

07 April 2016 | Sector Update

Semiconductor Sector

Maintain POSITIVE

Export of semiconductor products stay resilient

- Local export of semiconductor continues to increase on a year-over-year basis
- However, there is no reprieve in the global semiconductor sales for the month of February 2016
- China is the only region that continues to record positive year-over-year sales growth
- BTB ratio remained at or above parity for the past three consecutive months
- Reiterate POSITIVE outlook on the semiconductor sector

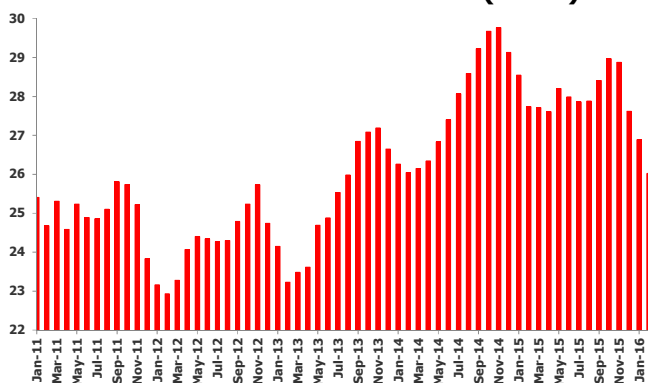
A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

i. Global Semiconductor Sales (February 2016)

Sales sliding, challenging first quarter as always. Global semiconductor sales (GSS) fell -6.2%yoy in February 2016 to USD26.0b. This was the eighth consecutive month of decline since July 2015. The drop in year-on-year sales was mainly due to seasonal factors, softer demand and unfavorable macroeconomic conditions. Sales decreased across the majority of semiconductor product categories, with the notable exception of microprocessors, which increased by +3.4%yoy. In addition, both the optoelectronics and sensors segments also posted double digit sales growth mainly due to the focus on the automotive and wireless communications segments.

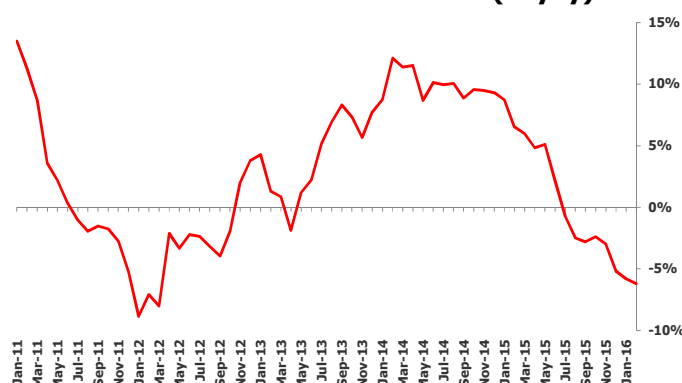
We believe February numbers were affected by global economic upheavals in January. Recall that China's stock market crashed during the month, oil price plunged to below USD27pb (WTI) and the market value of technology companies fell significantly. That heightened state of uncertainty may have led industry players to hold back on orders.

Chart 1: Global semiconductor sales (USDb)



Sources: SIA, MIDFR

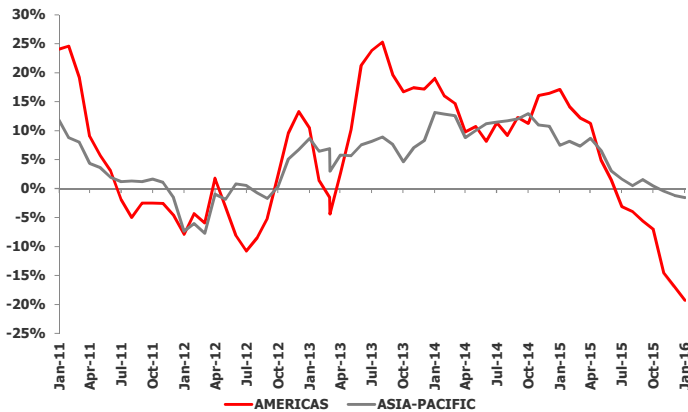
Chart 2: Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

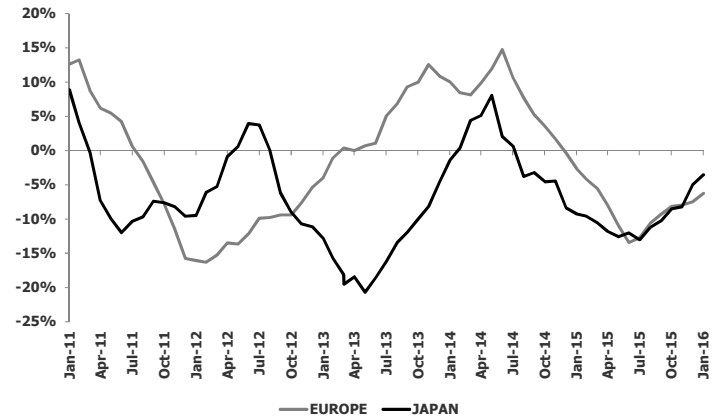
Mixed regional performance. China remains the only region which managed to sustain a growth in sales. Other regions including America recorded contraction in monthly sales. Sales from the Americas declined further by -19.3%yoy for the month of February 2016, marking the seventh consecutive month of decline. A sharp decrease in sales was recorded for the European and Japanese regions as well. Sales from both regions are primarily impacted by the currency devaluation relative to the U.S. Dollar. For the month of February 2016, sales from Europe and Japan fell by -6.3%yoy and -3.5%yoy respectively.

