

6 February 2014
MALAYSIA EQUITY



BYTE IT

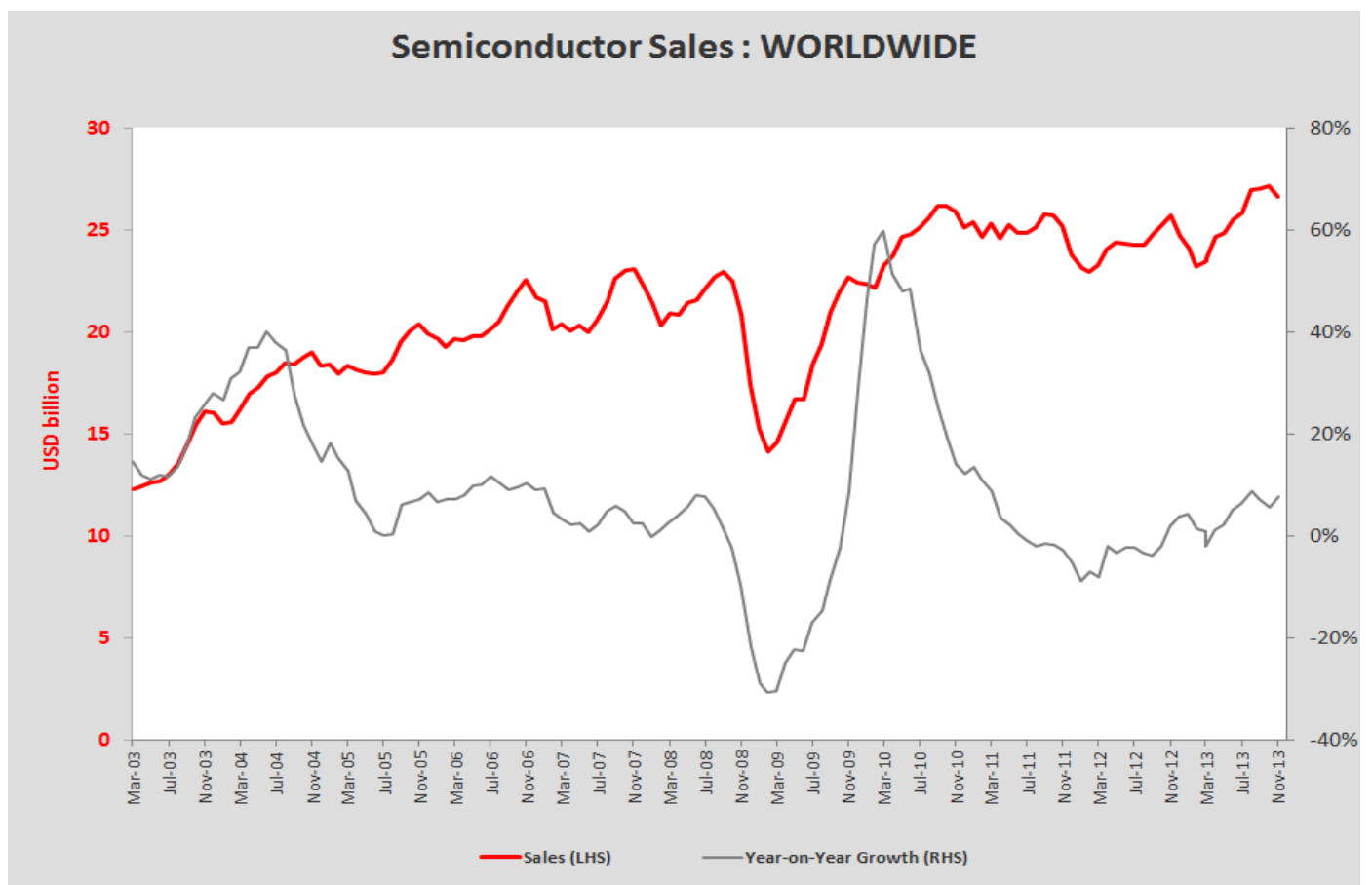
**Monthly Review and Outlook of the
Semiconductor and Technology Industry**

