Regional Industry Focus

Technology Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jun 2022

Silver lining for battered tech stocks?

- Tech sector worst performer, affected by both demand and supply
- Weakness in end market demand for mobile, PC/tablets; server to fare better
- Attractive valuation for HK/China, PE near -2SD, 5-year low; Singapore at -1SD; Thailand still expensive
- Upstream picks: TSMC (US), AEM, UMS, Hua Hong. Downstream: Venture, Aztech, Luxshare, Lenovo

Technology worst performer, affected by both demand and supply. The tide has turned for the global technology sector, from being one of the best-performing sectors in 2021 to the worst currently, both from a global and country perspective. The global sector plunged 27% YTD, on the back of the rising interest rate environment and the rising risk of a global recession or even stagflation. Both supply and demand were affected. Supply chain disruptions continue to plague the sector while consumer sentiment has turned cautious.

Expect near-term weaknesses in end market demand to persist. Demand for electronic devices has been relatively weak in recent months. This trend could extend in the near term. Overall, 2022 could see a drop in shipments for most segments like mobile and PC/tablets while the server segment is expected to fare better, supported by enterprise demand.

Valuation cheapest for HK/China. Valuations are looking more attractive now after the c.30% drop YTD. HK/China is the cheapest, trading at a PE near the -2SD level, its five-year low. The Singapore tech basket is near the -1SD level but Thailand is still expensive, above its five-year mean.

Semiconductor overall uptrend intact, albeit with slower growth. We could see a slower CAGR of about 4% in 2023-2026, vs. the 9% CAGR in 2020-2026. Despite the slower growth, revenue is still way above the pre-COVID level. However, there is risk of a steep cut in capex on the back of the weak global economy. Our picks in this space – TSMC, AEM, UMS, Hua Hong.

Selective in the downstream space. We prefer companies that have pricing power, unique technological capabilities, and exposure to trending segments, to offset the cyclical risks. Picks – Venture, Aztech, Luxshare, Lenovo.

Risks: Supply chain challenges, rising inflation, slower growth, margin pressure, and risk of weakening USD.

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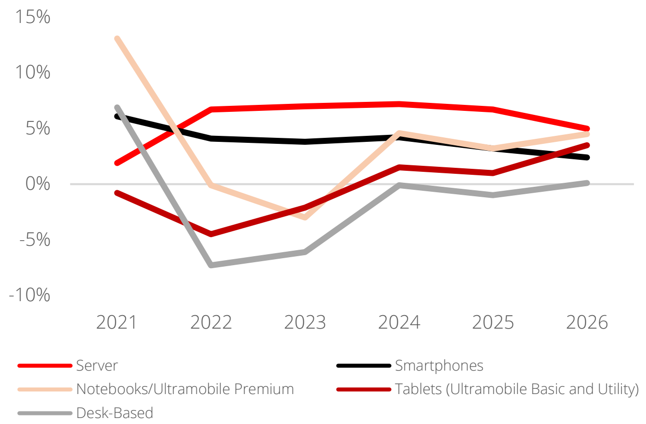
STOCKS

	Price LCY	Mkt Cap US$m	12-mth Target Price LCY	Performance (%) 3 mth	12 mth	Rating
Upstream						
AEM Holdings	4.19	935	6.04	(9.4)	11.9	BUY
Hua Hong	28.95	4,801	58.90	(14.3)	(34.2)	BUY
TSMC (US)	85.86	446,14	170	(19.3)	(26.3)	BUY
UMS Holdings	1.14	548	1.70	(5.7)	(0.9)	BUY
Downstream						
Aztech Global	0.82	454	1.33	(10.4)	(33.9)	BUY
Luxshare	34.10	36,100	40.00	0.6	(30.0)	BUY
Lenovo Group	7.84	11,096	13.00	(8.0)	(14.3)	BUY
Venture	16.90	3,543	22.70	(4.9)	(9.9)	BUY

Source: DBS Bank, DBS HK, Bloomberg Finance L.P.
Closing price as of 28 Jun 2022

End market demand – near-term weakness



Charts/graphics created by DBS Bank based on Gartner research. Source: Gartner, Inc., Forecast Analysis: PCs, Ultramobiles and Mobile Phones, Worldwide, Ranjit Atwal, et al., 27 April 2022; Forecast: Servers, All Countries, 2020-2026, 1Q22 Update, Kiyomi Yamada, et al., 30 March 2022

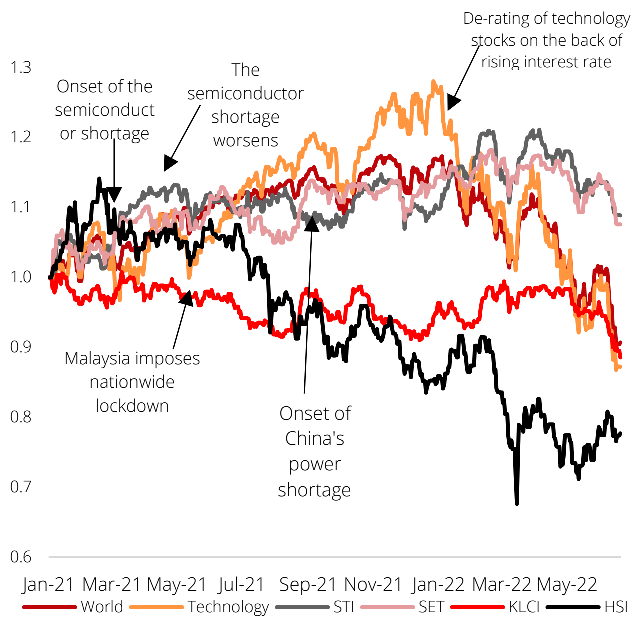
1H22 Review

Technology swings from outperformer to worst performer. The tide has turned for the global technology sector, from being one of the best-performing sectors in 2021, to the worst currently. The sector plunged 27% YTD, on the backdrop of the rising interest rate environment and the rising risk of a global recession or even stagflation.

Supply and demand affected. Both supply and demand sides were affected. On the supply front, global supply chain disruptions continue to plague the sector. The lockdown in China in April further aggravated the situation. Though there is a slight improvement, as most companies have been actively managing their inventory level, some components like display driver integrated circuits (DDICs), power management integrated circuits (PMICs), microcontroller units (MCUs), and networking chips are still in short supply.

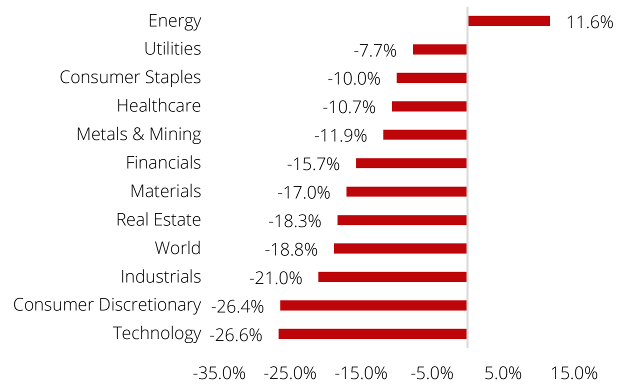
On the demand side, consumer sentiment for some segments, like the PC/tablet and mobile segments, has turned cautious on the back of the looming recession. The enterprise division, like the server segment, is expected to be more stable.

