

07 October 2015 | Sector update

## Semiconductor Sector

**Maintain POSITIVE**

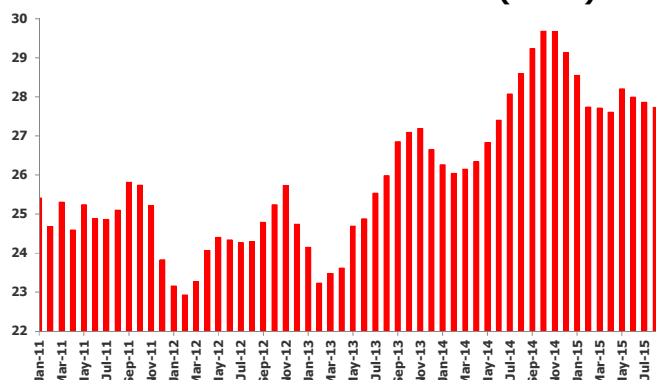
### Malaysia's semiconductor export growth outperforming GSS Asia

- The Global Semiconductor Sale (GSS) statistics for August were released recently and the numbers indicate a period of weakness in the second half of 2015. In our opinion, this is a temporary phenomenon.
- However, Malaysia's export of semiconductor products continue to outperform global and Asian sales growth, likely due to focus on the automotive and wireless communications segments.
- Recently concluded TPP talks are expected to promote trade of semiconductor products between the regions.
- August 2015 BTB ratio remained above parity, supported by higher bookings.
- Reiterate POSITIVE outlook on the semiconductor sector

### GLOBAL SEMICONDUCTOR SALES (GSS) – August 2015

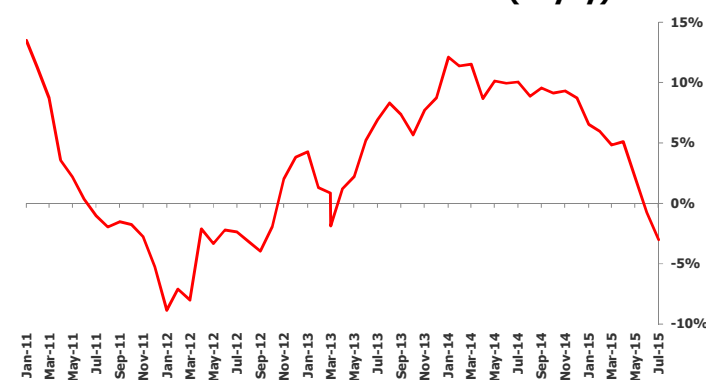
**Sales remains below USD28b.** As expected, GSS for the month of August 2015 came in below USD28b at USD27.7b. This is a decrease of -3.0%yoy which marked the second consecutive month of decline. We have already highlighted that there could be speedbumps in the upcoming months due to macroeconomic headwinds and softening demand. According to the Semiconductor Industry Association (SIA), "The global semiconductor market has endured a slight softening of demand in recent months, which has combined with currency devaluation and regular market cyclicity to slow sales." Despite slower sales, it is still on-par with the 2014 monthly average sales of approximately USD27.8b. Amid the apparent weakness, certain product categories such as optoelectronics and sensors continue to chart positive sales growths which are serving the automotive and wireless communications segments.

