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Tech sector may lead gains

The tech sector typically benefits early from the kind of economic recovery now materializing and various secular tech trends are also bullish over the next few years.

MSCI AC Asia ex-Japan Index (Total return)	As of March 31, 2012	
	3 Months	12 Months
USD Return	12.9%	-5.4%
CAD Return	11.0%	-1.9%

Source: Bloomberg. For illustration purposes only.

The year 2012 started off stronger than expected, with investor sentiment rising amidst optimistic news and positive developments coming out of Europe. The figures showing revival in consumer growth in the U.S. had a more direct impact on Asian markets.

We have likely seen the Organisation for Economic Cooperation and Development (OECD) indicators bottom at the end of last year, paving the way in 2012 for what we see as an opportunity specific to the information technology (IT) sector, which benefits early in this type of environment.

Technology companies exited 2011 with below normal inventory levels, setting up for a much healthier 2012. The sector has already seen a strong rebound this year, although we believe that these companies have room for more growth and going forward will perform more in line with new product launches scheduled for this year.

Unlike last year, when it was largely only companies in Taiwan supplying U.S. tech giant Apple that appreciated strongly, we see a broader based rebound in 2012, not only in Taiwan, but also South Korea, where IT is the most important sector at 22 per cent of the total market.

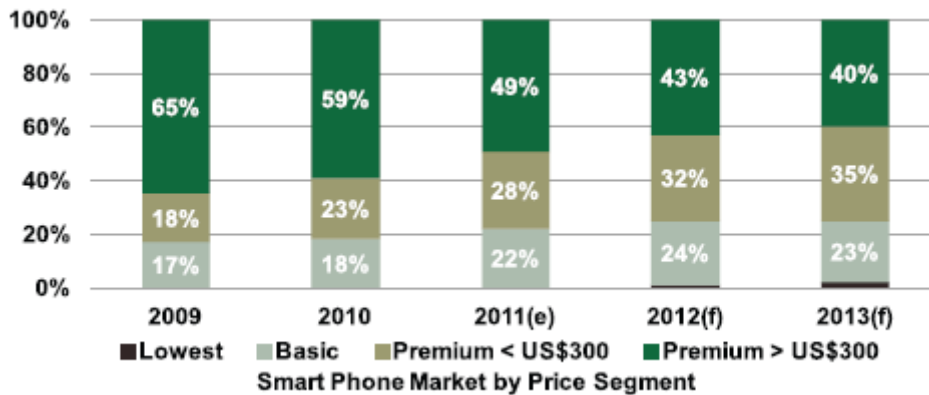


Positive smart phone, tablet trends

More specifically, we see the following trends emerging that will benefit tablet computer and smart phone companies:

1. Tablet shipments are forecast to rise 50-60 per cent this year, up over 20 per cent from previous estimates to 106 million units, according to International Data Corporation (IDC).
2. Smart phone volume growth is in a secular trend, and should rise at a CAGR of 21 per cent over the next four years to 700 million, according to IDC. The Mobile World Congress in Barcelona two weeks ago highlighted an ongoing trend of product innovation, with most original equipment manufacturers showcasing models that they will introduce in the first half of this year. The exceptions were Samsung and Apple, who are launching new smart phones in the second and third quarters, respectively.

Asia looms large in smart phone technology and market share



Source: Nomura Research, September 2011. For illustration purposes only.

3. This year China will become the second largest smart phone market in the world, next only to the U.S. In China, smart phone manufacturers plan to double their shipments this year, with the low (below \$150) to mid-range smart phones providing the strongest growth. In the U.S., the ratio of 4G models to total smart phone sales reached 35 per cent in the fourth quarter, up from 6per cent a year earlier showing the increased demand.

Even though a lot of companies within the technology sector will likely benefit this year, there are risks that could affect growth. The main downside risk is a major spike in the oil price, especially for South Korea, one of the Asian countries most dependent on imported oil. A sharp and protracted devaluation of the Japanese yen is another risk. Korea historically has lost export competitiveness when the exchange rate reaches 10 won/1 yen. The current level of 13.5 won/¥1 is not a concern, but we will continue to closely monitor. Despite the global competitiveness of many Korean industries, such as auto making, shipbuilding and mobile phones, the outlook remains very sensitive to U.S. and European markets, and a less favorable global economic backdrop could hurt growth.



Overall, we see this as an exciting time to be in the IT sector for the rest of the year, mainly with companies in Taiwan and Korea with opportunities across the tech chain.

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