Global Technology – from outperformer to worst performer



Source: Bloomberg Finance L.P., DBS Bank

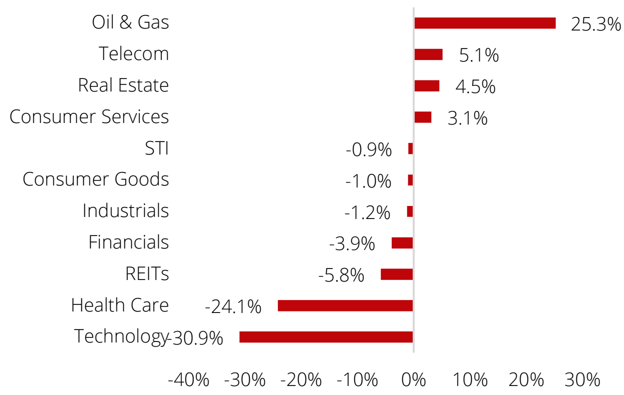
Global Technology Stocks the Worst Performer YTD



Source: Bloomberg Finance L.P., DBS Bank

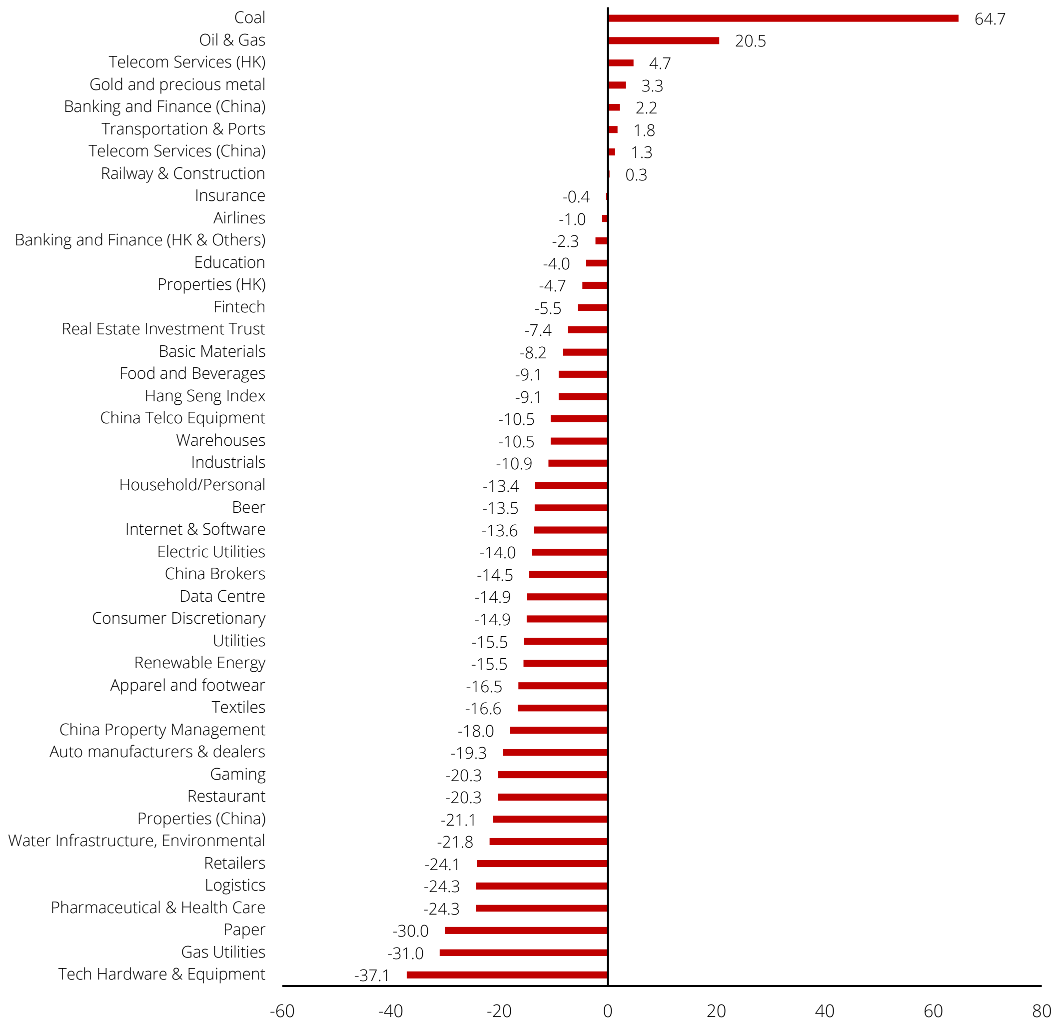
In terms of the country, technology stocks were also the weakest among all sectors in Singapore. The picture is the same for Hong Kong/China.

Singapore Tech in Line with Global Peers - YTD %



Source: Bloomberg Finance L.P., DBS Bank

HK/China Tech in Line with Global Peers - YTD %



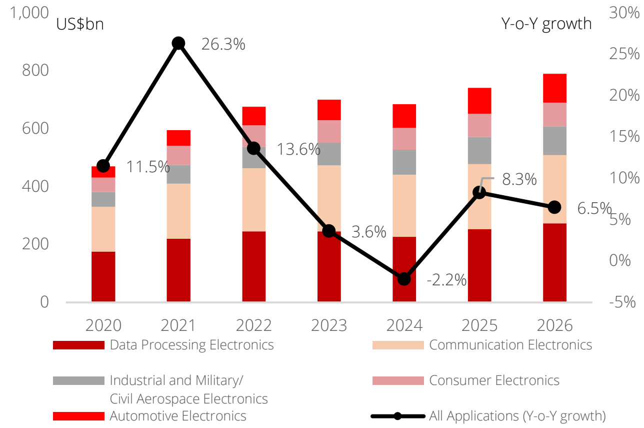
Source: Bloomberg Finance L.P., DBS Bank

Semiconductor Outlook

Uptrend intact, albeit with slower growth. We expect the uptrend in overall semiconductor revenue, which started in 2H 2019, to be largely intact. Revenue is expected to grow slightly more than 10% y-o-y in 2022, after a strong growth of 26% in 2021, led by various demand drivers, including the acceleration of the digital adoption pace driven by the COVID-19 pandemic and also the chip shortage issues. In 2023/24, capacity is expected to see a surge, mainly from the increased capex spending by the existing key players, leading to a drop in prices of chips. Hence, we expect muted semiconductor revenue growth ahead.

Overall, we could see a slower CAGR of about 4% in 2023-2026, vs. the 9% CAGR in 2020-2026. Despite the slower growth, revenue is still way above the pre-COVID level. Hence, we maintain our positive view on the semiconductor space.

