



Uncovering Opportunities in Asia's Tech Sector

January 5, 2018

by Yu Zhang
of Matthews Asia

So far this year, technology has been the best-performing sector in the MSCI All Country Asia ex Japan Index. Tech has taken up a large part of the broad index weighting and comprises about one-third of the overall index. Shares of some large-capitalization tech companies in Asia have delivered strong performance. As a result, they have driven up the tech sector weighting relative to the broader market. The question that is currently top of mind for many investors: Do these types of stocks represent the best opportunities in Asia's tech sector right now?

In terms of valuations, a lot of attention has been focused on internet-related businesses that are trading at high multiples with forward-looking one-year P/E (price-to-earnings) ratios of 40 or more. I believe investors generally should be careful about valuations for these e-commerce/internet-related names. I see more attractive valuations in other technology names that have reasonable forward-looking, one-year P/E's in the high single digits, especially relating to quality global franchises. On top of strong business fundamentals and reasonable valuation multiples, we see another layer that can support good share price performance because we believe that such companies can return more excess cash to shareholders.

As technology is such an integral part of daily life, we are interested in companies that have underlying businesses that are driven by a secular increase in data consumption. The smartphone is a prevailing device today that incrementally consumes a significant amount of data, creating demand in terms of data network capacity. This requires telecommunications companies to constantly increase overall network quality and bandwidth, creating interesting business opportunities for key suppliers.

The migration of 4G wireless technology to 5G, for example, is driving up wireless telecom capital expenditures. Certain businesses provide the telecom hardware equipment to enable the transition into 5G and these suppliers could see accelerating earnings growth in the years ahead. Valuations for these kinds of businesses, which are trading at much lower multiples, would be much different from those of well-known Chinese internet/e-commerce names. What is interesting about these names, however, is that many analysts still appear to be playing catch-up, meaning they will wait to see actual earnings before revising their forecasts. That is why we think there are investing opportunities in some of Asia's telecom equipment companies and data infrastructure businesses.

The views and information discussed in this report are as of the date of publication, are subject to change and may not reflect current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. Investment involves risk. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Past performance is no guarantee of future results. The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews International Capital Management, LLC ("Matthews Asia") and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information.

© Matthews Asia