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



Sources: SIA, MIDFR

Chart 4: Europe and Japan sales (%yoy)

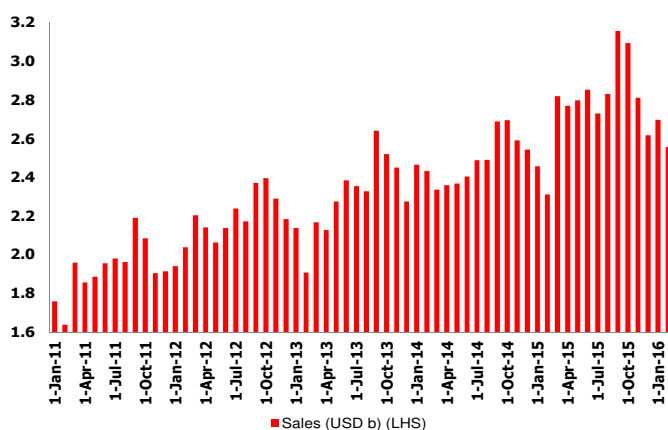


Sources: SIA, MIDFR

Optoelectronic products sales growth continues to be strong. In February 2016, sales of optoelectronic products accelerated +10.6%yoy to USD2.7b. This marked the 12th consecutive month of growth since March 2015. Optoelectronics, which account for approximately 10% of total semiconductor sales, is expected to gain substantial popularity with surging application of optoelectronic equipment in consumer electronic goods segment as well as the automotive segment. Optoelectronics are increasingly being used in vehicles to automate the vehicle functions such as head lights and brake lights, among others.

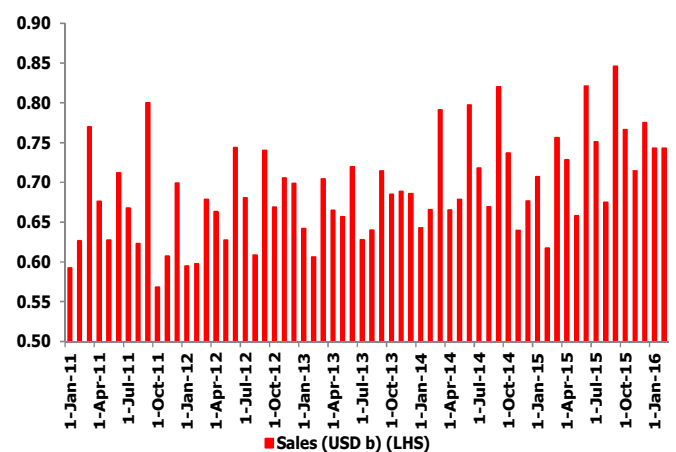
Sales of sensors and actuators product remain upbeat. Sales of sensors & actuators for the month of February 2016 grew strongly by +20.3%yoy to USD742.8m. Part of the strong growth was mainly due to low base effect in the previous corresponding period. Recall that in February 2015, sales were down by -7.2%yoy. We expect growth momentum to remain commendable 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

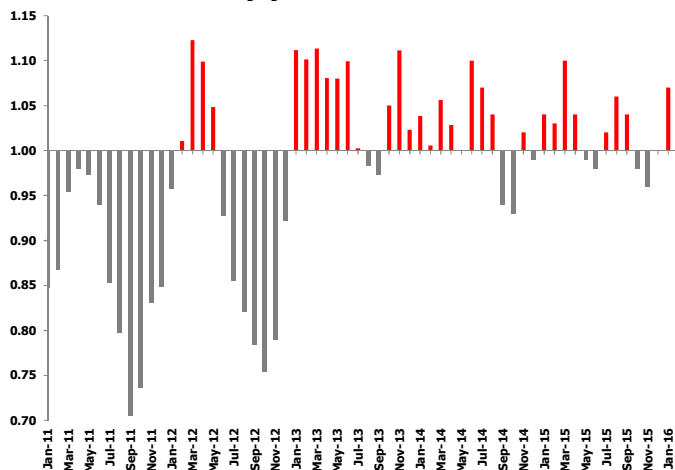


Sources: SIA, CEIC, MIDFR

ii. Capital Spending : Book-To-Bill Ratio (February 2016)