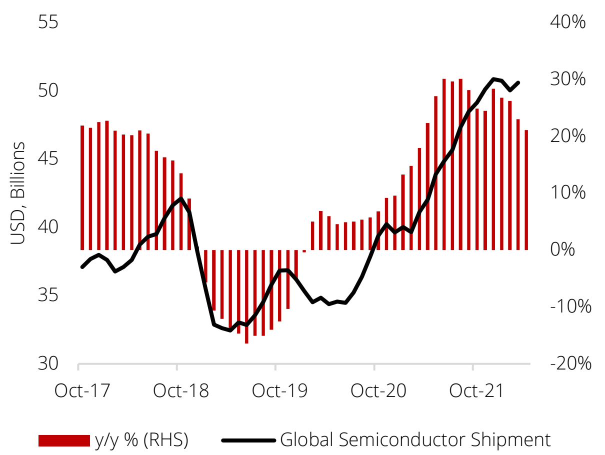
Semiconductor revenue by end-use industry



Charts/graphics created by DBS Bank based on Gartner research. Source: Gartner, Inc., Semiconductor Forecast Database, Worldwide, 1Q22 Update, Ben Lee, et al., 31 March 2022

Healthy level despite slower growth. Though y-o-y growth eased to c.20% in April 2022, from the peak of c.30% in December 2021, worldwide semiconductor shipments remain healthy at the US$50bn level, according to data compiled by the Semiconductor Industry Association (SIA). We could see muted monthly y-o-y growth ahead on the back of the strong performance in 2021 but nevertheless, we continue to expect the uptrend to remain intact in the longer term on the back of the structural shift in demand. However, there is risk of a steep cut in capex by chip manufacturers if the global economy slips into a prolonged recession.

Slower growth but shipment remains healthy



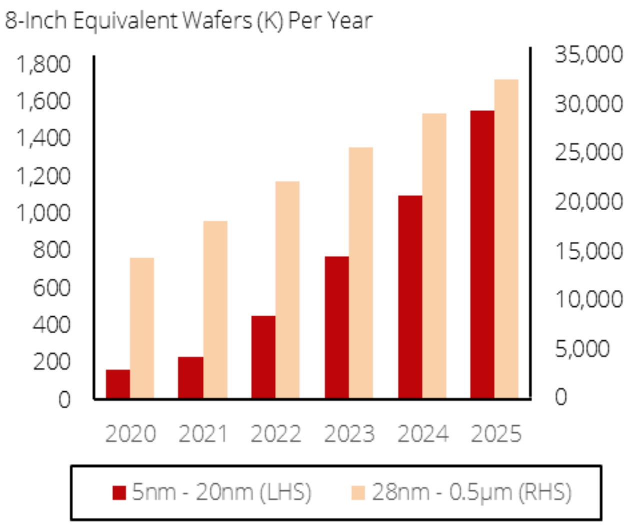
Source: CEIC, SIA, DBS Bank

Brighter outlook in China, supported by localisation of chip foundry. While the global semiconductor shortage is supposed to be largely relieved and overall chip supply is to return to a normal level in 3Q22, the demand and supply dynamics in China are different from the global industry. We expect the technology ban on component and chip-making equipment exports to China and the surging demand for auto chips and chips for IoT, will sustain the localisation of chip foundry in China in the coming few years.

The overall self-sufficiency rate of semiconductors in China is only c.15%. We expect the semi localisation, especially in chip foundry in China, which has capital and policy support from the central government, to be a long-term industrial trend.

The foundry capacity expansion plan by all domestic foundries and the growing demand have been boosting the growth of mature node foundry in China since 2020. Gartner suggested that China's mature node foundry capacity will grow at a CAGR of 18% and account for over 90% of the total capacity in Mainland China in 2025.

China's foundry capacity forecast by technology node



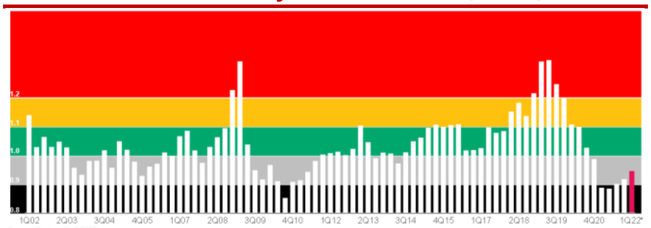
Charts/graphics created by DBS Bank based on Gartner research. Source: Gartner, Inc., Forecast: Semiconductor Foundry Revenue, Supply and Demand, Worldwide, 1Q22 Update, Samuel Wang, et al., 7 April 2022

Foundry mildly impacted by lockdowns. Local foundry like Hua Hong was barely impacted by the logistics constraints posed by the lockdowns, as it has been granted passes since day one of the lockdowns in China. However, we believe the lockdowns have impaired end-market demand for consumer electronics like smartphones, which mainly affects advance node chip demand.

Inventory Level and Chip Shortage

After reaching the moderate shortage zone in 3Q21, the semiconductor inventory index compiled by Gartner improved further in 1Q22, making it the third consecutive quarter of improvement. Because of the slower-than-expected performance in 4Q21, the index is now expected to enter the normal zone by 3Q22. Global uncertainties, on the back of the still challenging supply chain and the Russia-Ukraine conflict, are causing vendors across the supply chain to keep higher-than-usual inventory levels.

Semiconductor Inventory Index Trend, 1Q02-1Q22



Severe Shortage (<0.9)
Moderate Shortage (0.9 to <1.0)
Normal (1.0 to <1.1)
Moderate Surplus (1.1 to <1.2)
Severe Surplus (>1.2)

Note: 1) 1Q22 is a modeled estimate and is subject to change based on actual financials to be reported by vendors in 2Q22; 2) Ideal inventory days have been revised starting in 1Q22 to accommodate the changing inventory practices.
Source: Gartner, Inc., Semiconductor Inventory Analysis, Worldwide, 1Q22 Update, Kanishka Chauhan, et al., 18 April 2022

This trend is also in line with the companies under our coverage. Manufacturers have switched from a Just-in-Time (JIT) to Just-in-Case (JIC) strategy, and procure materials way ahead of time to take into account the availability of stocks and also the longer lead time. Hence, the inventory levels for most manufacturers are at all-time highs.

Rising Inventory Level

Company	2019	2020	2021
Singapore (S$m)			
AEM	57	80	205
Aztech	19	54	62
Frencken	141	143	203
Grand Venture	16	21	41
Micro Mechanics	5	5	5
UMS	52	54	87
Venture	706	656	1,049
Thailand (Baht m)			
Delta Electronics	9,004	12,655	19,581
Hana Microelectronics	4,518	4,496	6,857
KCE Electronics	2,622	2,594	4,841
SVI PCL	3,159	3,124	5,632

Source: DBS Bank, company

High inventory could ease once supply situation improves. However, this trend could reverse once the chip shortage situation improves. Though most of these companies have been actively managing their inventory level with minimal obsolete inventories, a lower inventory level can help to reduce the funds tied up for working capital.

