

23 April 2014 | Sector update

## Semiconductor sector

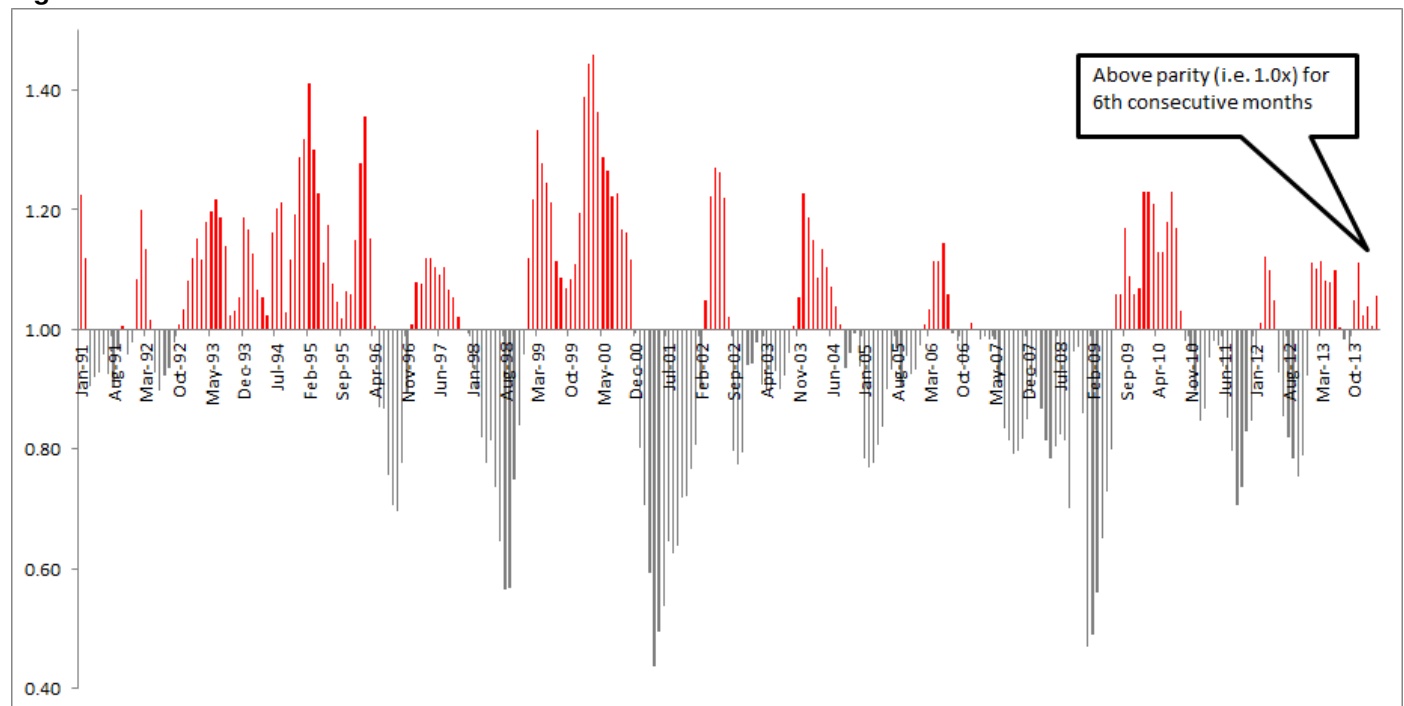
**Maintain POSITIVE**

Higher capex spending to spur bookings and billings

- March 2014 book-to-bill (BTB) ratio stayed above parity at 1.06x.
- Both bookings and billings recorded double digit growth of +16.1%yoy and +22.3%yoy respectively.
- 2014 global capex spending to exceed USD60b signalling higher bookings and billings in the near term.
- Maintain Positive outlook on the semiconductor industry.

**BTB ratio rebounded in March 2014.** The North America-based manufacturers of semiconductor equipment posted March 2014 BTB ratio of 1.06x, after moderating to 1.01x in February 2014, in-line with seasonal trend. This marked the sixth consecutive months whereby the ratio has remained above parity (i.e. since October 2013).

