

Fund managers look beyond Life360 in tech bull...

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Fund managers look beyond Life360 in tech bull market

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Stock picking

The months-long Silicon Valley bull run has lifted Australian technology stocks and made it more difficult to find good long-term prospects, with investors and brokers split on the outlook for some of the ASX's hottest companies, including family location tracking app developer Life360.

But fund managers say there are plenty of tech companies promising long-term growth, even as they expect more volatility as the sector continues to soar. The ASX 200 has climbed by about 21 per cent since April, while the S&P/ASX All Technology Index has rocketed nearly 40 per cent.

The S&P 500 Index notched its 33rd all-time high this year on Wednesday as traders piled back into artificial intelligence stocks, with Nvidia, the world's most valuable company, gaining 2.2 per cent as chief executive Jensen Huang told CNBC demand for its Blackwell chips was "really, really" high.

Australian fund managers say there aren't any screaming bargains left on the market and that increased scrutiny on frothy tech stocks would result in ongoing volatility. But investors still have plenty of promising long-term growth options across the ASX's small, medium and large cap stocks.

The IMF and the Bank of England this week both joined the chorus of

voices warning that stretched valuations in the technology sector – along with ongoing challenges to the US Federal Reserve's independence – had increased the risk of a sharp correction.

"Today's valuations are heading toward levels we saw during the bullishness about the internet 25 years ago," said IMF managing director Kristalina Georgieva.

The BoE also warned of "material bottlenecks to AI progress" that could

harm valuations. These could come from power, data, or commodity supply chains, as well as conceptual breakthroughs which change the anticipated AI infrastructure requirements.

"Equity market valuations appear stretched, particularly for technology companies focused on AI," the British central bank officials said.

Morningstar analysts Roy van Keulen and Shaun Ler on Thursday warned of "froth" in the ASX technology sector and singled out market darling Life360, which has rocketed 140 per cent so far this year, as a company whose valuation had become "detached from fundamentals".

"Growth in advertising revenue, which has been the driver of the market narrative, has been flat quarter on quarter," they said of the software provider. "Yet shares continue to fly."

Van Keulen and Ler's top picks were in the sector were insurance software player Fineos – up 120 per cent in the last 12 months – and hotel booking system company SiteMinder, which they said remained undervalued despite its share price more than doubling since an April low of \$3.40.

"New products are leading to improved conversion and higher average revenue per customer. Contrary to Life360's new growth driver, where growth has flattened, SiteMinder's growth has only just begun."

However, Life360 remains popular with fund managers and is held by Ausbil small-cap portfolio manager Andrew Peros, among many others.

Another backer is Alphinity Investment Management co-chief executive Andrew Martin, who believes – like Peros – that the app has room for growth as it expands beyond tracking children into pets and the elderly.

It has potential revenue from advertising, which it introduced last year.

"Life360 has an incredibly engaged user base, which is also very data rich," Martin said. "[But] we think it is fair to

say you aren't going to find any cheap tech stocks on the ASX."

He also likes TechnologyOne, which develops resource planning software for councils, schools, universities, hospitals and government agencies, given its potential for growth in the United Kingdom, where it is looking to pinch market share from Oracle and Workday.

The Brisbane-based company, which entered the S&P/ASX 50 last month, unveiled its own ChatGPT-style product in Melbourne on Thursday,

designed to enhance the capability of its software to investors.

"The market undervalues the mid-teens, consistent growth the business can produce ... without having to take material risks," Martin said.

In the ASX small-cap space, Paul Nojin, chief executive of stockmarket newsletter *The Super Investor*, said lung imaging software company 4DMedical, which he believes could be included in the S&P/ASX 300 Index at the next reweighting, was the standout.

4DMedical's large cap rival, Pro Medicus, in July invested \$10 million to advance its CT:VQ lung tissue scanning software towards regulatory clearance, which it received from the Food and Drug Administration in September.

"I believe 4DMedical has all the attributes to be the next Pro Medicus, in terms of achieving very rapid growth, spectacular margins, and unprecedented valuations," Nojin said.

Jai Mirchandani, the founder of Elm Responsible Investments, backed Pro Medicus's investment in 4DMedical and was bullish about both companies.

Seneca Australian small companies fund portfolio manager Luke Laretive listed his top three ASX tech stock picks as Qoria, which provides online monitoring software for parents and schools and last year changed its name from Family Zone Cyber Safety, transport software business EROAD, and the country's dominant real estate settlement platform PEXA.