**Chart 1: Global semiconductor sales (USDb)**



Sources: SIA, MIDFR

**Chart 2: Global semiconductor sales (%yoy)**

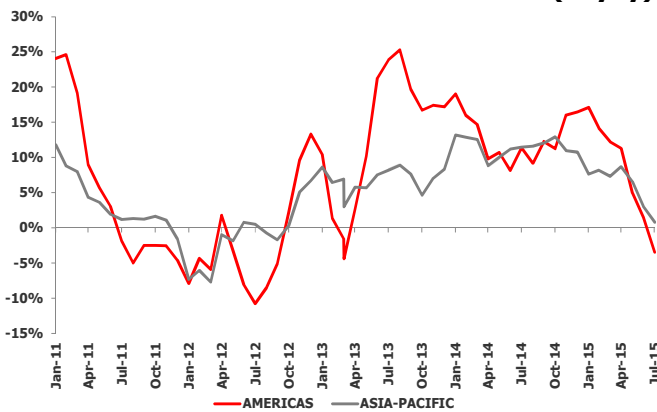


Sources: SIA, MIDFR

**A mixed regional performance.** China is the only outperforming sales region where sales grew by +4.4%yoy to USD81.b. Other regions including America recorded contraction in monthly sale. Sales from the Americas region reduced by -3.5%yoy. However, the SIA believes that the Trans-Pacific Partnership (TPP) will strengthen America's standing in the world and help to maintain leadership in the global market. Note that the TPP talks have been concluded and are awaiting the U.S. Congress to approve it.

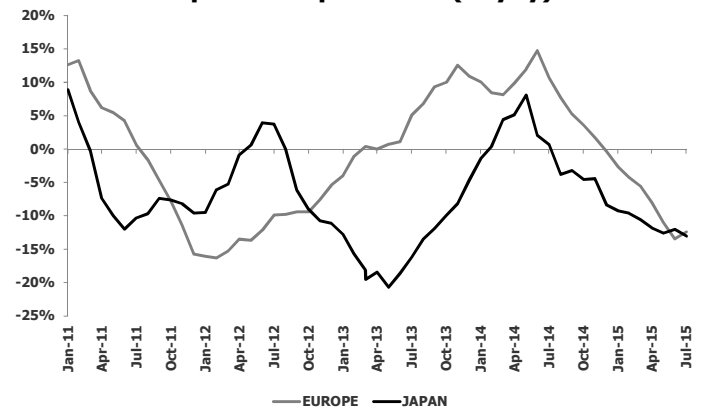
Meanwhile, a sharp decrease in sales was recorded for the Europe and Japan regions. Sales from both regions are primarily impacted by the currency devaluation relative to the U.S. Dollar. For the month of August 2015, sales from Europe and Japan fell by -12.4%yoy and -13.0%yoy respectively. Despite the year-over-year sales reduction, there are still positive growths from both regions on a month-over-month basis.

**Chart 3: Americas and Asia Pacific sales (%yoy)**



Sources: SIA, MIDFR

**Chart 4: Europe and Japan sales (%yoy)**

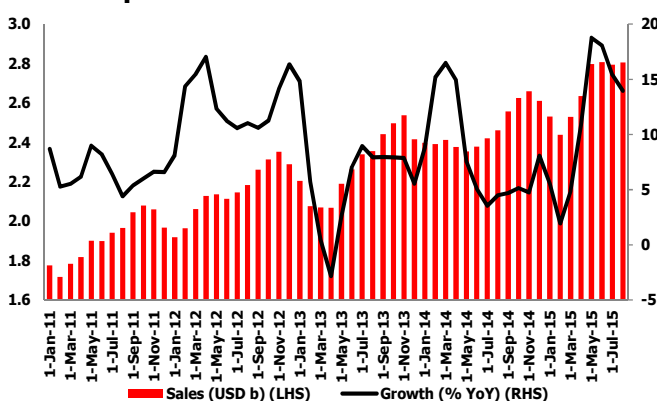


Sources: SIA, MIDFR

**Optoelectronics sales continue to surge.** For the month of August 2015, sales of optoelectronics products grew by +13.9%yoy to USD2.85b. This marked the 28<sup>th</sup> consecutive months of growth since May 2013. On a cumulative basis, sales of optoelectronics products from January 2015 to August 2015 amounted to USD21.3b, an increase of +11.2%yoy. This accounted for 62.6% of FY15 full year estimates of USD34.0b. Optoelectronics, which account for roughly 10% of total semiconductor sales, is expect to gain substantial popularity with surging application of optoelectronic equipment in consumer electronic goods segment as well as the automotive segment. IC Insights concurs with this view as it sees the optoelectronics market growth will be driven by high-brightness LEDs, CMOS image sensors and fiber-optic laser transmitters which are expected to record a CAGR ranging between 10% to 15% from 2014 to 2019.

