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MALAYSIA EQUITY



BYTE IT

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

JANUARY 2014

Monthly review and outlook of the semiconductor and technology industry

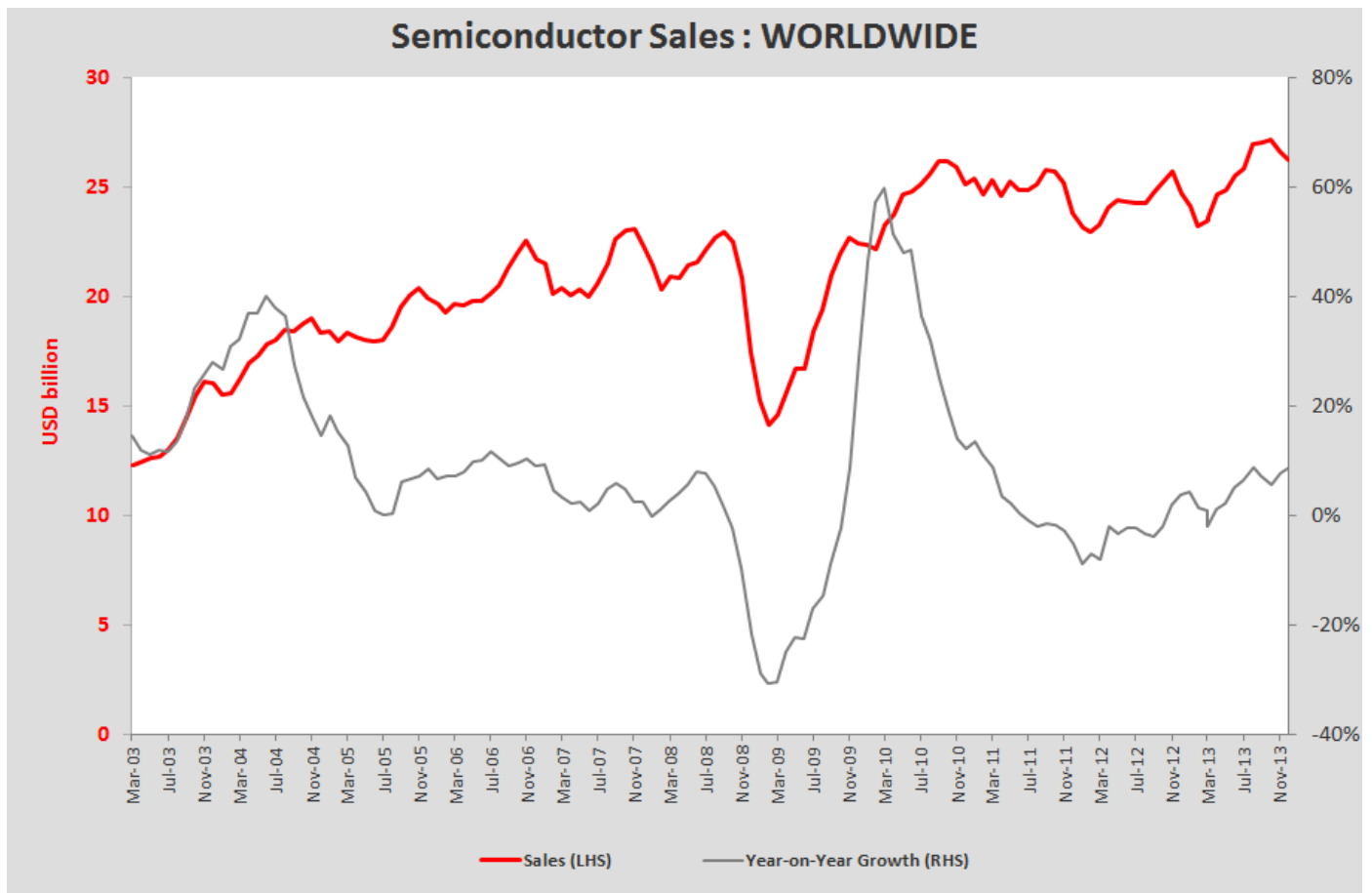
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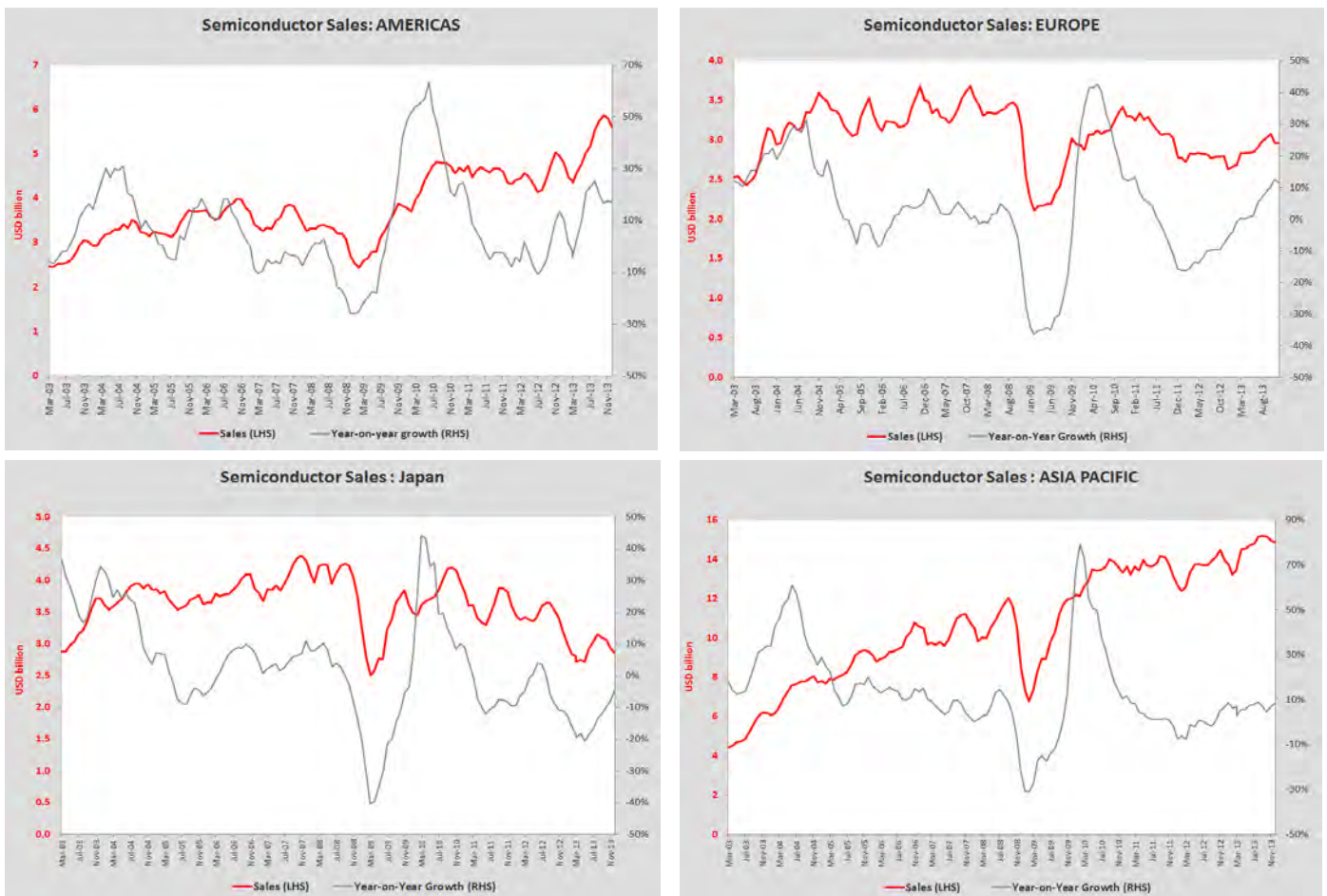
Highest on-year sales growth since 2011