DECEMBER 2013

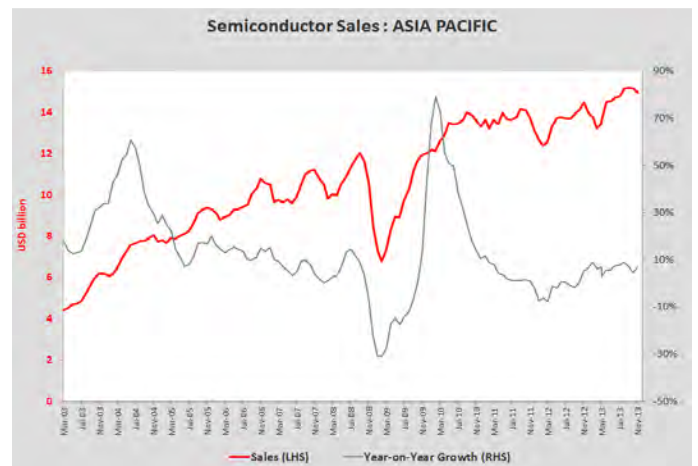
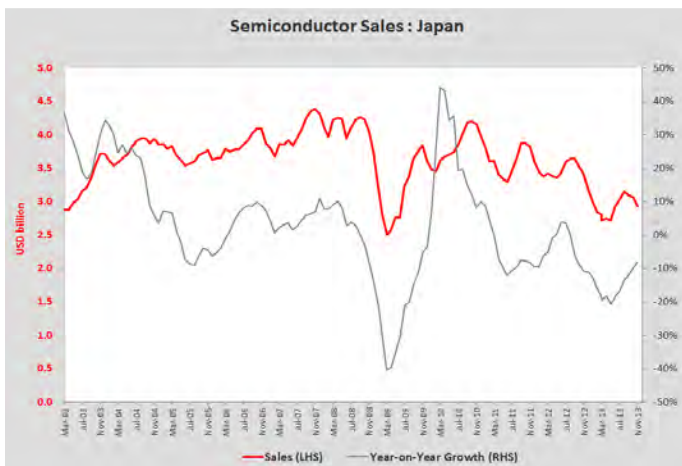
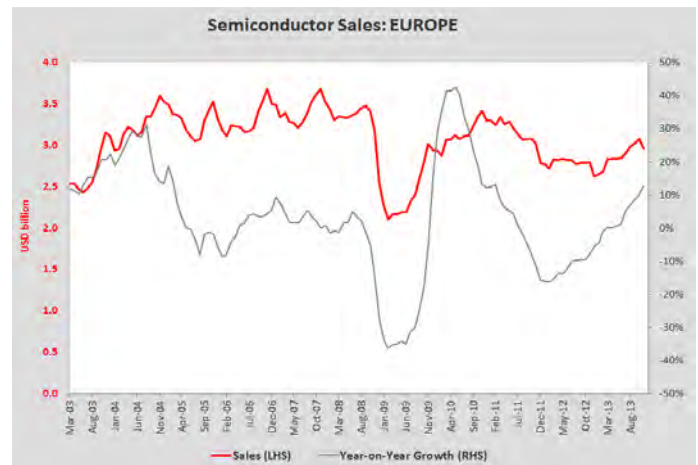
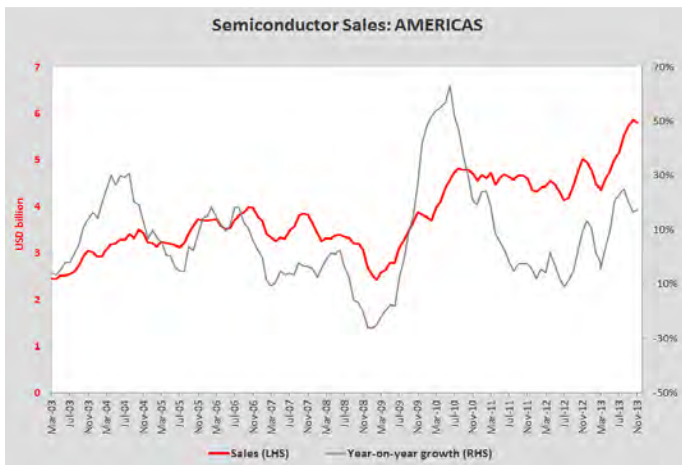
2013 GSS topped USD305.6b

