Share price runs of tech companies to hit skids in 2017

While the share prices of some listed technology firms have risen sharply in 2016, outperforming the JSE all share index, one analyst has warned their overall performance is likely to slow down in 2017.

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This prediction is due to rising global government bond yields that put downward pressure on price:earnings ratios, says Mergence Investments' Peter Takaendesa.

The technology index has shrunk materially over the past few years following the delisting of companies such as Business Connexion and Gijima. Datatec and EOH are the biggest groups in the JSE's IT sector, and their performances have a significant effect on the movement of the index.

The star performer in 2016 in the listed technology index is Pinnacle, which has gained 44% since January. The all share has gained less than 0.5% in 2016.

The group has recovered from the disruptions caused by corruption allegations against one of the executives two years ago and a recent mention in a corruption case against a senior official of the South African National Defence Force.

"Pinnacle is a recovery story for all intents and purposes ... The company was sold off quite aggressively and 2016 was a year of recovery and consolidation after its pursuit of further interest in Datacentrix," said Farai Mapfinya, chief investment officer and portfolio manager at Falcon Crest Asset Managers.

Pinnacle is buying the rest of Datacentrix and plans to delist the company. Datacentrix is up more than 30% year-to-date driven by steady earnings growth as well as the pending acquisition by Pinnacle.

EOH's share price continued its growth trajectory on a strong operational performance despite the tough trading conditions. The share price has gained 23% since the beginning of the year. The company has built a good reputation in the market and has been an outstanding performer over the past five years.

But Mapfinya said EOH's valuation appeared "stretched and the company will need to continue delivering similar performance to justify the rating".

Pinnacle and AdaptIT's valuation were palatable and the momentum was expected to continue, he said.

AdaptIT has gained 23% so far in 2016 to trade at R15.81. AdaptIT had been diversifying its offering across products and regions and had done so through a measured mix of organic and acquisitive strategy, said Mapfinya.

Datatec and technology hardware distributor Mustek had underperformed because of earnings pressure that was due to weaker volumes in weaker economies and margin pressure due to a stronger US dollar.

Takaendesa said he expected that earnings growth for IT hardware distributors will recover as economies grow at better rates than in 2016. IT services companies were likely to continue delivering decent earnings growth driven by organic expansion in SA and into the rest of Africa as well as acquisitions, he said.

"Most IT companies in SA have strong balance sheets to continue to fund growth," Takaendesa said.

Source: Business Day