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STAR RATINGS REVIEW

MONTHLY MORNING MEETING JUL 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

SECTOR STAR RATINGS

TECHNOLOGY (4.0 STARS – VERY ATTRACTIVE)

1. The global technology sector (as represented by the NASDAQ 100) traded at a PE ratio of 15.5X and 13.5X for 2010 and 2011 respectively (as of 28 June 2010), according to the consensus estimates.
2. The consensus earnings growths are 23.8% and 15.2% in 2010 and 2011 respectively (as at 28 June 2010).
3. The North American Semiconductor Equipment Industry book-to-bill ratio was at 1.12 in May 10, up from the cycle low of 0.47 seen in January 09.
4. The Japanese semiconductor manufacturing equipment book-to-bill ratio rose to 1.07 in May 10, up from 0.30 (a record low) in March 09. Both ratios have stayed above parity for the eleventh and twelfth straight months. Semiconductor equipment sales tend to lead the technology cycle. Thus, the current figures indicate that we are in a recovery stage after bottoming.
5. US New Orders for Computer and Electronic Products were at US\$27.6 billion in May 10, up 13.0% y-o-y. Nevertheless, new orders have increased from the cycle low of US\$23 billion in January 09.
6. Seasonally adjusted total US inventories of Computer and Electronic Products in May 10 fell 4.0% y-o-y and reached US\$ 43.7 billion. The inventory is still below the historical five-year average.
7. Benchmark NAND and DRAM chip prices have gained moderately in 2010 amidst a strong rebound in 2009; as of 29 March 2010, their prices were 14.8% and 6.0% lower in USD terms.
8. More signs of recovery have been seen in the PC market. Gartner reported that the first quarter global PC shipment surged 27% y-o-y, thanks to the robust demand from Europe, Africa and Middle East.
9. Various indicators related to the technology sector suggest that a bottom for the cycle is clearly behind us. We believe that the market appears to underestimate the strength of end-user demand. Specifically, new products, replacement demands and infrastructure upgrades are expected to fuel more growth to the technology supply chain.
10. We believe that the consensus underestimates the earnings outlook of the tech sector. Given the bottoming of the technology cycle and the huge proportion of earnings surprises in the latest quarterly results, we upgrade the tech sector to 4.0 stars "Very Attractive", under the three-year horizon.