

06 May 2016 | Sector Update

Semiconductor Sector

Downgrade to NEUTRAL
(previously POSITIVE)

Lack of killer products to mute industry growth

- No reprieve on global semiconductor sales throughout 1Q16
- Higher bookings in March 2016 boosted the BTB ratio to 1.15x
- Local export of semiconductor products contracted in March 2016
- 1Q16 shipment of smartphones grew at the slowest pace
- Downgrade to NEUTRAL from positive

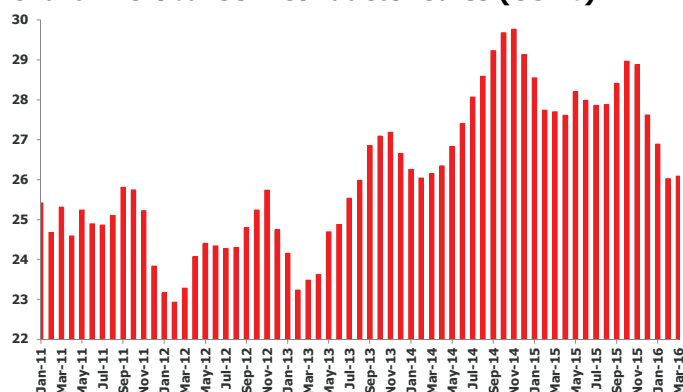
A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

i. Global Semiconductor Sales (March 2016)

Global sales slides further. Global semiconductor sales (GSS) fell -5.8%yoy in March 2016 to USD26.1b from USD27.7b in March 2015. Year-on-year contraction is now in its ninth consecutive month since July 2015. The contraction in March was mainly due to soft demand, market cyclical and macroeconomic conditions. Lower sales were recorded nearly across all regions with the exception of Japan and China.

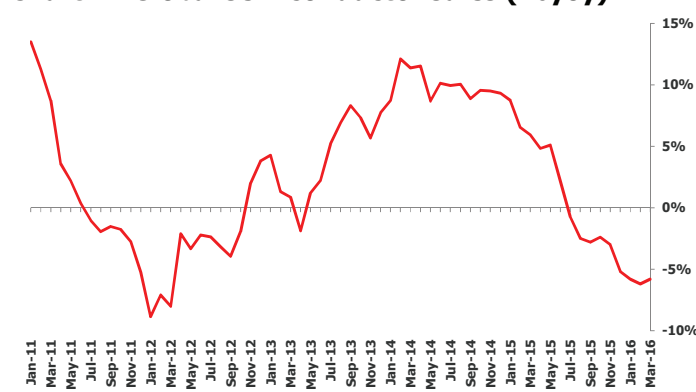
Falling behind estimates. For 1Q16, GSS amounted to USD79.0b. This is a quarterly decrease of -5.9%yoy as compared to 1Q15 sales of USD84.0b. The 1Q16 GSS came in at 23.5% of World Semiconductor Trade Statistics' (WSTS) full year FY16 estimates - slightly below its full year projection of USD336.1b. In comparison, 1Q15 sale made up 25.1% of 2015 full year sales.

Chart 1: Global semiconductor sales (USDb)



Sources: SIA, MIDFR

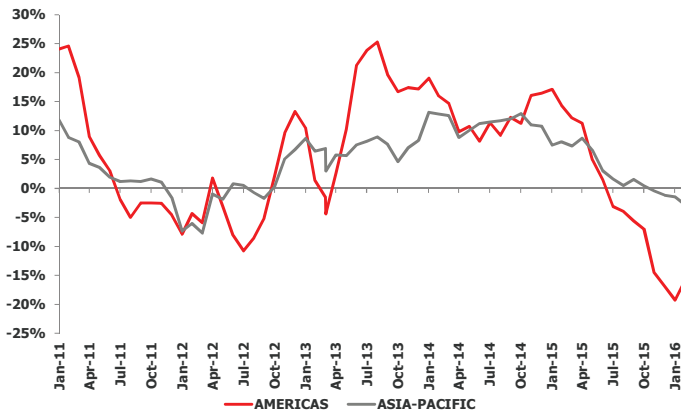
Chart 2: Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