Maintain POSITIVE

REVIEW OF WORLDWIDE SEMICONDUCTOR SALES – JANUARY 2014

- Global Semiconductor Sales (GSS) for the month of January 2014 came in at USD26.3b. This translates into an impressive advancement of +8.8%yoy as compared to January 2013 sales of USD24.2b. This was the highest sales ever recorded for the month of January. It was also the largest year-on-year increase since the beginning of 2011 when sales recorded a double digit growth. Nonetheless, on a sequential basis, sales contracted by -1.4%mom owing to normal seasonal trend.
- Sales was up nearly across all regions with the exception of Japan which declined by -4.7%yoy brought about by the devaluation of Japanese Yen. Double digit growths were recorded in Americas (+17.3%yoy) and Europe (+11.3%yoy) regions while sales from Asia Pacific expanded by +8.3%yoy.
- The sales data reinforced our positive view on the sector. We believe the industry shall remain in an upcycle phase and we do not see any let down in sales data in the foreseeable term. The continued growth expectation is premised on the prospect of strong demand of smartphones and tablets. Competitive pricing is one of the main reasons for the incessant rise in the demand of these smart devices. More affordable smart devices with good quality and features are entering the market. Thus, technology companies in the value chain will continue to benefit from the uptick in demand.





Source: SIA, WSTS

WSTS 2013-2015 SEMICONDUCTOR SALES FORECAST

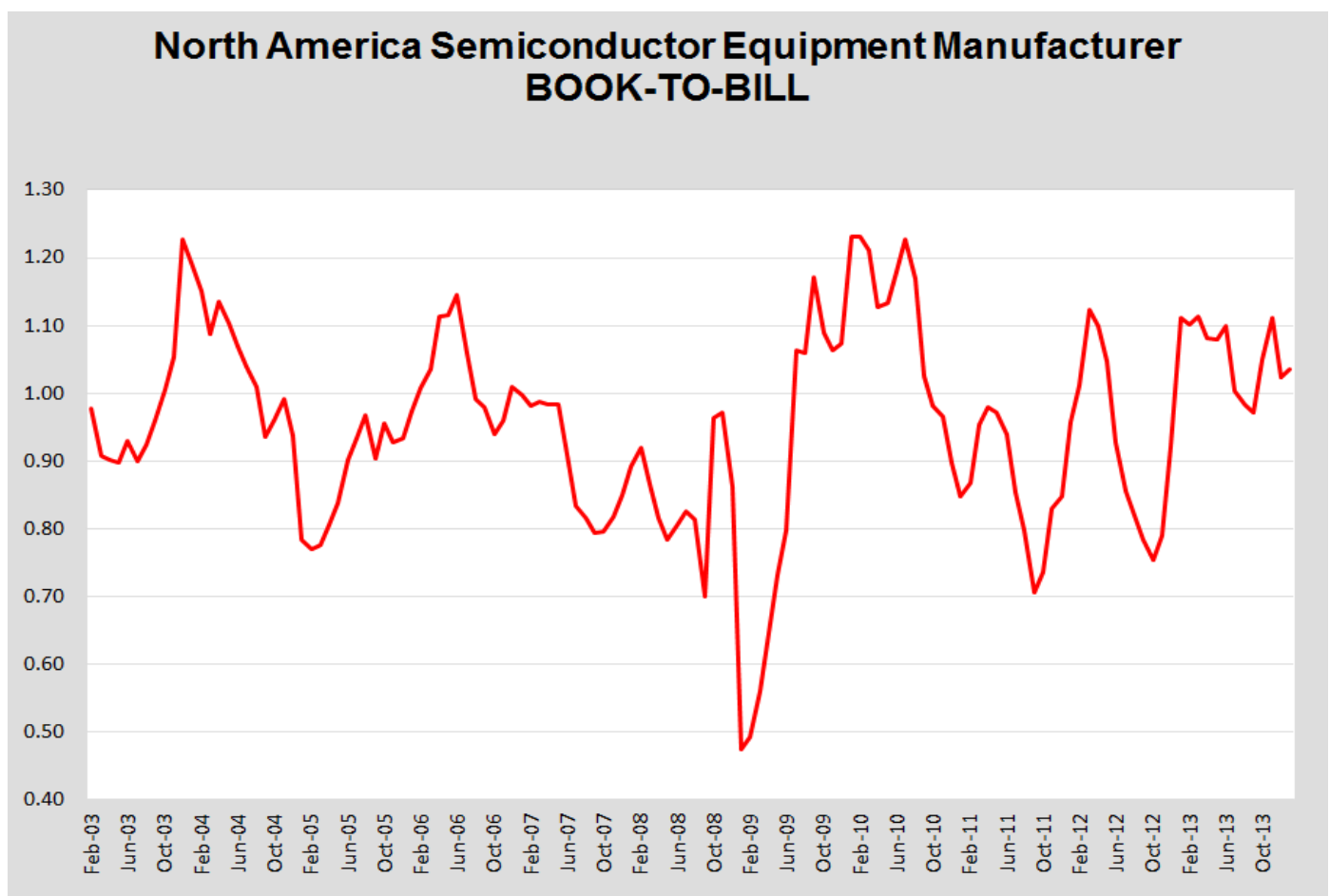
Autumn 2013	Amounts (USD'm)				Year on year growth (%)			
	2012	2013	2014E	2015F	2012	2013	2014	2015
By Region								
Americas	54,359	61,500	63,863	65,926	-1.5	13.1	3.8	3.2
Europe	33,163	34,880	35,195	36,215	-11.3	5.2	0.9	2.9
Japan	41,056	34,800	36,451	37,261	-4.3	-15.2	4.7	2.2
Asia Pacific	162,985	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 January 2014 amounted to 1.04x. This was a slight improvement over December 2013 ratio of 1.02x. It also in-line with 2013 average BTB ratio of 1.06x.
- Bookings for the month of January 2014 expanded by +19.1%yoy to USD1.28b as compared to USD1.08b recorded a year ago. However, this was lower at -7.1%mom as compared to December 2013 when bookings peaked at USD1.38b.
- In tandem, billings recorded an increase of +27.9%yoy to USD1.24b. Despite this, it was still lesser than December 2013 billings of USD1.35b.
- According to SEMI, device makers are investing in 20nm technology and advanced device structures, while leading packaging houses are focusing their investments on flip chip, wafer-level and 3-D packaging.