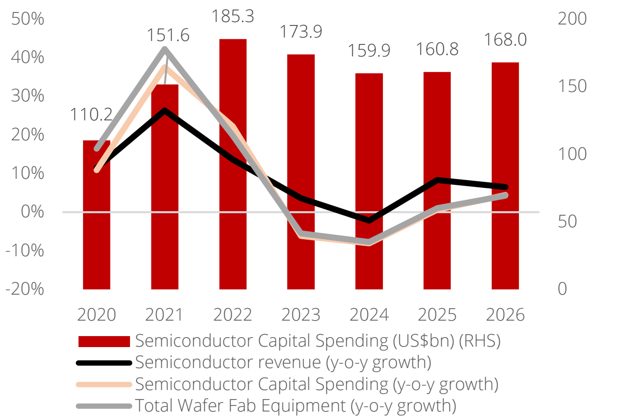
Intel commented in early June that one of the headwinds the company is facing includes customers reducing inventory levels.

Expect chip shortage to improve in 2H22, likely to be resolved by end-2023/early 2024. Overall, we expect the chip shortage to improve in 2H22 (vs. our earlier assumption in December last year of 2Q22) and reach a likely resolution by end-2023/early 2024 (vs. previous estimate of 2H23) when the new production capacity comes on stream.

The delay is mainly due to the lockdowns in China, which is the global key manufacturing hub, and also the Russia-Ukraine conflict. A significant portion of neon gas required for lithography comes from Ukraine. Palladium, sourced from Russia, is another critical component used in wire bonding. Russia is also an important producer of metals like aluminum, nickel, and copper. A disruption in supply could trigger shortages and also cost inflations, causing delays in the supply chain recovery. That said, the slowdown in demand for some of the end markets *(refer to page 6 on end-market demand)* could partially alleviate some of the pressure from the tight supply chain.

Capex – to pause for digestion after elevated spending. With strong overall demand and component shortages, chip vendors continue to spend, and 2022 semiconductor capex is expected to grow by 22.2% y-o-y to reach a peak of US$185bn. Thereafter, a decrease in capex is projected in 2023 and 2024 due to a potential oversupply as a result of aggressive investments in 2021 and 2022. Overall, capex spending remains high, in line with semiconductor revenue, despite muted growth ahead.

Semiconductor Capital Spending and Equipment Forecast



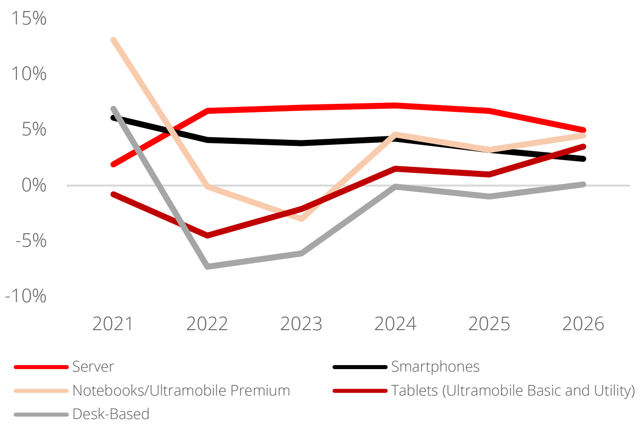
Charts/graphics created by DBS Bank based on Gartner® research. Source: Gartner, Inc., Forecast: Semiconductor Capital Spending, Wafer Fab Equipment and Capacity, Worldwide, 1Q22 Update, Bob Johnson et all., 22 April 2022

End-market demand – Near-Term Weaknesses

Global demand affected by inflation and rising risk of recession. Demand for electronic devices has been relatively weak in recent months. This trend could extend in the near term. Overall, 2022 could see a drop in shipment for most segments. Near-term weaknesses would be mainly from:

1) The increasing rate of inflation around the world, exacerbated by an increase in oil prices due to the Russian invasion of Ukraine
2) The rising risk of recession could also lead to lower demand as consumers refrain from upgrading their devices or delay purchase
3) The lockdowns in China, affecting supply and hence pushing out demand

Y-o-y Growth for Device Shipments



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Demand for PC/tablets is expected to slow down in 2022/2023 after the strong growth in 2020/2021, driven by the COVID-19 pandemic. In the longer term, we believe the installed base will remain high and expect demand to be driven by the normalisation of telecommuting and incorporation of flexible working arrangements.

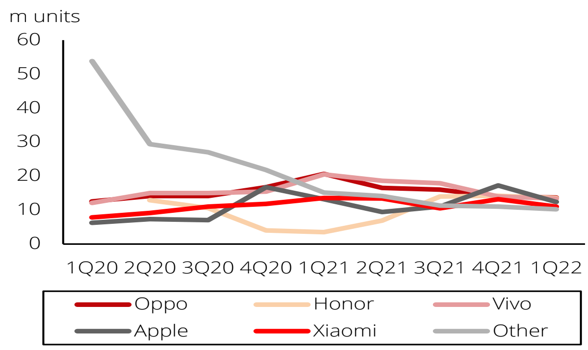
The mobile segment is also expected to see slower growth, as consumers refrained from upgrading their phones, with delayed replacement, though 5G is still expected to drive demand for smartphones. The 5G share has increased to 50% of the total in 2022, up from 35% in 2021, and is expected to reach 61% by 2023, with China still leading the path to mainstream adoption of 5G, according to Gartner. *(Gartner, Forecast Analysis: PCs, Ultramobiles and Mobile Phones, Worldwide, Ranjit Atwal et all., 27 April 2022).*

Overall, we expect the mobile segment to be more resilient to macroeconomic shifts compared to other consumer electronics, as smartphones have become a necessity, although the refresh cycle could be longer now.

The server market is expected to fare better, as IT infrastructure has evolved from nice-to-have to a mission-critical investment for most organisations. Digital readiness and preparation for a post-pandemic recovery would be the key growth drivers. ARM server is projected to register the fastest growth, due to its flexibility and efficiency.

China mobile segment affected by lockdowns and Russia-Ukraine war. The inflation concern weakens global consumer sentiment toward consumer electronics, while the lockdowns in China and the Russia-Ukraine war mainly impact Mainland China and Europe. We saw a significant weakening in overseas sales in Europe in 1Q22. Xiaomi Corp/Oppo shipments to Europe dropped 22%/12% y-o-y in 1Q22. Smartphone shipments in China dropped 14.0% y-o-y in 1Q22.

Quarterly Mainland China smartphone shipment



Source: IDC, DBS Bank

Xiaomi Corp's smartphone shipment has been dragged down significantly in China and Europe, which account for the majority of their sales. Smartphone suppliers like Q Tech, Sunny Optical, and AAC Tech's shipments have also declined in 1H22 due to the drop in global smartphone shipments, especially in Android models. We anticipate that a faster-than-expected inflation surge, prolonged Russia-Ukraine war, or potential lockdowns in China would further weaken global consumer sentiment and affect the entire smart devices value chain.

Apple is the only vendor experiencing shipment growth and market share gain in 1Q22. Suppliers like Luxshare Precision, which is enjoying a higher penetration in Apple product shipments, would be least impacted by the weak demand.