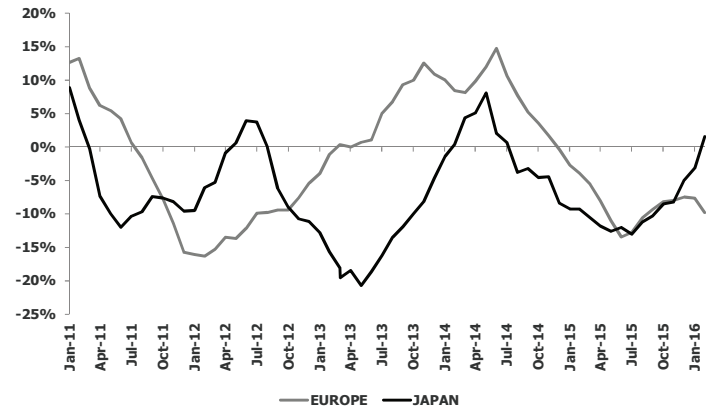
Mixed regional performance. For the month in review, only China and Japan showed positive growth of +1.3%yoy and +1.8%yoy respectively. Japan recorded its first month of year-over-year growth after experiencing sales decline for the past 18 consecutive months. On the other hand, sales from the Americas dropped to a 32 months low of USD4.9b. This represents a decline of -15.8%yoy. Sales from the European and Asia Pacific regions also decreased by -9.8%yoy and -6.4%yoy respectively.

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



Sources: SIA, MIDFR

Chart 4: Europe and Japan sales (%yoy)

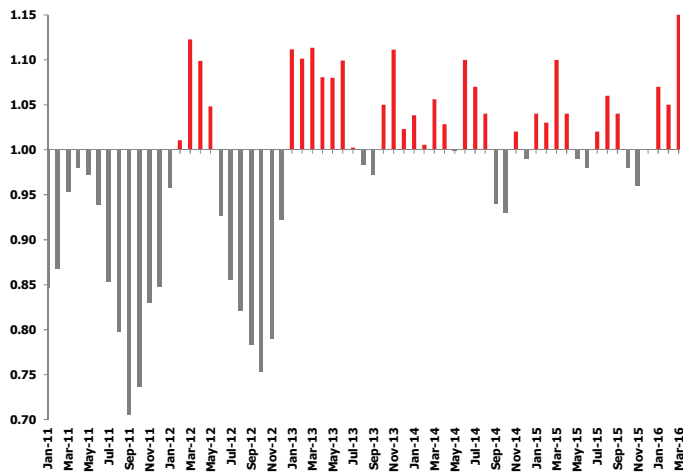


Sources: SIA, MIDFR

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

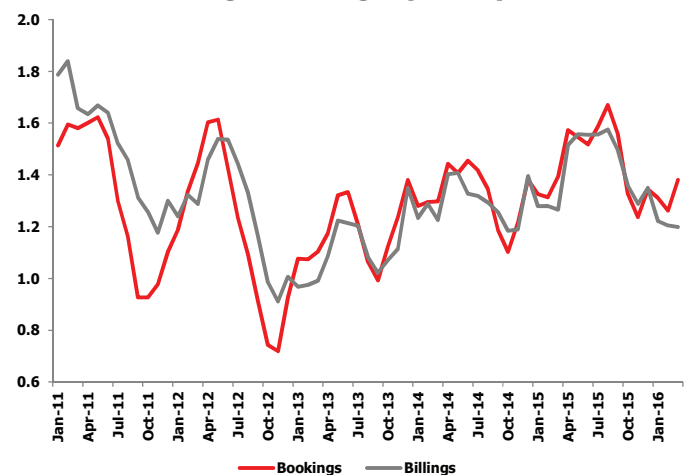
Book-to-Bill (BTB) ratio remains on the positive territory. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.15x for the month of March 2016. Such level was last seen in August 2010. A BTB ratio of 1.15x indicates that USD115 worth of orders were received for every USD100 of products billed for the month. The BTB ratio has remained at or above parity for four consecutive months until March 2016. Semiconductor Equipment and Materials International (SEMI) commented that order activity remains steady and is on par with both the previous quarter and one year ago.