Source: SEMI

SECTOR REVIEW & COMMENTS

IDC Expects PC Shipments to Fall by -6% in 2014 and Decline Through 2018

- Worldwide PC shipments fell by -9.8% to 351.1m in 2013, slightly better than a projected decline of -10.1%.
- This was the most severe annual contraction on record.
- According to IDC, concerns about the impact of slower economic growth, the culmination of some large projects, and conservative expectations for factors like touch capability, migration off Windows XP, as well as continued pressure from tablets and smartphones has further depressed sales expectations.

Table 1: PC shipments by region and form factor, 2013 – 2018 (shipments in millions)

Region	Form Factor	2013	2014F	2018F
Emerging Markets	Desktop PC	85.6	80.5	77.2
Emerging Markets	Portable PC	96.2	87.2	94.5
Emerging Markets	Total PC	181.9	167.7	171.7
Mature Markets	Desktop PC	51.1	48.6	42
Mature Markets	Portable PC	82.2	79.6	77.9
Mature Markets	Total PC	133.3	128.2	120
Worldwide	Desktop PC	136.7	129.1	119.2
Worldwide	Portable PC	178.4	166.8	172.5
Worldwide	Total PC	315.1	295.9	291

Source: IDC

Android races past iOS to be tablet number one

- Android market share was up by approximately 16-ppts to 62% in 2013, up from 46% in 2012. The operating system raked in 121m in sales in 2013.
- On the contrary, Apple's iOS-powered iPad market share declined by 17ppts to 36% in 2013 from 53% a year earlier. This was despite a 13.8% increase in sales to 70m.
- In totality worldwide sales growth of tablet was up by a strong 68% to 195m in 2013.
- According to Gartner, in 2014, it will be critical for vendors to focus on device experience and meaningful technology and ecosystem value, apart from hardware and cost, to ensure brand loyalty and better margins.