REVIEW OF WORLDWIDE SEMICONDUCTOR SALES – DECEMBER 2013

- Global Semiconductor Sales (GSS) hit USD305.6b for the year 2013, the highest sales the industry has ever recorded. This exceeded slightly WSTS estimates of USD304.3b. The GSS grew 4.8% in 2013, the highest since 2010 on the back of steady growth across all regions and product categories.
- For December 2013, sales amounted to USD26.6b, the sixth consecutive month that sales had exceeded the USD25b mark. It translated into an increase of +7.7%yoy, the highest growth for the month of December since the +12.1%yoy recorded in December 2010.
- In terms of product segment, logic was the biggest contributor (USD85.9b) in 2013, accounting for 28.1% of GSS. However, memory was the fastest growing segment, the sales of which hit USD67b, an increase of 17.6%. This was due to strong sales performance from the DRAM sub-segment which increased by 33.3%.
- All the regions, with the exception of Japan, showed higher annual sales. Sales from the Americas market accelerated by +13.1%, outpacing its peers. Meanwhile, Asia Pacific and Europe showed mid-single digit growth. Only Japan experienced a sharp decline of -15.2% due to the devaluation of the Japanese yen. However, we note that Japan has been showing encouraging recoveries in sales in recent months.
- We reiterate our bullish stance on the semiconductor industry. We believe the industry is still riding on the upcycle and we do not foresee any letdown in GSS in the immediate term. New launches of smartphones and tablets are expected to keep the market in an upbeat mood. This bodes well for technology companies which ride on these products.



