

05 October 2016 | Sector Update

## Semiconductor

**Maintain NEUTRAL**

### Global semiconductor sales surpasses USD28b once again

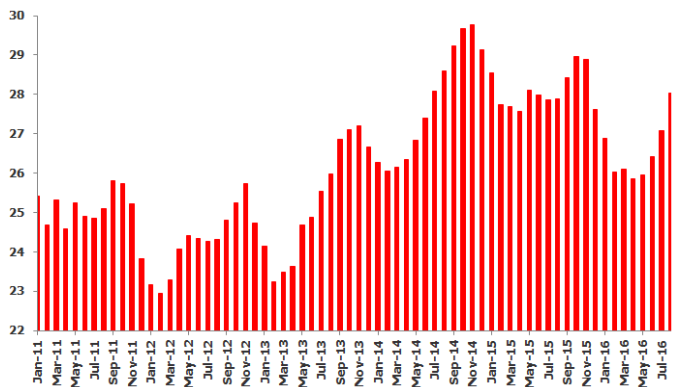
- August 2016 represents the first year-over-year sales growth
- Book-to-bill (BTB) ratio remains above parity for the eighth consecutive month
- Smartphone shipment expected to remain lacklustre in the immediate term
- Maintain NEUTRAL on the sector amid lack of near term catalysts

#### A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

##### i. Global Semiconductor Sales (August 2016)

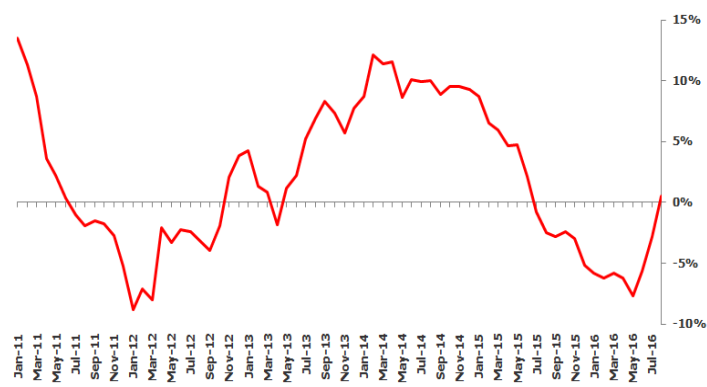
**Improvement in monthly sales.** Global semiconductor sales (GSS) for the month of August 2016 posted a marginal increase of +0.5%yoy to USD28.0b from USD27.9b in August 2015. This was the first year-over-year sales growth since June 2015. Moreover, it grew by +3.5%mom, the largest month-over-month growth since May 2013. The Semiconductor Industry association (SIA) commented that *"the global market has recently shown signs of a rebound, punctuated by solid growth in August"*. On a cumulative basis, GSS from January to August 2016 amounted to USD212.3b, lagging by -5.0%yoy as compared to the previous year corresponding period. This is in-line with the World Semiconductor Trade Statistics (WSTS) 2016 sales estimates, accounting for 65.4% of full year sales forecasts of USD324.5b.