PC and server businesses in China fare better than mobile. The slowing shipment growth for PC is milder than that of smart devices due to strong demand from the commercial sector. In addition, the massive investment in data centres supported by the “Eastern Data, Western Computing” initiative is supposed to benefit the server business of local vendors in China. The annual investment is expected to exceed Rmb400bn, while the NDRC expects China's computing power demand to surge by over 20% annually during the period of the 14th Five-Year Plan. The decline in the PC segment can be partially offset by the growth in the server and related solutions businesses.

Risks

Despite the c.30% drop in share price YTD that has brought the valuation to a more decent level, there are still a fair amount of risks ahead. Some of the key challenges include:

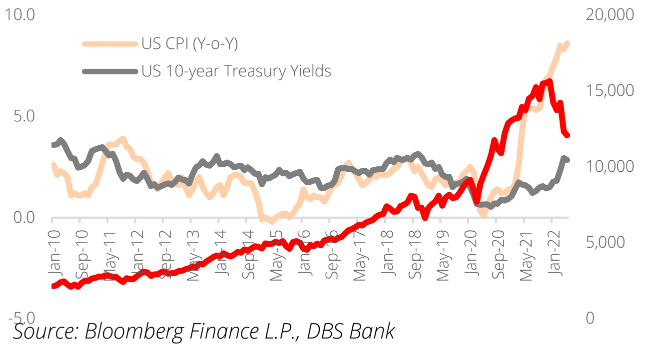
- Supply chain challenges
- Rising inflation, slower growth
- Margin pressure
- Risk of weakening USD

Supply chain challenges
Supply chain disruptions continue to plague the industry after more than two years since the pandemic hit. Though some companies have seen some improvement, challenges such as higher shipping costs and the availability of labour remain. Overall, we expect the chip shortage to improve in 2H22 and likely be resolved by end-2023/early 2024, barring a resurgence of new variants and massive lockdowns globally.

Rising inflation, slower growth
With the US inflation rate at a 40-year high and most other countries globally also facing the same situation, it could lead to central banks worldwide raising interest rates more aggressively. Rate hike expectations are intensifying, and the market's expectation of Fed rate hikes has spiked to above 350bps for 2022. Our chief economist expects three more 50bps hikes in July, September, and November, and one final 25bps hike in December, taking the Fed Funds Rate to 3.50% this year. ECB rate hike expectations have also jumped in the past few weeks. The impact of higher rates has weighed global growth outlooks, with the World Bank tapering its 2022 global growth estimate to 2.9% (from 4.1%). Technology stocks generally underperformed in a rising interest rate environment.

However, our economics team believes that inflation could peak by the end of the year. For Singapore, inflation is likely to hover around the 5% level in the near term and likely ease below 4% towards the end of the year on a high base effect.

Trend reversal for NASDAQ on surging inflation



Source: Bloomberg Finance L.P., DBS Bank

Margin pressure
On the back of the disruptions to the global supply chain and rising inflationary pressure, margins for 1Q22 for some of the companies under our coverage were affected. Gross profit margin for Frencken declined 1.9ppt to 15.4% in 1Q22 (from 17.3% in 1Q21), mainly owing to rising raw material prices amid supply chain disruptions and increased production overhead costs. Net margins eased to 6.5% from 8.1% in 1Q21, similar to 4Q21. Net margin for Grand Venture declined to 11.2% in 1Q22 (vs. 14.5% in 1Q21), partly affected by higher costs of production. Net margin for Aztech eased to 10.8% in 1Q22 from 11.4% in 1Q21, and 11.9% in FY21, mainly due to inflationary cost pressures and supply chain bottlenecks.

Smartphone component suppliers like Sunny Optical and AAC Tech have showed a shrinking margin in their optical and acoustic components due to raw material price hikes and lower ASP due to weaker end demand from smartphones. Luxshare Precision/AAC Tech's 1Q22 gross margins decreased to 11.8%/19.5%, down 5.0/11.6ppt y-o-y (vs. 16.8%/31.1% in 1Q21).

Risk of weakening USD
The DXY US Dollar Index, which measures the value of the US dollar relative to a basket of currencies, has surged in tandem with the Fed Funds Rate and bond yields. Our economics team believes the DXY should be lower, based on the 1994 Fed hike cycle. However, this is likely to be a slow process because the markets still need to have more confidence in the DXY components – EUR, JPY, GBP, CHF, SEK, and CAD – picking up from their depressed levels.

A weakening of the US dollar could adversely affect technology companies, as most of their revenues are in USD, while costs are mainly in local currencies.

DXY rising in tandem with Fed Funds Rate and Bond yields

Source: DBS Bank, Bloomberg Finance L.P.

DBS Asia Currency Forecasts

Ccy pair	24 Jun	3Q22	4Q22	1Q23	2Q23
USDCNY	6.69	6.85	6.80	6.75	6.70
USDHKD	7.85	7.85	7.85	7.84	7.83
USDINR	78.2	77.2	77.0	77.8	78.3
USDIDR	14845	14560	14500	14440	14380
USDMYR	4.40	4.35	4.32	4.29	4.26
USDPHP	54.9	53.0	53.5	53.1	52.8
USDSGD	1.39	1.37	1.36	1.36	1.35
USDKRW	1289	1250	1240	1230	1220
USDTHB	35.4	35.5	35.0	34.5	34.0
USDVND	23247	23050	22960	22880	22790

Source: DBS Bank, Thomson Reuters

Valuation

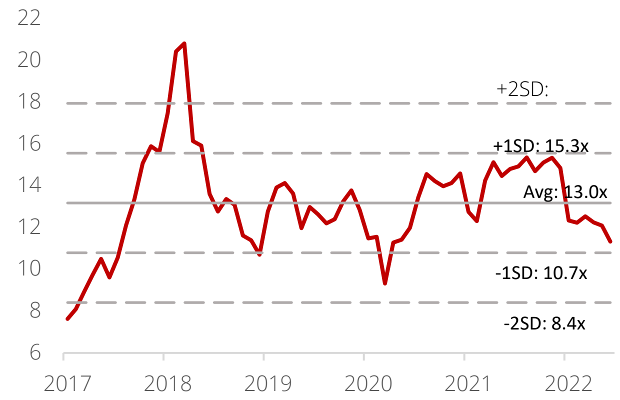
Valuation attractive for HK/China near -2SD, Singapore at -1SD level, but Thailand still expensive. After the close to 30% drop in share prices YTD, valuations are looking more attractive. PE valuation for HK/China stocks continue to look for the bottom after easing from c.33x in end-2020. It is currently trading at 12x forward PE, below its five-year average level for 2SD.

5-year Sector Forward PE (x)* – HK/China Technology sector

Source: Thomson Reuters, DBS Bank
**Market cap weighted*

For the Singapore basket of stocks under our coverage, PE has eased to below the five-year average of 13x to 11x currently, near the -1SD level, from c.+1SD level in the second half of last year.

5-year Sector Forward PE (x)* – Singapore



Source: DBS Bank, Bloomberg Finance L.P.
**Market cap weighted*

However, the PE valuation for Thailand stocks remains relatively high at c.30x, still above its five-year average level, even though it has eased from c.70x in 2021.

