supply chain diversification from North Asia," former senior investment banker and seasoned investor Ian Yoong tells *StarBizWeek*.

Yoong points out the technology sector on Bursa Malaysia is trading at very steep double-digit valuations. "My estimate forward price-to-earnings ratio (PER) for the technology sector is 65 times for 2025."

"According to *Bloomberg*, TSMC is trading at a current PER of 27 times and forward PER of 23 times. While Nvidia, the hottest tech stock at the moment, is trading at a current PER of 71 times and forward PER of 43 times," Yoong says.

He says he likes QES Group Bhd, a semiconductor manufacturer, citing the low-profile technology stock is still undervalued at

current levels, trading at about 35 times its historical PER.

Meanwhile, Datuk Thomas Yong, CEO and founder of fund management company Fortress Capital Asset Management Sdn Bhd, explains that semiconductor stock valuations in Malaysia have always been high compared to regional peers.

This is mainly due to scarcity, as these companies in Malaysia are considered small to medium-sized capitalised stocks in US dollar terms, he says. "Technology stocks in the United States have corrected as earnings disappointed."

"Stock prices are highly sensitive to earnings during this reporting season, as many of these stocks have had a decent run over the past one year. The correction in US tech stocks is likely to affect sentiment worldwide, and the tech or semiconductors stocks here are unlikely to be spared," Yong says.

He believes investors are likely to take profits in view of recent market volatility.

"The AI-led rally is facing consolidation, but the real demand is likely to continue increasing. The uncertainty lies in the valuation at which stocks will settle at a level investors find comfortable. We believe opportunities are still present on Bursa," Yong says.