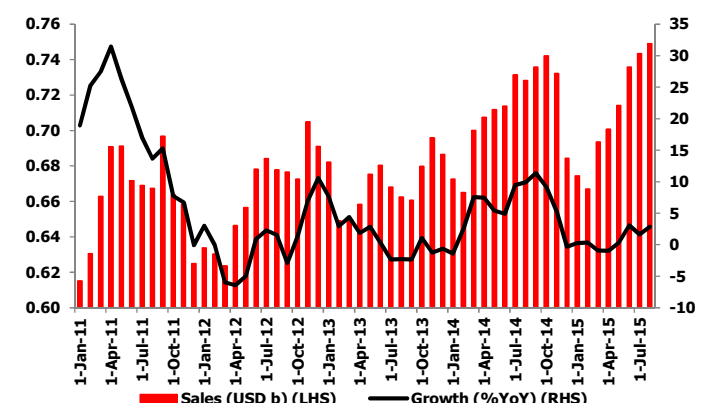
**Brighter outlook for the sensors and actuators market.** Sales of sensors & actuators for the month of August 2015 came in at USD0.75b, an increase of +2.9%yoy from USD0.73b recorded in August 2014. Meanwhile, on a cumulative basis, January 2015 to August 2015 sales grew marginally by +0.8%yoy to USD5.7b. This made up 64.3% of WSTS FY15 full year estimates of USD8.9b. Despite recording low single digit growth, we expect growth momentum to pick up pace in 2016 as it rides on the internet of things (IoT) ecosystem. Global 3D imaging sensor market, in particular, is expected to record a strong CAGR of 28% from 2015 to 2020.