**Chart 1: Monthly global semiconductor sales (USD billion)**



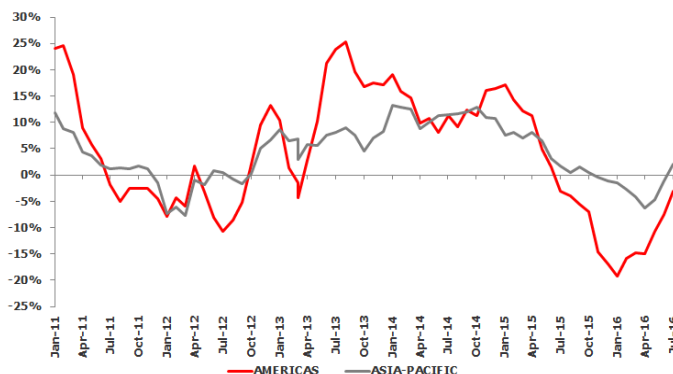
Sources: SIA, MIDFR

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



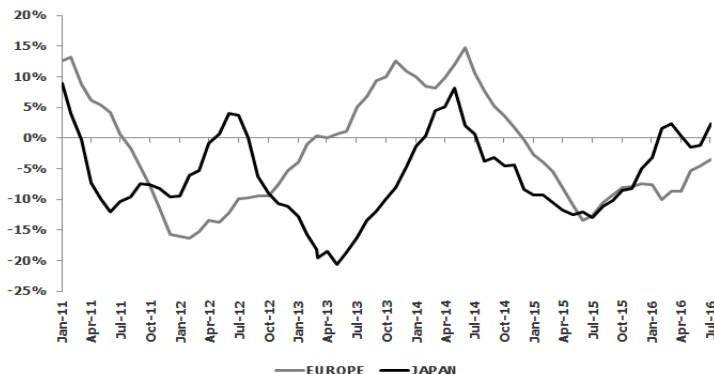
Sources: SIA, MIDFR

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



Sources: SIA, MIDFR

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



Sources: SIA, MIDFR

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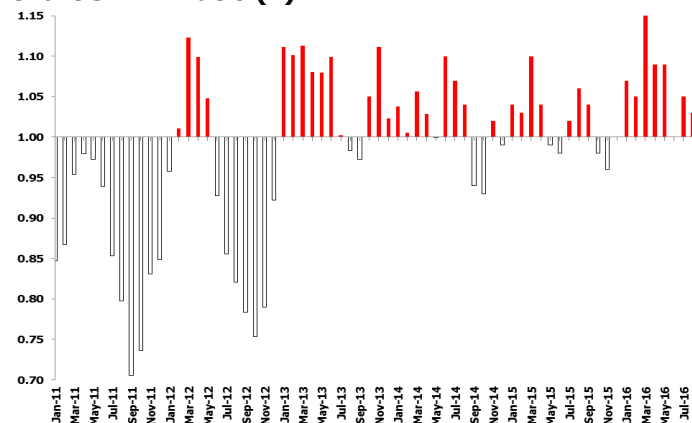
**Mixed regional performance.** For the month-in-review, Japan recorded a growth in monthly sales of +2.2%yoy to USD2.7b after declining for the previous two months. China also posted its strongest year-over-year growth of +7.1%yoy to USD8.8b. However, sales from the Americas dropped by -3.0yoy to USD5.4b. This represents the thirteenth month of decline since August 2015.

## ii. Capital spending: Book-To-Bill (BTB) ratio (AUGUST 2016)

**Positive BTB ratio.** The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.03x for the month of August 2016. A BTB ratio of 1.03x indicates that USD103 worth of orders were received for every USD100 of products billed for the month. Inclusive of August 2016, the BTB ratio has remained at or above parity for the ninth consecutive month. According to Semiconductor Equipment and Materials International (SEMI), “*North American equipment suppliers are clearly benefiting from strong investments by device manufacturers in the second half of the year*”. China has been one the main investors in this domain. We remain sanguine that the strong purchasing activity in China will continue as it is stepping up efforts to become a major player in semiconductor design and manufacturing.

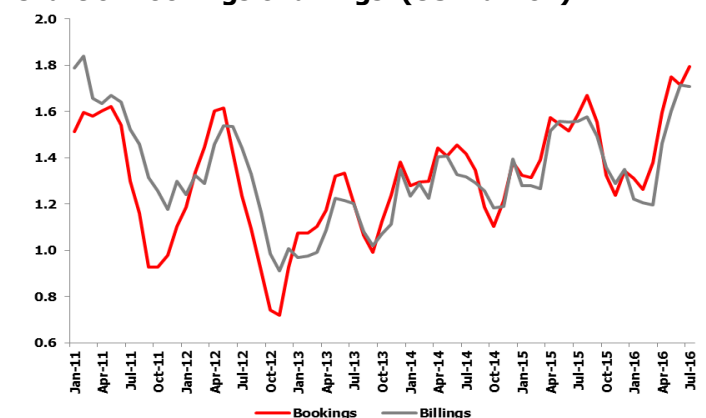
**Bookings and billings stay above USD1.7b.** August 2016 bookings increased by +5.0%yoy to USD1,753.9m. Bookings have been growing for five consecutive months since April 2016. We attributed this to strong purchasing activity in China. Due to higher bookings, billings for the month of August 2016 also grew at a faster pace of +8.4%yoy to 1,708.1m. This represents the fourth consecutive growth since May 2016.

**Chart 5: BTB ratio (x)**



Sources: SEMI, MIDFR

**Chart 6: Bookings & billings (USD billion)**



Sources: SEMI, MIDFR

## B. INDUSTRY UPDATE

**Quality issue arises.** Samsung recently recalled its new flagship smartphone – Galaxy Note 7 – due to faulty batteries which would overheat and explode. This has put a dent on the demand of the smartphone. Meanwhile, users of iPhone 7 have noticed an odd hissing sound coming from the device while under heavy load. With on-going issues on flagship smartphones, mobile users may adopt a wait and see approach until such issues have been resolved.

**Tepid smartphone sales.** Smartphone shipment volumes in 2Q16 grew marginally by +0.3% to 343.3m phones. This was a marginal increase of +0.3%yoy from 2Q15 shipment of 342.4m. Much of the decline in shipment growth was attributed to lower demand from developed regions as the number of first-time buyers dwindled. In addition, we believe that new smartphones are lacking in innovation which further inhibit prospective users from upgrading their existing handset.

**Maintain NEUTRAL.** We expect sales of smartphone to remain lackluster in the immediate term owing to slowdown in global economy and lack of innovation in new smartphone launches. On another note, we take comfort in knowing that semiconductor players remain committed in its capital spending as seen in the positive BTB ratio. This would ensure that the industry will continue to grow, albeit at a slower pace. All in, we are anticipating 2016 to be a lackluster year and we maintain our **NEUTRAL** stance on the sector.



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#### 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.