

07 March 2016 | Sector Update

Semiconductor Sector

Maintain POSITIVE

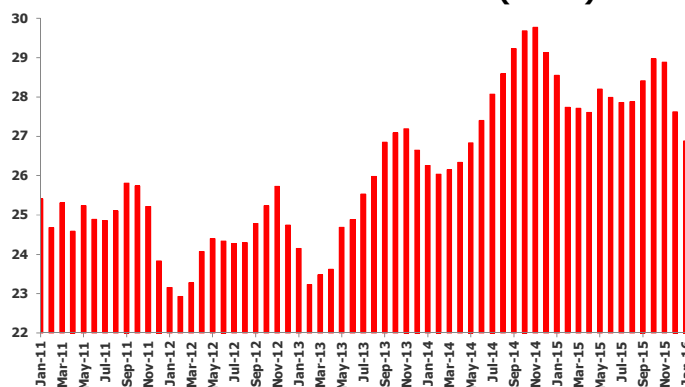
Positive start for local semiconductor exports despite seasonally weak 1Q

- Local export of semiconductor continue to grow, albeit at a slower pace
- Global sales of semiconductor products declined in January 2016
- Outlook for optoelectronics and sensors product segments remain bright in view of growing demand
- Book-to-bill ratio remains above parity in January 2016
- Reiterate POSITIVE outlook on the semiconductor sector

GLOBAL SEMICONDUCTOR SALES (GSS) – JANUARY 2016

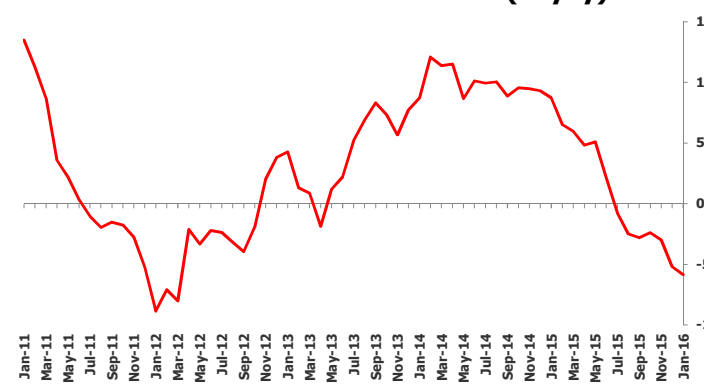
Slower start in 2016. Global semiconductor sales for the month of January 2016 amounted to USD26.9b, a decrease of -5.8%yoy. This marks the seventh consecutive month of decline since July 2015. The drop in year-on-year sales was mainly due to the softening demand and lingering macroeconomic headwinds. Sales decreased across most major semiconductor product categories, with the notable exception of microprocessors, which increased by +2.1%yoy. Apart from this, the optoelectronics and sensors segments, which are serving the automotive and wireless communications segments, continue to chart positive sales growths. Nonetheless, the Semiconductor Industry Association (SIA) is still expecting a modest market growth for 2016, following essentially flat sales last year.

Chart 1: Global semiconductor sales (USDb)



Sources: SIA, MIDFR

Chart 2: Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

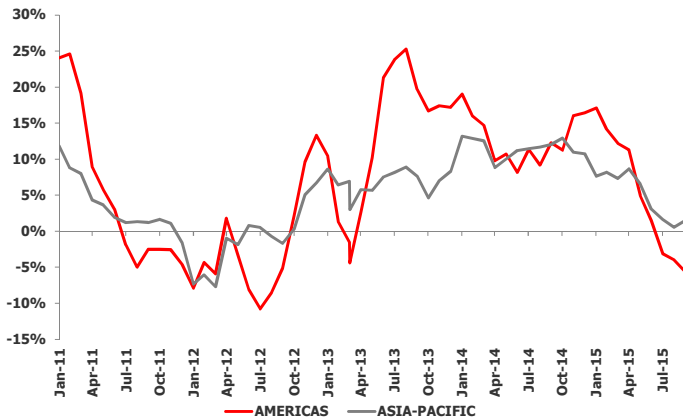
A mixed regional performance. On a regional basis, China is the only region which managed to sustain a growth in sales. Other regions including America recorded contraction in monthly sales. Sales from the Americas region reduced by -16.9%yoy for the month of January 2016, marking the sixth consecutive month of decline. A decrease in sales was also recorded for both 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 January 2016, sales from Europe and Japan fell by -6.4%yoy and -7.8%yoy respectively.

Sales growth continues to be seen in optoelectronics products. For the month of January 2016, sales of optoelectronics products grew by +9.8%yoy to USD2.7b. This marked the 11th consecutive months of growth since March 2015. Optoelectronics segment, which accounts for approximately 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. Optoelectronics are increasingly being used in vehicles to automate the vehicle functions such as head lights and brake lights.