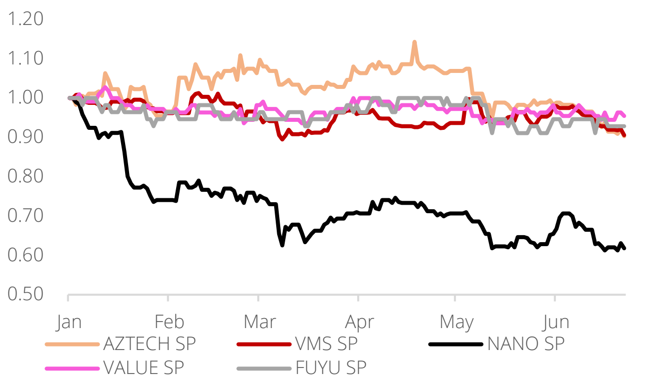
Forward PE Band - Electronics sector

Source: SET, DBSVTH

Relative Share Price Performance

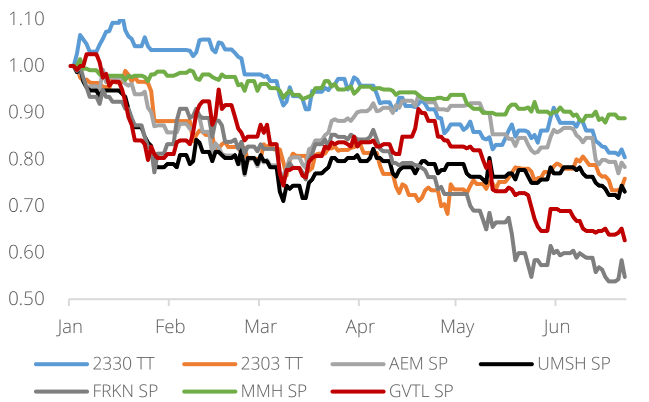
Singapore downstream generally fared better than upstream. In the downstream space, other than Nanofilm, the companies generally fared better than the upstream players. After a weak 2021 plagued by supply chain disruptions, 2022 is expected to be a better year on the back of the expected improvement in supply chain issues and better management of the situation after more than a year of disruptions.

YTD Performance – Downstream Singapore



Source: DBS Bank, Bloomberg Finance L.P.

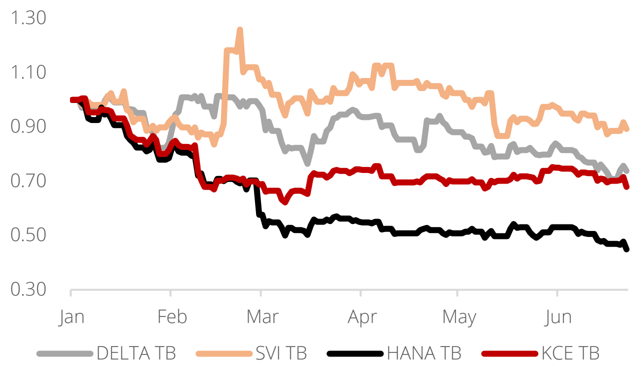
YTD Performance – Upstream Singapore and Taiwan



Source: DBS Bank, Bloomberg Finance L.P.

Thailand stocks underperformed YTD, except for SVI, which is the only stock with a BUY recommendation in our coverage.

YTD Performance – Downstream Thailand



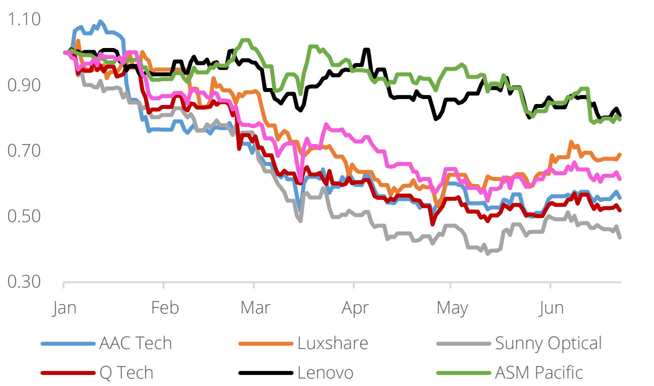
Source: DBS Bank, Bloomberg Finance L.P.

Both upstream and downstream Hong Kong/China stocks generally underperformed YTD.

YTD Performance – Upstream HK/China

Source: DBS Bank, Bloomberg Finance L.P.

YTD Performance – Downstream HK/China



Source: DBS Bank, Bloomberg Finance L.P.

Stock Picks

Upstream – TSMC, AEM, UMS, Hua Hong. We remain positive on the upstream semiconductor space, though the growth going forward may not be as strong as in the last two years. We expect semiconductor revenue to register a CAGR of about 4% in 2023-2026, vs. the 9% CAGR in 2020-2026. In this space, our picks are TSMC, AEM and UMS.

In China, we remain positive about the upstream foundry space in the context of the long semi localisation trend in China. We expect another strong growth year in 2022. Foundry growth is expected to slow from 2023 along with a gradually improving mature node foundry supply in China. In this space, our pick is Hua Hong Semi.

TSMC (BUY; TP: NT$860/US$170)
Taiwan Semiconductor Manufacturing Company (TSMC) remains our preferred blue-chip pick to play the semiconductor secular uptrend. We expect TSMC's earnings to grow 23% p.a. in 2021-2023F, driven by capacity and margin expansion on the back of favourable industry trends, including rising semiconductor content underpinned by rapid growth of AI, 5G, IoT, and EVs. TSMC has been at the forefront in providing next-generation, leading-edge process technologies. The gap with the next player in the race looks set to widen as the company accelerates R&D expenses and capex in the next few years. The high technological barriers will sustain TSMC's leadership, sharpen its cost competitiveness, enhance returns to investors, and help it better weather the industry cyclicality.

AEM (BUY; TP: S$6.04)
With AEM's next-generation handler in mass production, we can look forward to better growth ahead, as compared to the -5.6% y-o-y growth in FY21. We expect robust earnings growth of 35% in FY22F, followed by another 11% in FY23F. AEM is also riding on the expanding capex of its key customer. Intel has guided for large increases in capex for 2022 (+32.5% y-o-y) despite growing substantially in 2021 (+40.7% y-o-y). Based on our analysis, AEM's revenue has historically lagged Intel's capex by about seven quarters. Hence, we believe that this will be a key driver of AEM's growth from FY22 and beyond.

UMS (BUY; TP: S$1.70)
UMS continues to ride on the strong global chip demand, on the back of the acceleration of 5G, artificial intelligence (AI), and other technology-driven developments. The chip shortage is another shot in the arm for the chip equipment maker. Recent data points reinforce our positive industry view. According to data from the SIA, worldwide semiconductor shipments grew by c.20% y-o-y in April 2022. We remain positive about the semiconductor industry, albeit it having a slower growth rate ahead.

