

08 July 2016 | Sector Update

Semiconductor Sector

Maintain NEUTRAL

Recovery in global sales yet to be seen

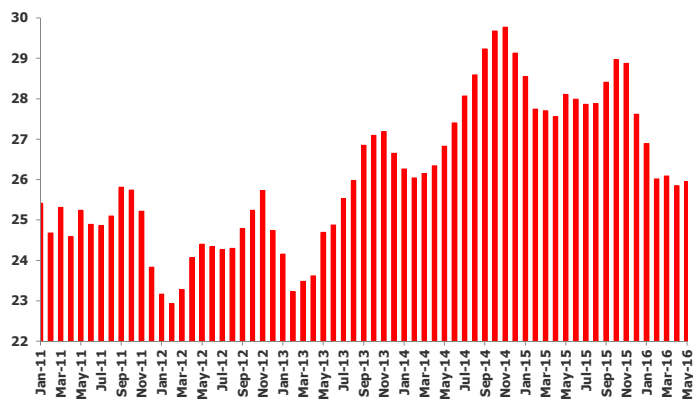
- Softer demand and a range of macroeconomic headwinds continue to impact global sales
- Nonetheless, local export of semiconductor products posted a growth of +6.1%yoy
- May 2016 BTB ratio remains above parity
- Maintain NEUTRAL stance on the sector amid lack of catalysts

A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

i. Global Semiconductor Sales (May 2016)

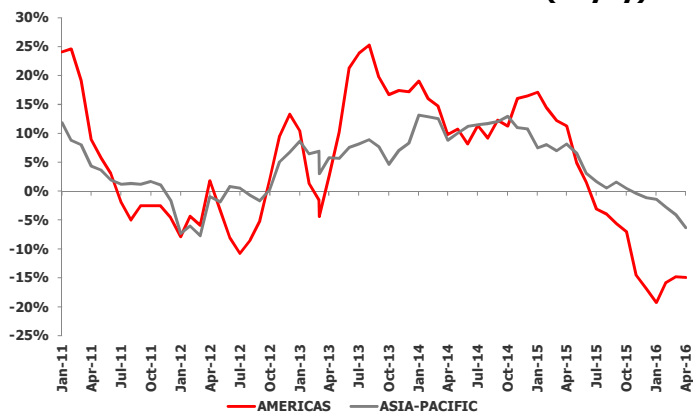
Weaker global sales. Global semiconductor sales (GSS) weakened further by -7.7%yoy in May 2016 to USD26.0b from USD28.1b in May 2015. This also represents the eleventh month of year-over-year contraction since July 2015. The soft demand and a range of macroeconomic headwinds have led to sluggish market trend. However, sales of analog products posted modest increase in sales. Regionally, only China showed positive sales trajectory.

Chart 1: Monthly global semiconductor sales (USD\$b)