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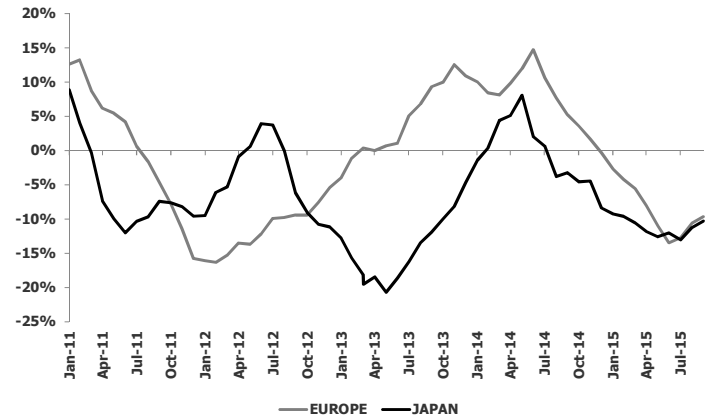
Kindly refer to the last page of this publication for important disclosures

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



Sources: SIA, MIDFR

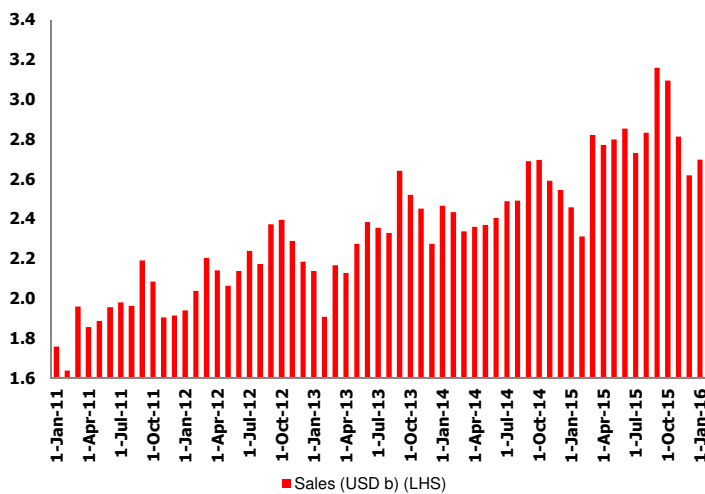
Chart 4: Europe and Japan sales (%yoy)



Sources: SIA, MIDFR

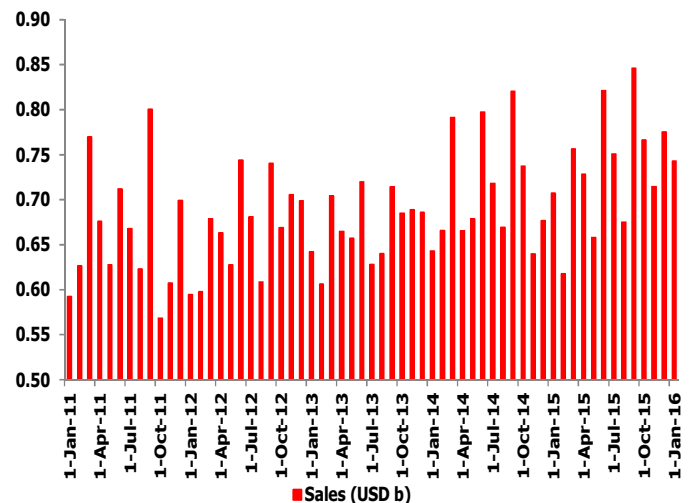
Positive outlook for the sensors and actuators market. Sales of sensors & actuators for the month of January 2016 grew by +5.1%yoy to USD0.8b. This is on-par with the World Semiconductor Trade Statistics' (WSTS) 2016 average monthly sales. Note that WSTS expects sensor sales to top USD9.1b in 2016. We 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



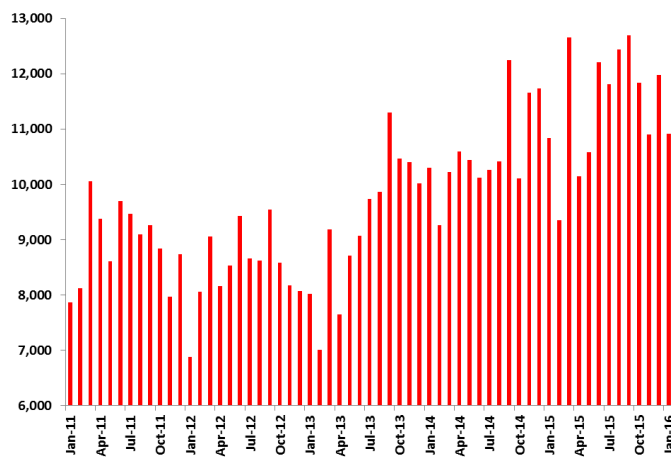
Sources: SIA, CEIC, MIDFR

MALAYSIA EXPORT - JANUARY 2016

January 2016 exports inched higher. Despite the less-than-encouraging GSS and the seasonally weak 1Q, Malaysia's export of semiconductor products for the month of January 2016 amounted to RM10.9b, an increase of +0.6%yoy. This is the highest export achieved for the month of January. Based on historical track record, we are expecting export growth for the month of February 2016 and March 2016 to be lacklustre. This is in-tandem with the downcycle in the semiconductor industry.