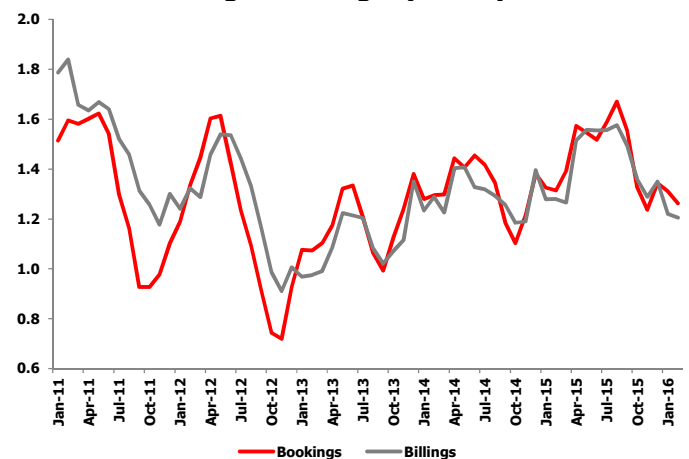
Book-to-Bill (BTB) ratio remains on the positive territory. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.05x for the month of February 2016. A BTB ratio of 1.05x indicates that USD105 worth of orders were received for every USD100 of products billed for the month. Inclusive of February 2016, the BTB ratio has remained at or above parity for three consecutive months. According to Semiconductor Equipment and Materials International (SEMI), worldwide expenditures on capital equipment would increase slowly in the first half of this year and begin to grow rapidly in the second half. For 2016, SEMI forecasted the global semiconductor equipment market to increase by +3.7%yoy to USD37.2b after slowdown in 2015. Recall that the global spending on semiconductor equipment and materials for 2015 was down marginally by -0.4%yoy to USD35.9b. Spending in the second half of 2016 is expected to improved, driven by 3D NAND and 10nm investments.

Chart 9: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 10: Bookings & billings (USD b)



Sources: SEMI, MIDFR

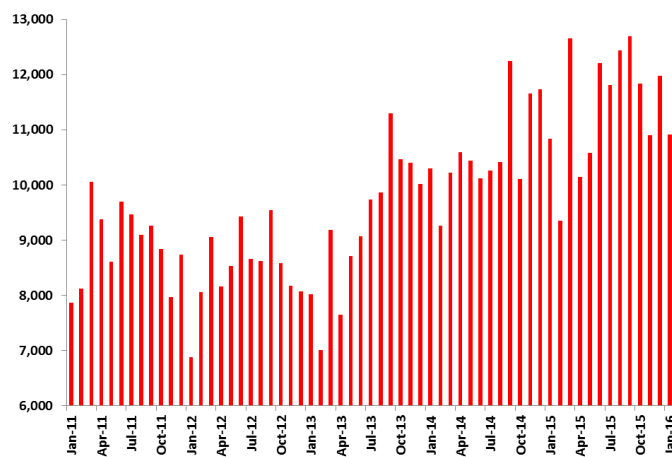
Slight slowdown on bookings for February 2016. Semiconductor equipment bookings for the month of February 2016 came in at USD1,262.4m, after staying above the USD1,300m level for the past two consecutive months. This translates into a decrease of -3.9%yoy.

Billings expected to remain slow throughout 1Q16. Billings for the month of February 2016 decreased by -5.9%yoy to USD1,204.8m as compared to USD1,280.1m recorded in February 2015. Based on historical trend, billings normally came in at below USD1,300m level throughout the first quarter.

B. MALAYSIA SEMICONDUCTOR EXPORT

Export pick-up pace in February 2016. Malaysia's export of semiconductor products for the month of February 2016 amounted to RM10.9b, an increase of +4.5%yoy. The increase was mainly supported by the higher exports for photosensitive semiconductor devices, especially to the United States. We remain positive on the outlook of local semiconductor despite GSS recording weaker numbers. We continue to believe that the growth in export of local semiconductor products will outperform that of global growth. This is mainly attributable to: (i) focus on niche growing segments such as automotive and wireless communications; and (ii) favourable foreign currency exchange.

Chart 7: Sales figures for local export of semiconductor products (RMb)




Sources: DOS, MIDFR

Chart 8: Growth of local export of semiconductor products (%yoy)



Sources: DOS, MIDFR

C. INDUSTRY VIEW – MIDF RESEARCH

- MIDF Research maintains its POSITIVE view on the industry despite the seemingly weak GSS.** We believe the seasonal influence has been amplified this year due to global events.
- The industry is in a **downturn** after a robust 2013, 2014 and 1H15. **However, the downturn is more of an industry rationalization in response to product developments.**
- The **long-term health of the industry is still healthy**, underscored by the Internet of Things (IOT).
 - 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.
- Local semiconductor **test equipment manufacturers are expecting a strong start in this quarter** mainly to cater for their customers in the automotive and smart devices industries.
- Sales of wearable devices have been very encouraging.** This was mainly premised on growing popularity of fitness trackers and the introduction of the Apple Watch. We believe local semiconductor players will benefit from this as some of their products can be embedded into these devices. 

D. SEMICONDUCTOR STOCKS**Semiconductor stocks under coverage**

Stocks	Recom'dation	Price @ 6 Apr (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Dividend Yield (%)	
				16E	17F	16E	17F	16E	17F	16E	17F	16E	17F
UNISEM	BUY	2.26	3.22	22.2	23.1	0.7	4.2	10.4	10.0	11.0	12.0	4.9	5.3
GLOBE-TRONICS	BUY	5.45	6.74	31.0	33.9	22.4	9.3	17.5	16.0	27.0	30.0	5.0	5.5

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.