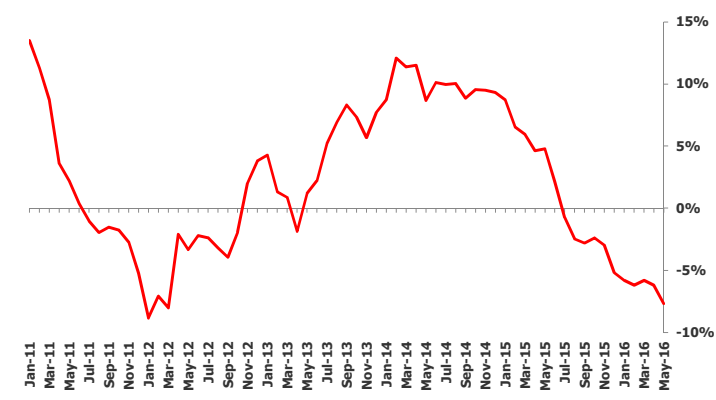
Sources: SIA, MIDFR

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



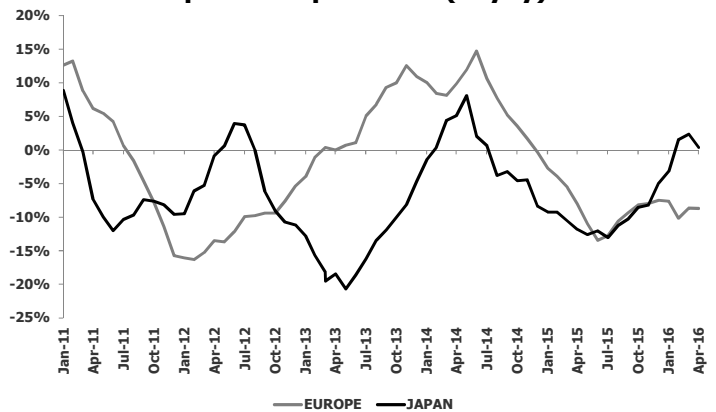
Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

Chart 4: Europe and Japan sales (%yoy)



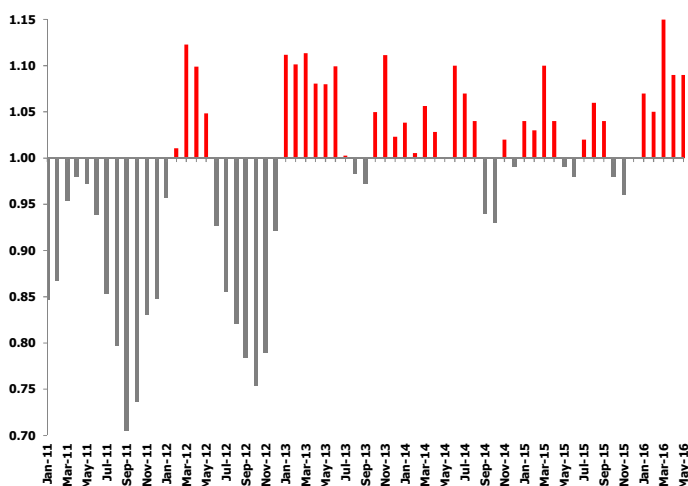
Sources: SIA, MIDFR

Japan outperformed its peers. For the month-in-review, Japan is the only region that showed a marginal growth of +0.4%yoy. Japan recorded its third month of year-over-year growth after experiencing sales decline for the past 18 consecutive months. Recalled that previously sales from Japan were mainly impacted by the devaluation of the Japanese Yen. Meanwhile, all the other regions posted a decline in sales. Sales from the Americas dropped to a 33 month low of USD4.8b. This represents a decline of -15.0%yoy. Sales from the European and Asia Pacific regions also decreased by -8.8%yoy and -11.5%yoy respectively.

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

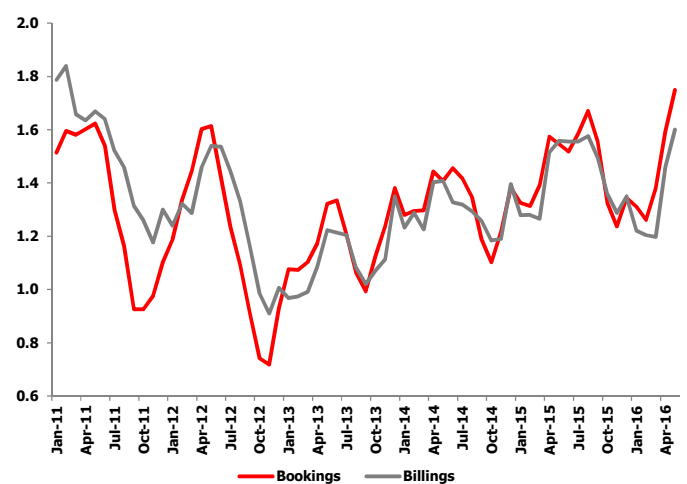
Book-to-Bill (BTB) ratio remains on the positive territory. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.09x for the month of May 2016. A BTB ratio of 1.09x indicates that USD110 worth of orders were received for every USD100 of products billed for the month. Inclusive of May 2016, the BTB ratio has remained at or above parity for the sixth consecutive month. According to Semiconductor Equipment and Materials International (SEMI), “the data are consistent with higher spending expectations on the second half of the year.”