Source: SIA, WSTS



Source: SIA, WSTS

WSTS 2013-2015 SEMICONDUCTOR SALES FORECAST

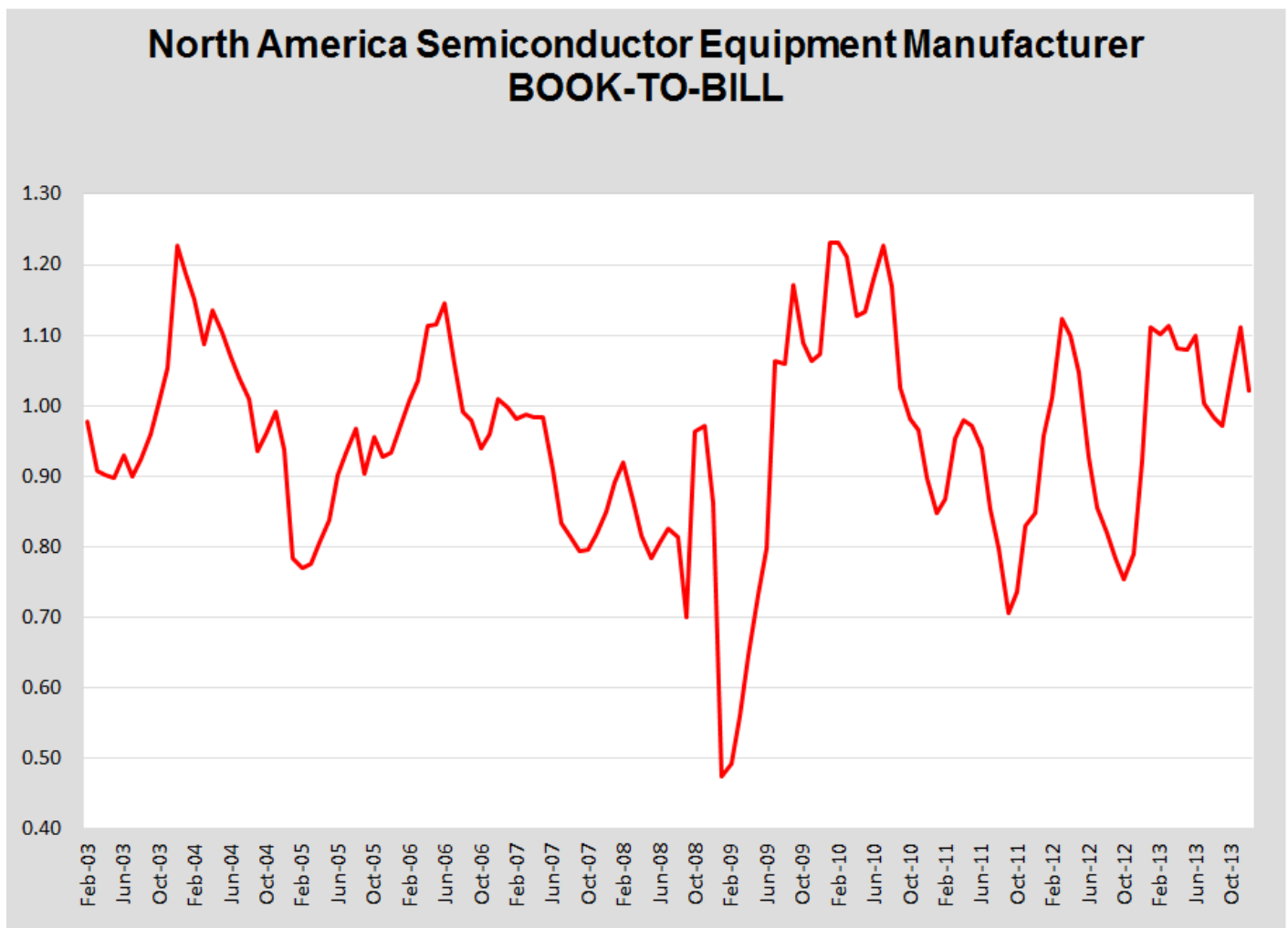
Autumn 2013	Amounts (USD'm)				Year on year growth (%)			
	2012	2013E	2014F	2015F	2012	2013	2014	2015
By Region								
Americas	54,359	61,500	63,863	65,926	-1.5	13.1	3.8	3.2
Europe	33,163	34,880	35,195	36,215	-11.3	5.2	0.9	2.9
Japan	41,056	34,800	36,451	37,261	-4.3	-15.2	4.7	2.2
Asia Pacific	162,985	174,411	181,128	187,884	-0.6	7.0	3.9	3.7
Total World	291,562	305,580	316,636	327,286	-2.7	4.8	3.6	3.4
By Product								
Discrete Semiconductors	19,138	18,219*	19,256	19,935	-10.5	-4.8	5.7	3.5
Optoelectronics	26,175	27,600	29,498	31,064	13.4	5.4	6.9	5.3
Sensors	8,009	7,957*	8,324	8,682	0.5	-0.6	4.6	4.3
Integrated Circuits	238,240	251,700	259,558	267,605	-3.6	5.6	3.1	3.1
Analog	39,303	40,100	41,773	43,693	-7.2	2.0	4.2	4.6
Micro	60,238	58,700	59,557	59,608	-7.6	-2.6	1.5	0.1
Logic	81,703	85,900	90,559	94,140	3.7	5.1	5.4	4.0
Memory	56,995	67,000	67,669	70,164	-6.2	17.6	1.0	3.7
Total Products	291,562	305,580	316,636	327,286	-2.7	4.8	3.6	3.4

Source: WSTS

* estimates

THE BOOK-TO-BILL (BTB) RATIO

- BTB ratio for the month of December 2013 normalized to 1.02x after hitting 1.11x level in November 2013. We believe that this could be partly brought about by undelivered bookings in November 2013 which spilled over to the following month. Note that bookings for November 2013 improved by 10%mom after decreasing for the previous two consecutive months.
- Bookings for the month of December 2013 amounted to USD1,375.1m, edging towards the USD1.4b mark, which was last seen in June 2012. This was an increase of 11.1%mom and 48.3%yoy.
- Meanwhile, billings stand at USD1.457m. This is an increase of 20.8% mom and 33.8% yoy.
- Despite lower BTB ratio, we do not see any let down in equipment spending supported by strong demand of electronic devices. Capex spending is expected to remain robust in view of planned capacity expansions.



