Investment Team Corner

In conversation with Alex Yee, Analyst in the Technology Group

In the fast-evolving world of technology, the concept of value investing frequently appears incongruent with the sector's rapid expansion and what we consider high valuations. To unravel this paradox, we spoke with Alex Yee, a technology analyst at Brandes. With an eye on emerging trends, such as AI (artificial intelligence), and the effects of legislation, Alex explains the Brandes approach to seeking opportunities that others might overlook. Alex has 13 years of experience and has been with Brandes for five years.

As a technology analyst at a value-focused firm, how busy are you, given that technology stocks are sometimes overlooked by value investors? Also, is the belief that value investing and the technology sector are incompatible a myth, and how do you screen for value opportunities in technology?

The technology team has stayed quite busy this year. I do believe the idea that value and tech are incompatible is a myth. At Brandes, we take a holistic approach to the tech sector. Our approach involves quantitative screens backed by qualitative research, studying the technology, considering market trends, and having discussions with various market participants. Making sure that we understand the real-world drivers and phenomena that are driving the more quantitative numbers that we are looking at is the key.

Chip manufacturing has become a big part of your coverage. The CHIPS Act signed in 2022 offers substantial financial incentives to boost U.S. semiconductor manufacturing. How does this legislation influence your work in valuing tech businesses?

In our valuation process for tech companies, we closely examine the potential impact of government incentives. These include seeking to understand their broader effects on semiconductor manufacturing capacity, capital expenditures, and sales of semiconductor capital equipment. These aspects significantly influence our analytical approach. However, it's important to note that beyond government incentives, other dynamic factors are also at play. We're paying attention to secular trends such as AI and electrification, and how these trends affect the demand for semiconductor devices.

With the current hype around AI, and AI chip-designing firms such as Nvidia, having what Brandes considers rich valuations, how do you as a value investor participate in this trend?

We acknowledge that valuations in the global tech sector have risen over the past year and approach the trend with caution. Often, these valuations do not offer the margin of safety that we, as value investors, seek. (The margin of safety for any security is the discount of its market price to what the firm believes is the intrinsic value of that security.) However, we recognize the potential of AI technology to fundamentally transform industries, markets, and even our everyday lives. This potential forms the basis of our optimistic outlook on AI. Therefore, our strategy involves appreciating the long-term structural changes AI is likely to bring, while simultaneously being mindful of the current valuations and the risks they entail.

When considering the range of Brandes' products and strategies, and looking across the broad technology sector, where are you seeing the best value opportunities?

To start, given that we believe valuations are high across the tech sector, it is important for us to take a more cautious approach. We are finding opportunities in more specific areas rather than across entire sectors or market segments. Our approach is centered on in-depth, bottom-up research, evaluating opportunities on a case-by-case basis. We have identified some promising investments in foundries, Asian memory, and certain IT services. Our current strategy is to focus on idiosyncratic opportunities, aligning with our fundamental, bottom-up approach.