We continue to remain positive on the outlook of local semiconductor despite GSS recording weaker number. 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, CEIC, MIDFR

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

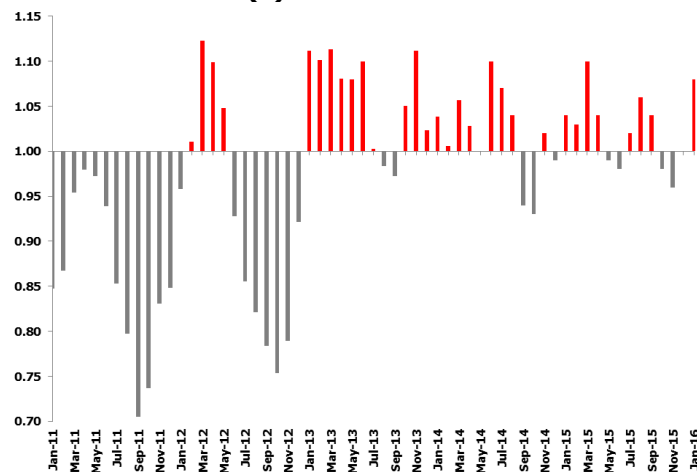


Sources: DOS, CEIC, MIDFR

BOOK-TO-BILL (BTB) RATIO

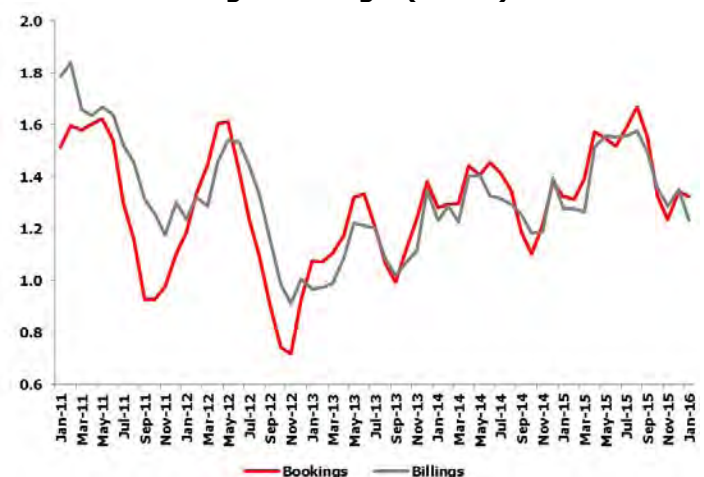
Resilient BTB ratio. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.08x for the month of January 2016. A BTB ratio of 1.08x indicates that USD108 worth of orders were received for every USD100 of products billed for the month. Meanwhile, local automated testing equipment manufacturers are signalling a strong 1Q16 on the back of healthy order book. According to Semiconductor Equipment and Materials International (SEMI), the recent semiconductor activity is on par with the figures reported one year ago. In addition, SEMI is also expecting 2016 capex to be similar with that of 2015.

Chart 9: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 10: Bookings & billings (USD b)




Sources: SEMI, MIDFR

Bookings on par with January 2015 figure. Semiconductor equipment bookings for the month of January 2016 came in at USD1,324.1m. This translates into a marginal decline of -0.1%yoy. Bookings has managed to remain above the USD1,300m level for the second consecutive months, albeit slower pace.

Slower billings. Billings for the month of January 2016 decreased by -3.7%yoy to USD1,231.4m as compared to USD1,279.1m recorded in January 2016. Based on historical trend, lower billings are seen throughout the first quarter.

Active product launch in March 2016. Apple, the bellwether of the tech industry, will be conducting a product event in March 2016. During the event, Apple is expected to announce a smaller iPhone (dubbed iPhone SE), a revamped iPad and tweaks to the 'Apple Watch' line. Based on newsflow, manufacturing of the new smaller iPhone has started ramping in January 2016. We are positive on the news. The move would provide some excitement to a traditionally slow first quarter for those who fall within Apple value chain.

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. Meanwhile, we gather that local semiconductor test equipment manufacturers are expected to post strong sales this quarter, attributable to strong sales to customers in the automotive and smart devices industries.

On another note, sales of wearable devices have been very encouraging. According to International Data Corporation (IDC), a global market intelligence firm, 78.1m units of wearable devices have been shipped in 2015. This translates to a significant increase of +171.1%yoy as compared to the 2014 figures. This was mainly premised on growing popularity of fitness trackers and the introduction of the Apple Watch. We believe local semiconductors players will benefit from this as some of their products can be embedded into these devices. All factors considered, we reiterate our **POSITIVE** stance on the semiconductor sector. 

Semiconductor stocks under coverage

Stocks	Recomd'n	Price @ 4th February 2016 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				16E	17F	16E	17F	16E	17F	16E	17F	16E	17F
UNISEM	BUY	2.31	3.22	22.2	23.1	0.7	4.2	10.4	10.0	11	12	4.8	5.2
GLOBE' TRONICS	BUY	5.43	6.74	31.0	33.9	22.4	9.3	17.5	16.0	27	30	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.