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SECTOR REVIEW

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

SECTOR

TECHNOLOGY (3.5 STARS – ATTRACTIVE)

GLOBAL TECHNOLOGY

- North American Semiconductor Equipment Manufacturers book-to-bill ratio jumped to 1.2 in Jan 10, up from 1.07 in Dec 09.
- Global chip sales for Dec 09 surged 28.8% y-o-y, compared to a 8.8% y-o-y increase in Nov 09.
- US new orders for computer and electronic products rose 2.0% y-o-y in Dec 09, after declining 3.6% in Nov 09.
- US inventory for computer and electronic products declined 9.8% y-o-y in Dec 09, after a 9.7% decline in Nov 09.

ASIAN TECHNOLOGY

- Semiconductor Equipment Association of Japan (SEAJ) book-to-bill ratio for Japanese fab-tool vendors rose slightly to 1.36 in Jan 10 compared to 1.3 in Dec 09.
- YTD (as of 22 Feb 10, in USD), benchmark DRAM chip prices have dropped 7.8% while NAND chip prices have gained 3.8%.

MARKET OUTLOOK

Earnings season kicked off in mid-January 2010. Of the 39 tech companies in NASDAQ 100 Index which have reported quarterly earnings since 11 January 2010, 33 (85%) have beaten analysts' estimates (as at 22 February 2010). NASDAQ 100 rose 4.4% while Philadelphia Semiconductor Index (SOX) jumped 8.4% in February (as at 22 February 2010).

Year 2010 is considered a year of new products. In the Consumer Electronics Show (CES) held annually in Las Vegas last month, four key trends were seen in the industry. They are: (1) The growth of 3D products followed by the recent success in a 3D movie; (2) the rise of tablet PC; (3) E-books; and (4) technology companies expanding their exposures to other industries. On 27 January 2010, Apple released iPad. In terms of functionality, this product is expected to bridge the gap between computers and smartphones. While iPhone brought a wave of touch-panel handset fever, iPad is expected to bring another fever to tablet PCs. Needless to say, these new products including the launch of Windows 7, will likely drive up the long-awaited replacement demand, accessories sales as well as hardware upgrades.

On the corporate front, net income of Cisco was \$1.9 billion, up 28% compared to a year ago. Baidu posted a better-than-expected earnings in the fourth quarter with net income increasing 48.2%, thanks to the online marketing revenue which grew by 39.8% year-on-year. Looking ahead, we are located in the mid-stage of the recovery. We expect earnings to be back to normal this year.

Regarding valuation, the technology sector represented by NASDAQ 100 Index trades at 16.6X and 14.4X for the 2010 and 2011 PE ratios respectively. The consensus earnings growths are 17.6% and 15.3% in 2010 and 2011 respectively (as at 25 February 2010). We reiterate that the technology cycle has bottomed and maintain a 3.5 stars "Attractive" rating on the sector.

**RECOMMENDED GLOBAL TECHNOLOGY FUND:
HENDERSON GLOBAL TECHNOLOGY FUND**