Source: SEMI

SECTOR REVIEW & COMMENTS

Smartphone shipments exceeded 1 billion in a year for the first time in history

- Smartphone shipments exceeded 1 billion in 2013 and grew 38.4% from that in 2012. Sales were driven by low cost units and large screen products.
- Samsung continued to dominate the market in 2013 with 31.3% market share (2012:20.3%). However, Chinese phone manufactureres i.e. Huawei, LG and Lenovo have shown impressive increase in shipment numbers. Despite this, we do not foresee them to take over Samsung and/or Apple market positions in the near future.

Table 1: Five smartphone vendors, shipments and market share 2013 (units in millions)

Vendors	2013 shipment volumes	2013 market share	2012 shipment volumes	2012 market share	Year-over-year change
Samsung	313.9	31.3%	219.7	30.3%	42.9%
Apple	153.4	15.3%	135.9	18.7%	12.9%
Huawei	48.8	4.9%	29.1%	4.0%	67.5%
LG	47.7	4.8%	26.3	3.6%	81.1%
Lenovo	45.5	4.5%	23.7	3.3%	91.7%
Others	394.9	39.3%	290.5	40.1%	35.9%
Total	1,004.2	100.0%	725.3%	100.0%	38.4%

Source: IDC

30% of companies will use biometric identification by 2016

- The relentless consumerization of enterprise IT policies and practices will extend to mobile device security over the next few years as more and more companies turn to biometric authentication technologies to lock down corporate data and devices.
- The Gartner report predicts that at least 30 percent of organizations will use technology similar to the Touch ID feature on the latest iteration of the iPhone to efficiently and effectively secure and manage mobile devices connected to their networks without irritating users in the process.
- This could provide another source of avenue for technology companies to tapped into, in our view. We do not discount the possibility that phone manufacturers will follow the footsteps of Apple who introduce Touch ID into iPhone 5S.

CONCLUSIONS

- GSS reached a new record of USD305.6b in 2013. This is supported by higher sales from across the regions, with the exception of Japan. Growth from the Americas region surpassed its peers, which recorded a 13.1% increase in sales. In comparison, sales from Europe and Asia Pacific grew at a slower pace of 5.2% and 7.0% respectively.
- On the contrary, sales from Japan did not outperform due to the weakening of its currency. However, sales has been increasing, albeit at a slow pace, since 2H13. Should this be extrapolated into 2014, we could see better sales figure ahead.
- BTB ratio remains above parity (i.e. 1.02x) for the month of December 2013. Both bookings and billings recorded strong yearly growth of 48.3 and 33.8% respectively. We view that this will lead to higher capex spending, moving forward.
- Both GSS and BTB reinforced our positive view on the semiconductor sector. We expect this momentum will continue to be seen this year on the back of buoyant demand for smartphone and tablets. This is also matched by new model rolled out by reputable phone manufacturers. Our top pick reside with Globetronics due to its exposure in the right segment.



Selected Semiconductor Stock

Stocks	Recom'dation	Price @ 5 Feb 2014	Target Price	EPS (sen)		EPS (% change)		PER		DPS		Yield (%)	
				12	13F	12	13E	12	13E	12	13F	12	13F
UNISEM	SELL	0.98	0.62	-4.9	-2.6	<-100	47.0	n.m.	n.m.	2.0	2.5	2.1	2.6
GLOBE-TRONICS	BUY	3.25	4.19	15.3	19.5	52.8	27.5	21.2	16.7	17.0	17.0	5.2	5.2

* = Based on consensus average, NR = not rated,

Source: Bloomberg and MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.