Chart 5: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 6: Bookings & billings (USD b)



Sources: SEMI, MIDFR

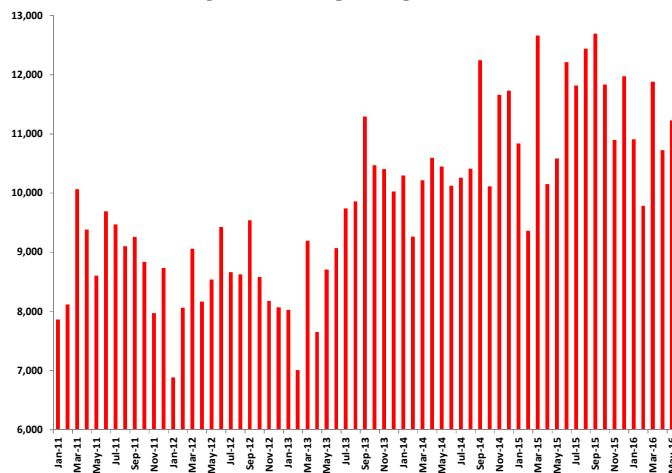
Strong growth in bookings. Semiconductor equipment bookings for the month of May 2016 increased by +13.1%yoy to USD1,749.3m. This represents the highest bookings seen since August 2010. This may be a continuation of an aggressive investment in China.

Higher billings. Billings for the month of May 2016 improved by +2.8%yoy to USD1,601.1m. We opine that the higher billings recorded reflects the higher bookings seen in the previous month i.e. April 2016. We expect the trend to continue as long as bookings come in sequentially higher. The last time billings topped USD1,600m level was in June 2011.

B. MALAYSIA SEMICONDUCTOR EXPORT (May 2016)

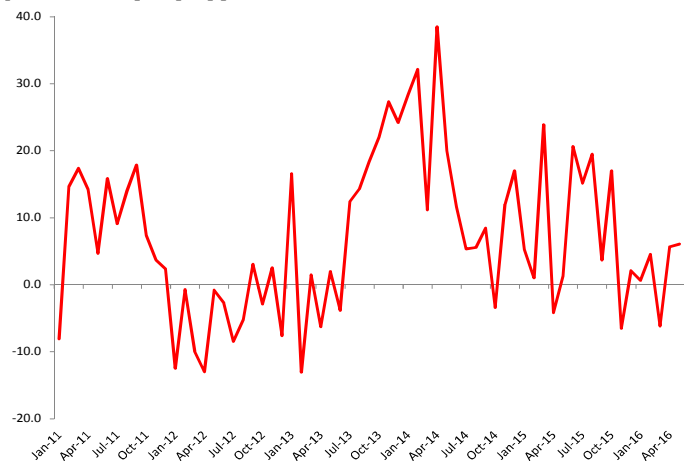
May 2016 exports remains encouraging. Malaysia’s export of semiconductor products for the month of May 2016 improved by +6.1%yoy to RM11.2b. This is in contrast with GSS’ sales performance in the same month. Moving forward, we expect export of semiconductor products to remain lacklustre. This is in view 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

1. According to industry sources, there has been a **slowdown on the demand of integrated circuit (IC)** orders placed by Android phone makers, primarily from China. This was mainly attributable excessive build up in chip inventories. Some of the China-based Android phone vendors indicated that sales of certain models of smartphone have been disappointing. Meanwhile, some of the vendors are also holding back purchases to prevent competition against Apple's next-generation iPhone which is expected to be launch in September 2016.
2. **Much of the excitement would be seen next year** where Apple is expected to make a major overhaul of the iPhone which may include a dual curve display. In addition, the market is speculating that Samsung may be offering two new smartphones with bendable screens early next year. According to online sources, one of the smartphones will be able to be folded in half while another will have the ability to be furled to become a handset or a tablet.
3. Nonetheless, the **long-term outlook of the industry is still healthy**, supported by the Internet of Things (IOT).
 - a. 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.
 - b. 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.
4. All factors considered, we maintain our **NEUTRAL** stance on the sector.



Martin Foo Chuan Loong
 martin.foo@midf.com.my
 03-2173-8354

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.