**Chart 5: Optoelectronics sales**



Sources: SIA, CEIC, MIDFR

**Chart 6: Sensors & Actuators sales**

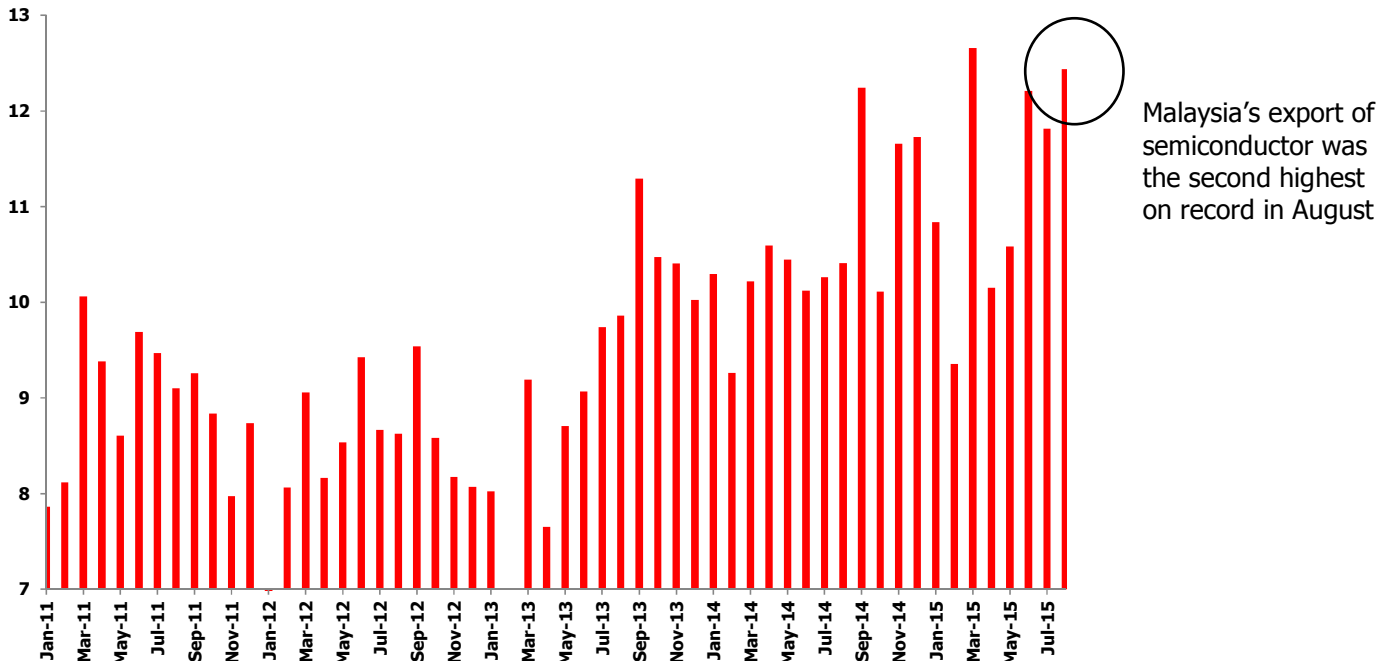


Sources: SIA, CEIC, MIDFR

**8M15 sales.** Year-to-date, the cumulative sales for the month of January to August 2015 amounted to USD223.4b. This was an increase of +3.6%yoy as compared to the previous year corresponding period. This accounts for 65.1% of the World Semiconductor Trade Statistics' (WSTS) 2015 full year estimates of USD343.4b. The growth rate remains above WSTS forecasted annual sales growth of +2.3% for 2015. However, we caution that sales in the next few months could tapered down further before we see some pick-up in sales in 2016.

## MALAYSIA EXPORT – AUGUST 2015

Chart 7: Export of Semiconductor products (RM b)



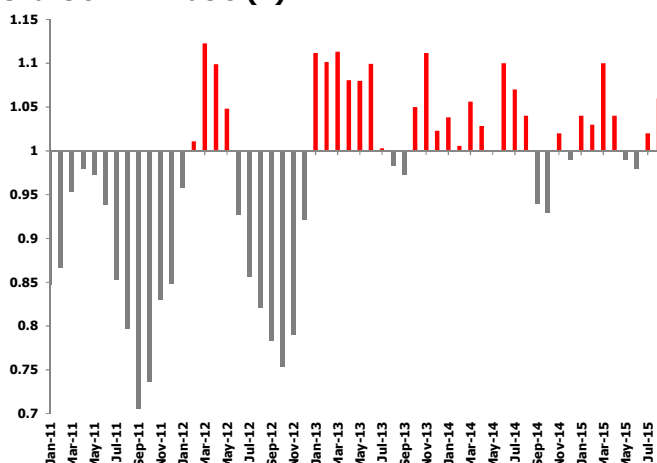
Sources: DOS, CEIC, MIDFR

**Higher export of local semiconductor products.** For the month of August 2015, semiconductor exports topped RM12.1b which represents an increase of +19.5%yoy. This is despite the slowdown seen in global sale of semiconductor products. Local export of semiconductor products has been growing on a monthly basis for 26 consecutive months since July 2013.

On a monthly cumulative basis, export from the January 2015 to August 2015 amounted to RM90.1b. This represents an increase of +10.4%yoy, surpassing global growth rate of +3.6%yoy. We believe that the outperformance, as compared to GSS, was mainly attributable to: (i) focus on niche growing segments such as automotive and wireless communications and; (ii) favourable foreign currency exchange as U.S. Dollar continues to strengthen against the Ringgit. This is based on our observation of locally listed semiconductor players which have been recording healthy topline growth in recent years, premised on higher production volume and gain on foreign currency exchange.