Chart 9: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 10: Bookings & billings (USD b)



Sources: SEMI, MIDFR

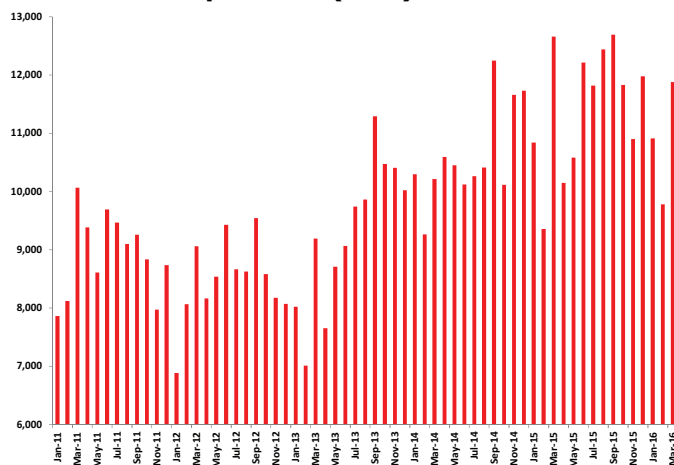
Bookings pick up pace in March 2016. Semiconductor equipment bookings for the month of March 2016 came in marginally lower (-0.94%yoy) at USD1,380.5m. On a month-over-month basis however, billings have pick up pace by +9.4%mom. 3D NAND and advanced logic are the main key drivers for investments.

Slower billing in March 2016 as anticipated. Billings for the month of March 2016 declined by -5.3%yoy to USD1,198.5m as compared to USD1,265.6m recorded in March 2015. The last time that billing dropped below the USD1,200m level was in November 2014. However, as bookings has improved in March 2016, we view that billing would pick up pace in the coming months.

B. MALAYSIA SEMICONDUCTOR EXPORT

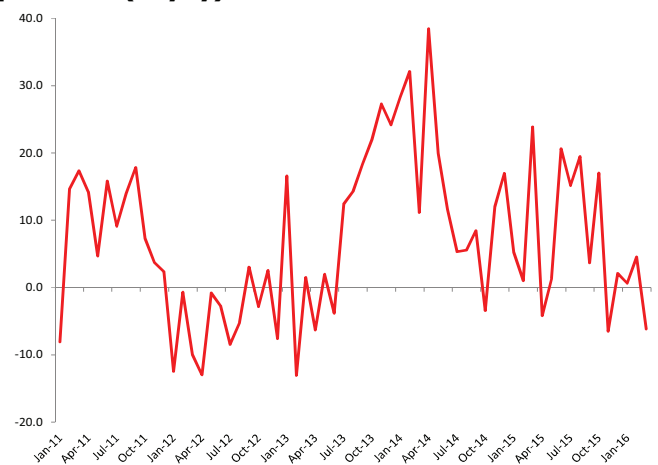
Exports decelerated in March 2016. Malaysia's export of semiconductor products for the month of March 2016 contracted by -6.1%yoy to RM11.9b. This is in-tandem with the decline in GSS of -5.8%yoy. However, on a quarter-over-quarter basis, 1Q16 export declined marginally by -0.9%. Moving forward, we expect export of semiconductor products to remain unexciting. This is in view of the weak global economic outlook, especially the slowdown in the U.S. and China economies. There is a high correlation between the semiconductor industry and the global economy.

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

- Worldwide shipment of smartphone came in at 334.9m in 1Q16. The increase of +0.2%QoQ represents the **slowest pace of shipment growth**. This was mainly attributable to strong smartphone saturation in developed markets, as well as a year-on-year decline from both Apple and Samsung, the two market leaders. 1Q16 shipment of iPhone dropped -16.3%yoy to 51.2m from 61.2m in 1Q15. Meanwhile, Samsung's smartphone shipment in 1Q16 also declined by -0.6%yoy to 81.9m from 82.4m in 1Q15.
- Moving forward, we expect smartphone shipment growth to be lacklustre due to the **absence of flagship "killer" products**. For instance, the upcoming iPhone 7 is expected to incorporate only minimal upgrades. This would be insufficient to entice Apple followers to upgrade their existing smartphones. In addition, **limited distribution** of new smartphone models would further dampen the shipment of smartphones.
- Nonetheless, the **long-term health of the industry is still healthy**, supported 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.
- All factors considered, we downgrade our sector call to **NEUTRAL** from positive.



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 | 2.24 | 3.22 | 22.2 | 23.1 | 0.7 | 4.2 | 10.1 | 9.7 | 11 | 12 | 4.9 | 5.4 |
| GLOBE-TRONICS | NEUTRAL | 3.44 | 4.07 | 17.2 | 23.3 | -31.9 | 35 | 20.0 | 14.8 | 17 | 21 | 4.9 | 6.1 |

Source: Bloomberg, MIDFR

Z.Hamzah | Martin Foo Chuan Loong
 martin.foo@midf.com.my
 +603 2173 8354

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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. |