Hua Hong Semi (BUY; TP: HK$58.90)
Hua Hong Semiconductor (Hua Hong Semi) specifically deals with mature node foundry with technology nodes ranging from 45nm/40nm to 0.5 micron. It sees growing mature node applications in the automotive industry. Its revenue from automotive/industrial applications is expected to grow at a CAGR of 68.7% over FY20-23, with a revenue share increase from 13.3% to 23.3%. We expect its expansion to 95k WPM to be achieved early by 3Q22, due to 1) abundant foundry equipment supply, 2) persistently strong demand from end markets, 3) strong execution ability, and 4) attractive tax incentives.

Downstream – Venture, Aztech, Luxshare, Lenovo. In the downstream space, we prefer companies that have pricing power, unique technological capabilities, and exposure to trending segments, to offset the cyclical risks. In Singapore we pick Venture for its pricing power and diversification while Aztech is exposed to the trending IoT segment. In China, we prefer downstream technology companies which have a diversified business with exposure to trending segments to offset the sluggish growth in smart devices and PCs. In this space, our picks are Luxshare and Lenovo.

Venture (BUY; TP: S$22.70)
We expect the growth momentum from 4Q21 to continue in the next few quarters, barring any worsening of lockdowns, especially in China. We project revenue to reach the pre-pandemic level of c.S$3.6bn. We remain positive about Venture, as the group continues to build on its capabilities to attract quality customers. A strong net cash position of S$815.1m as at end-March 2022 with no debt would support at least a repeat of the 75 Scts DPS in FY22, which works out to an attractive yield of c.4%. Net cash per share works out to S$2.81.

Aztech (BUY; TP: S$1.33)
Orderbook as at 18 April 2022 remains strong at S$713m. We expect the strong momentum to continue, translating into revenue growth of 20.6% for FY22F and another 19% for FY23F. Amidst a tough operating environment posed by the global logistics and component challenges, Aztech was still able to register a strong net margin. We continue to project an above-industry average net margin of 11.4% for FY22F and 11.5% for FY23F, driven by the strong growth in the IoT market and the group's continuing efforts to improve productivity and efficiency. This should lead to a robust earnings growth of 15%/20% in FY22F/FY23F. In terms of valuation, Aztech is trading at 7.2x/6.0x FY22F/FY23F PE.

Luxshare (BUY; TP: Rmb40.00)

Luxshare Precision is one of the Apple products assemblers with a continuous penetration into new Apple products like AirPods, the latest iPhones, Apple Watch, and AirTag. We expect it to ride on Apple's first VR/MR headset, which is expected to be launched around end-2022 to 2023. We expect incremental assembly revenue to boost revenue growth by 3%/10% in FY23/24. It's increasing auto exposure to enjoy the high growth in EV.

Lenovo (BUY; TP: HK$13.00)

The tech hardware giant is transforming into a service-led company by leveraging the world's largest active PC user base (218m) and its strong reputation in hardware products, channeling growth into the services and solutions business. We project the new services and solutions business's operating profit to grow at a CAGR of 32% in FY22-25F, on the back of a strong industry trend and low attach rate. This is also expected to boost the company's operating margin to 6.0% in FY3/25 from 4.3% in FY3/22, as SSG's operating margin is 22% (vs. 4% of the group).

Stocks in our coverage

Company	Price 24 Jun	Target Price	Target Return	Mkt Cap (US$m)	Rcmd	PER 21 (x)	PE 22F (x)	PE 23F (x)	EPS Gth 22F (%)	EPS Gth 23F (%)	Div Yid 22F (%)	P/BV 21A (x)	ROE 22F (%)	% fr 52 wks Low	% to 52 wks High	YTD Perf (%)
Singapore																
AEM Holdings	4.16	6.04	45%	918	BUY	13.8	10.2	9.2	34.5	11.0	2.5	3.2	27.6	11%	-23%	-21%
Aztech	0.805	1.33	65%	441	BUY	8.3	7.2	6.0	15.0	20.0	4.2	2.1	26.5	2%	-39%	-8%
Frencken	1.11	1.36	22%	338	HOLD	8.0	8.8	7.8	-9.6	14.1	3.4	1.2	12.8	7%	-56%	-44%
Grand Venture	0.73	1.40	94%	181	BUY	13.9	12.5	9.5	11.6	31.8	1.6	2.3	17.4	0%	-50%	-39%
Micro Mechanics	2.96	3.42	15%	298	HOLD	22.9	23.5	22.6	-2.5	4.3	4.4	7.1	30.5	0%	-14%	-12%
UMS Holdings	1.11	1.70	53%	528	BUY	13.9	11.0	9.9	26.1	11.6	3.2	2.7	22.5	6%	-29%	-27%
Venture Corp	16.67	22.70	36%	3,448	BUY	15.4	13.8	12.9	11.4	6.6	4.5	1.8	12.5	3%	-15%	-9%
Nanofilm	2.43	4.12	69%	1,188	BUY	25.4	19.7	16.9	29.0	16.7	1.0	3.7	17.4	5%	-64%	-36%
Average (ex Nanofilm)						**13.7**	**12.4**	**11.1**	**12.4**	**14.2**	**3.4**	**2.9**	**21.4**			
Thailand																
Delta Electronics Thai	322	310.00	-4%	10,996	FV	58.3	40.3	36.6	54.0	14.0	0.8	9.4	21.4	12%	-59%	-22%
Hana Microelectronics	40.5	40.00	-1%	901	FV	20.7	19.1	18.7	-28.7	5.6	3.3	1.4	7.2	3%	-58%	-54%
KCE Electronics	61.5	56.00	-9%	2,013	HOLD	29.5	27.0	25.2	9.0	7.4	2.2	5.3	18.9	15%	-35%	-30%
SVI PCL	7.20	8.50	18%	431	BUY	10.9	13.8	10.8	-20.8	27.5	2.5	3.0	19.8	55%	-38%	-9%
Average						**29.8**	**25.1**	**22.8**	**3.4**	**13.6**	**2.2**	**4.8**	**16.8**			
Taiwan																
TSMC	486.50	860.00	77%	422,258	BUY	21.1	16.2	13.9	30.1	16.9	3.0	5.8	32.0	0%	-29%	-21%
UMC	41.60	80.00	92%	17,586	BUY	9.2	7.4	7.8	24.5	-5.2	6.8	1.8	23.3	2%	-38%	-32%
Average						**15.2**	**11.8**	**10.8**	**27.3**	**5.8**	**4.9**	**3.8**	**27.6**			
Hong Kong / China																
AAC Tech	16.90	22.30	32%	2,534	BUY	12.9	13.0	12.4	-5.5	4.4	2.4	0.8	5.8	13%	-71%	-45%
ASM Pacific	68.50	138.00	101%	3,458	BUY	8.8	8.4	7.3	5.8	15.0	5.9	1.8	20.6	6%	-39%	-19%
Hua Hong	26.15	58.90	125%	4,337	BUY	20.3	12.1	9.2	68.3	30.9	0.0	1.5	11.7	13%	-54%	-39%
Lenovo	7.41	13.00	75%	9,702	BUY	9.2	6.0	5.3	52.6	12.7	4.3	3.2	47.5	6%	-23%	-17%
Luxshare	32.40	40.00	23%	34,258	BUY	31.8	23.4	17.9	34.0	29.6	0.4	6.4	24.0	27%	-37%	-34%
Q Tech	5.39	8.90	65%	774	BUY	6.0	5.1	3.3	18.0	53.6	1.1	1.1	19.6	14%	-69%	-47%
Sunny Optical	118.50	200.30	69%	15,216	BUY	20.4	16.8	12.6	24.7	33.0	1.0	4.9	26.2	27%	-54%	-52%
Xiaomi	12.26	14.50	18%	38,969	BUY	13.0	14.1	9.0	-7.4	57.0	0.0	1.8	12.2	19%	-57%	-35%
						15.3	**12.4**	**9.6**	**23.8**	**29.5**	**1.9**	**2.7**	**20.9**			

Source: DBS Bank, Bloomberg Finance L.P.