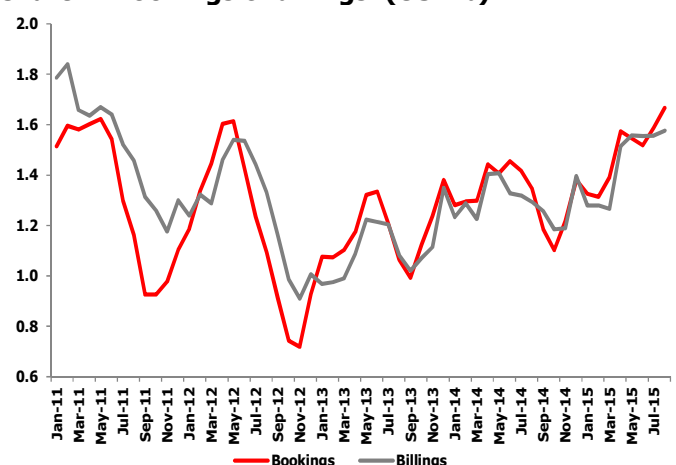
## BOOK-TO-BILL (BTB) RATIO

Chart 6: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 7: Bookings & billings (USD b)



Sources: SEMI, MIDFR


**BTB ratio improved further in August 2015.** The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.06x for the month of August 2015. This is the second consecutive months BTB ratio has stayed above parity. A BTB ratio of 1.06x indicates that USD102 worth of orders were received for every USD100 of products billed for the month. This was mainly supported by stronger bookings for the month of August 2015. According to Semiconductor Equipment and Materials International (SEMI), "an *adjustment in the trends is anticipated for the rest of the year due to the near-term economic outlook and lower demand for electronics in some sectors.*"

**Reported bookings surpassed USD1.6b in August 2015.** Semiconductor equipment bookings for the month of August 2015 accelerated to USD1,667.0m. Such level was last seen in September 2010. This translates into a growth of +23.8yoy. Since January 2015, the monthly bookings of semiconductor equipment have been on the rise as compared to the corresponding periods in 2014.

**Billings continue to pick-up pace.** Billings for the month of August 2015 increased by +21.9%yoy to USD1,576.1m as compared to USD1,239.4m recorded in August 2014. This represents four consecutive months where billings grew by double digits. The higher billings registered are in light of higher bookings recorded for the past few months.

**Maintain Positive.** Demand for communication devices will continue to be supported by the low-to-middle class consumers seeking to stay connected and to be at the forefront of the latest cutting edge technological product offering. This will be in favour of electronic companies which are able to offer end-products at competitive prices, thus, advocating a high volume business strategy.

Similarly, there are stable and growing demands stemming from the automotive industry as more vehicles are required to be embedded with more sensors and high-tech gadgets. For instance, the European Union legislation required all new-type passenger vehicles to have tyre pressure monitoring system installed by the manufacturers. The adoption of Euro 6 car emissions standards will also require at least 20 sensors per auto engine. Semiconductor companies that positioned themselves in the right production value chain will in-turn benefit from the high volume orders.

On another note, given the high correlation between the semiconductor industry and global economy, we are expecting uninterrupted growth in the semiconductor industry for as long as the global economy continues to grow. All factors considered, we reiterate our **Positive** stance on the semiconductor sector. Globetronics Technology Bhd remains our top pick for the sector. 

## Semiconductor stocks under coverage

| Stocks         | Recomd'n | Price @ 6 Oct (RM) | Target Price (RM) | EPS (sen) |      | EPS (% change) |       | PER  |      | DPS (sen) |      | Yield (%) |     |
|----------------|----------|--------------------|-------------------|-----------|------|----------------|-------|------|------|-----------|------|-----------|-----|
|                |          |                    |                   | 15E       | 16F  | 15E            | 16F   | 15E  | 16F  | 15E       | 16F  | 15E       | 16F |
| UNISEM         | BUY      | 2.19               | 2.74              | 13.9      | 16.1 | 62.1           | 152.0 | 15.8 | 13.6 | 10.0      | 11.0 | 4.6       | 5.0 |
| GLOBE' TRONICS | BUY      | 6.10               | 7.05              | 28.7      | 32.0 | 25.1           | 11.5  | 21.2 | 19.1 | 25.0      | 27.0 | 4.1       | 4.4 |

Source: Bloomberg, 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. |