Table 2: Worldwide tablet sales to end users by operating system (2013)

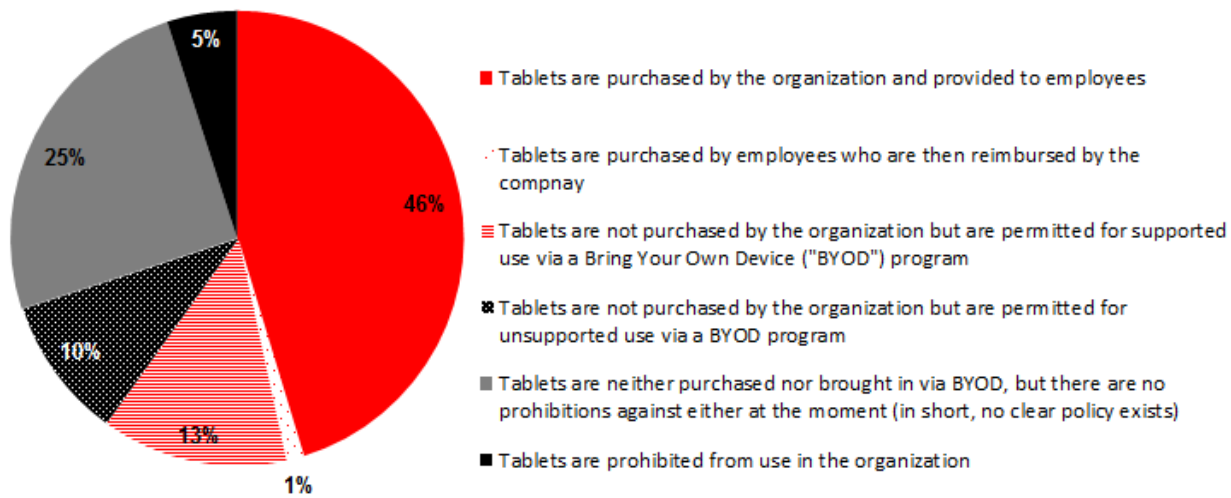
Operating System	2013 Sales (mn)	2013 Market Share (%)	2012 Sales (mn)	2012 Market Share (%)
Android	121.0	61.9	53.3	45.8
iOS	70.4	36.0	61.5	52.8
Microsoft	4.0	2.1	1.2	1.0
Others	0.0	<0.1	0.4	0.3
Total	195.4	100	116.3	100

Source: Gartner

Only 5 percent of companies prohibit tablet usage

- According to Tech Pro Research, 59% of employers support tablet usage while another 25% of employers are neutral due to non-existent of official tablet policy.
- This shows that there is lesser resistance nowadays in the adoption of tablets for work purposes. Thus, we view the remaining marginal prohibition will only create minute threats to the overall demand of tablet.
- Currently, tablets are performing many of the same functions as PCs and this is helping to spur their popularity.

Chart 1: How tablets are used in each organisation



Source: Tech Pro Research

CONCLUSIONS

- The global semiconductor industry started off 2014 on a positive note with sales coming in at USD26.3b, an increase of +8.8%yoy. Meanwhile, on a sequential basis, sales slowed by -1.4%mom in tandem with seasonal trend. In general, all regions continued to outperform, apart from Japan which underperformed due to devaluation of the Japanese Yen. Americas region was the star performer, which saw its sales grew +17.3%yoy vis-à-vis Europe and Asia Pacific at +11.3%yoy and +8.3%yoy respectively.
- BTB ratio remains above parity at 1.04x during the review month. Growth of both bookings and billings remained strong at USD1.28b (+19.7%yoy) and USD1.24b (+27.9%yoy) respectively. Global capex spending is expected to remain healthy with emphasis on 20nm technology and advanced device structures for device makers as well as flip chip, wafer-level and 3-D packaging for packaging houses.
- Global sales advancement and positive BTB ratio remain supportive of our positive outlook on the semiconductor industry. We believe the positive trend will continue to be seen throughout 2014 underpinned by robust demand of smart phone devices. New model rollout coupled with competitive pricing will be among the main pillars to support future growth. In this respect, technology companies involved in this value chain would benefit the most. As such, we reiterate our BUY recommendation on Globetronics (TP: RM4.19) due to its focus on these segments. 

Selected Semiconductor Stock

Stocks	Recom'd'n	Price @5 February 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				13	14E	13	14E	13	14E	13	14E	13	14E
UNISEM	SELL	1.00	1.01	-15.6	7.3	<-100	47.0	-6.4	13.7	1.9	2.3	1.9	2.3
GLOBETRONICS	BUY	3.28	4.19	19.0	23.6	52.8	24.2	17.3	13.9	19*	19.0	5.8	5.8

Source: Bloomberg and MIDFR

* forecasts

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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.