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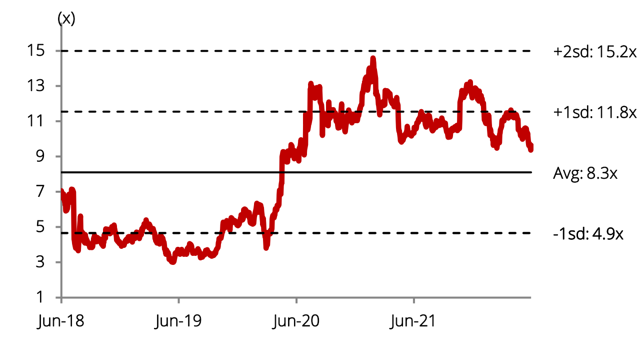
Valuation – Forward PE Band for Stock Picks

AEM



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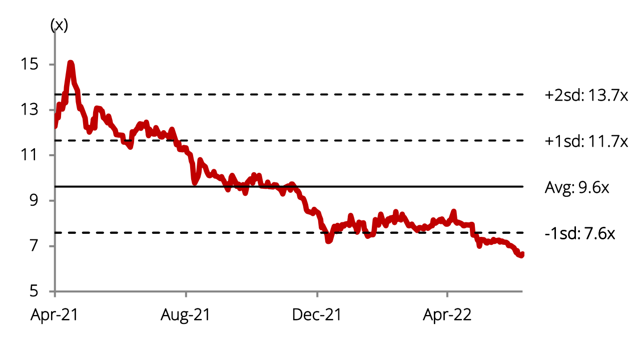

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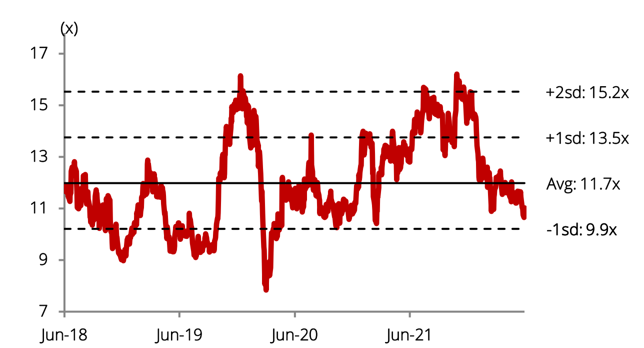
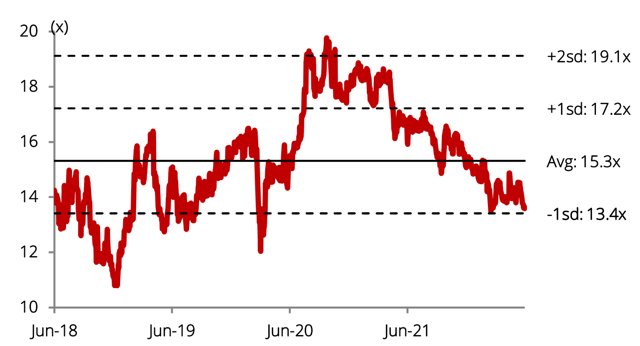


Venture



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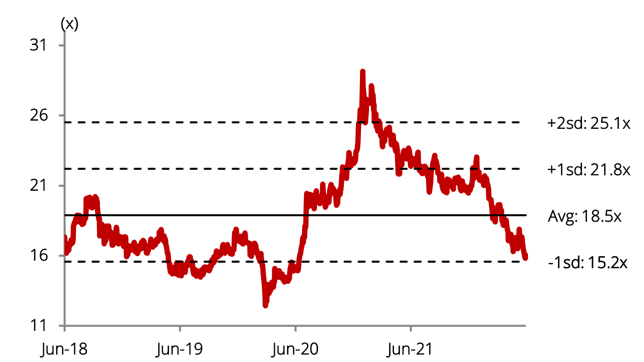
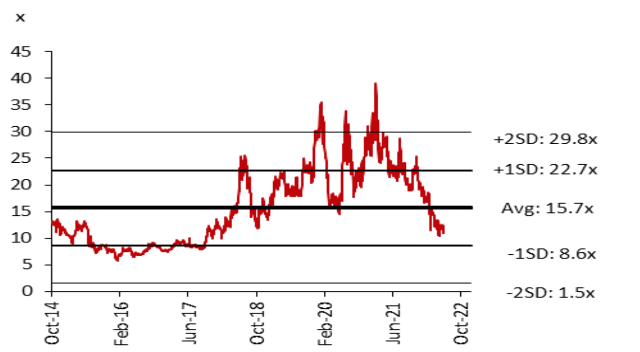
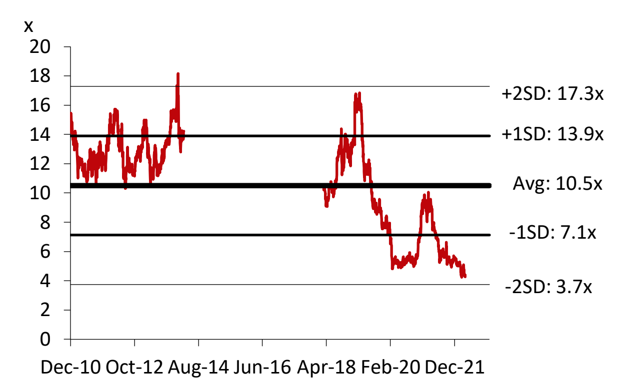


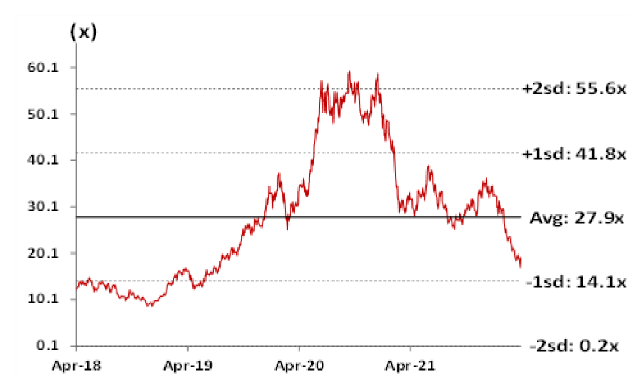
Hua Hong



Lenovo



Luxshare



Source: DBS Bank, Bloomberg Finance L.P.

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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