**Figure 1: Semi book-to-bill ratio**

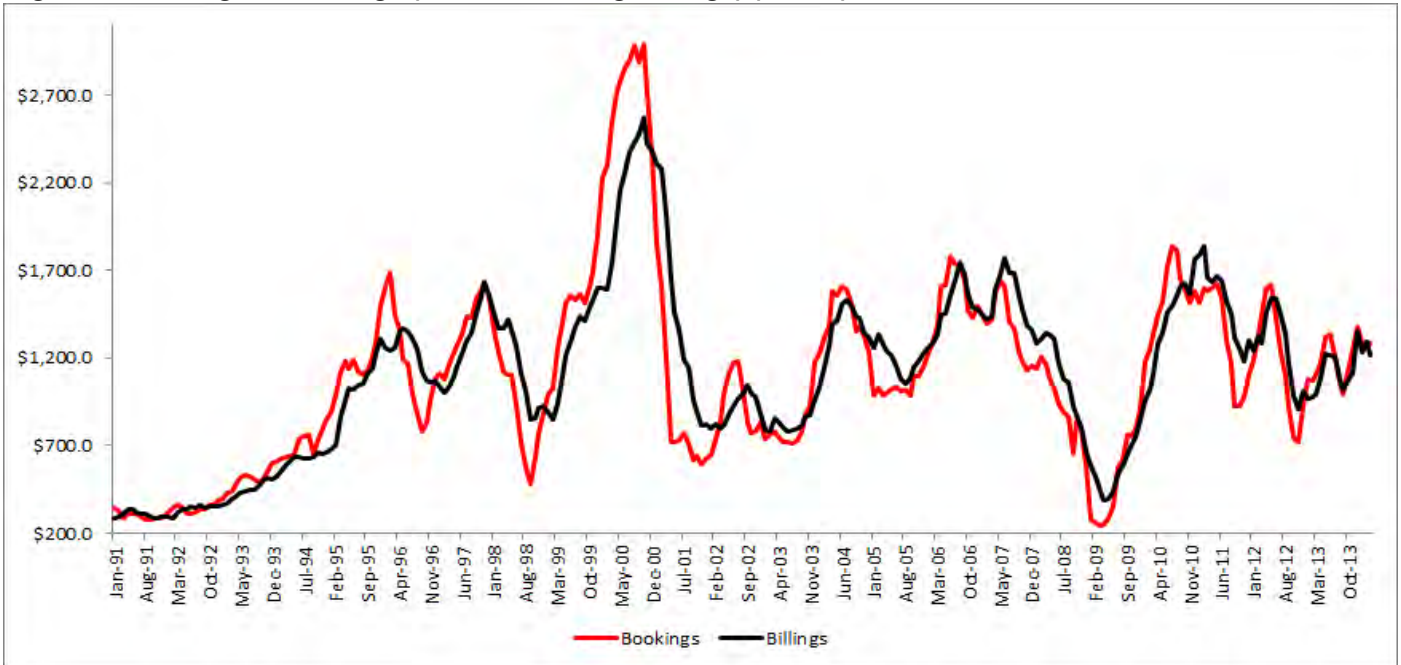


Source: SEMI

**Bookings increased by +16.1%yoy to USD1,280.4m.** This is above 2013 monthly average of USD1,174.1m. It has consistently remained above USD1,200m level for the past five months since November 2013. Despite this, bookings has retraced to January 2014 level after picking up in February 2014 to USD1,295.4m.

**USD1,212.1m worth of product billed for the month of March 2014.** Billings expanded by +22.3%yoy, in comparison with March 2013 level of USD991m. This, however, was lower compared to February 2014 billings amounting to USD1,288.3m.

**Figure 2: Bookings and billings (3-month moving average) (USDm)**




Source: SEMI

**Capex spending to hit above USD60b mark in 2014.** Bookings and billings are expected to pick-up-pace on the back of higher capex spending in 2014. According to IC Insight, global capex spending will top USD62.2b in 2014, an increase of +8.4%yoy. Higher capex spending will be mainly contributed by the top 10 companies, which in aggregate will boost capex spending by 10%. Segment wise, memory manufacturers and foundries will make the biggest increment. Both Micron and SanDisk is expected to boost capex spending by a staggering 57.6% and 86.3% respectively. Nonetheless, Samsung and Intel will remain dominant with budgeted spending of USB11b each.

**Figure 3: Semiconductor capex spending**

2014F	Company	2012 (USDm)	2013 (USDm)	Annual change (%)	2014F (USDm)	Annual change (%)
1	Samsung	12,225	11,560	-5.4	11,500	-0.5
2	Intel	11,000	10,611	-3.5	11,000	3.7
3	TSMC	8,341	9,709	16.4	9,750	0.4
4	GlobalFoundries	3,800	4,500	18.4	5,500	22.2
5	SK Hynix	3,363	3,146	-6.5	3,700	17.6
6	Micron	2,184	1,935	-11.4	3,050	57.6
7	Toshiba	1,137	1,630	43.4	1,950	19.6
8	SanDisk	979	859	-12.3	1,600	86.3
9	UMC	1,770	1,098	-38.0	1,200	9.3
10	SMIC	499	651	30.5	880	35.2
	Top 10 Total	45,298	45,699	0.9	50,130	9.7
	Others	13,742	11,731	-14.6	12,100	3.1
	<b>Total Capex spending</b>	<b>59,040</b>	<b>57,430</b>	<b>-2.7</b>	<b>62,230</b>	<b>8.4</b>

Source: IC Insight

**Maintain POSITIVE.** We believe BTB ratio will stay above parity in the near term on the back of robust capex spending. Higher capex spending indicates that manufacturers are allocating more funds to acquire fixed assets and/or upgrading their existing machineries to expand their operations. On the local front, such development could favour company such as **Vitrox Corporation Bhd (NR)** which specialises in the provision of machine vision system, automated optical inspection and automated X-ray inspection system. Also, we view that a sizeable amount of capex is being channelled for the development of more advanced wearable devices. All these imply that activities within the semiconductor industry will remain vibrant. 

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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.