

07 September 2015 | Sector Update

Semiconductor Sector

Maintain POSITIVE

Future sales growth to stem from IoT

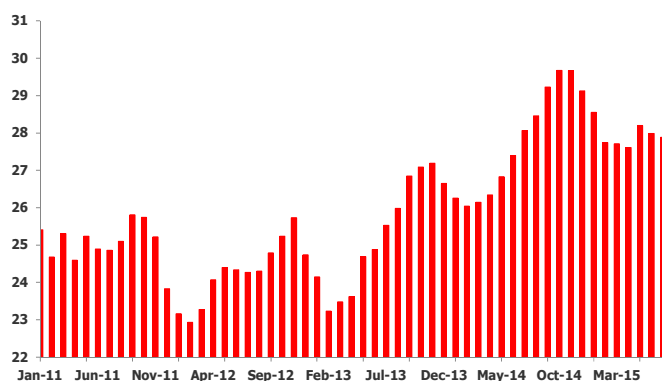
- Global semiconductor sales tapered in recent months
- Malaysia's export of semiconductor products remain encouraging, possibly due to its focus on niche growing segments and favourable foreign currency exchange
- BTB ratio remained above parity in July 2015 mainly attributable to better bookings
- Reiterate POSITIVE outlook on the semiconductor sector

GLOBAL SEMICONDUCTOR SALES (GSS) – JULY 2015

Sales dipped slightly below USD28b. GSS for the month of July 2015 amounted to USD27.9b, a marginal decrease of -0.7%yoy. In our previous report dated 6th August 2015, we cautioned that there could be speedbumps in the upcoming months due to macroeconomic headwinds and softening demand. For the month-in-review, China was the main outperformer while in comparison sales in the Americas grew at a slower pace.

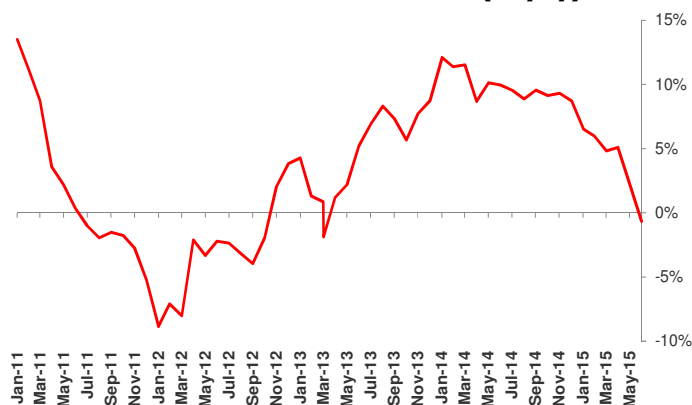
According to the Semiconductor Industry Association (SIA), "Global semiconductor sales have slowed somewhat this summer in part due to softening demand, normal market cyclical and currency devaluation in some regional markets". Despite slower sales, it is still on-par with the 2014 monthly average sales of approximately USD27.8b. The SIA also mentioned that further investment in areas related to the Internet of Things (IoT) and other cutting-edge, semiconductor-driven innovations would be a key factor to the wellbeing of the industry.

Chart 1: Global semiconductor sales (USD b)



Sources: SIA, MIDFR

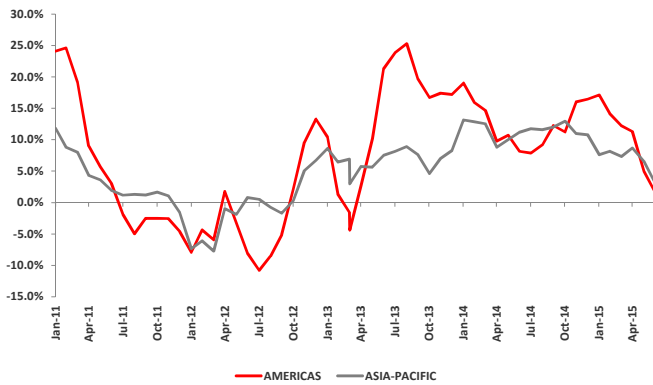
Chart 2: Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

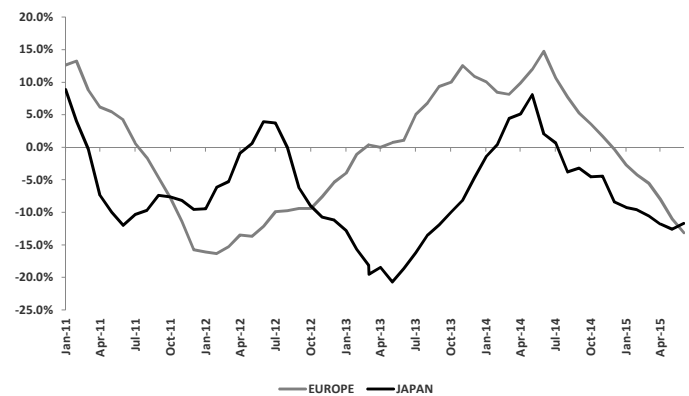
A mixed regional performance. Sales from China grew by +5.6%yoy. This is followed by Asia Pacific ex-China at +1.0%yoy. Meanwhile, sales contribution from the Americas region had slowed to +0.8%yoy. On the contrary, the devaluation of Euro and Yen has impacted the sales performance of both regions respectively. In July 2015, sales from both the Europe and Japan regions have reduced by -12.5%yoy and by -13.3%yoy respectively. Despite the year-over-year sales reduction, there are still positive growths from both regions on a month-over-month basis.

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



Sources: SIA, MIDFR

Chart 4: Europe and Japan sales (%yoy)

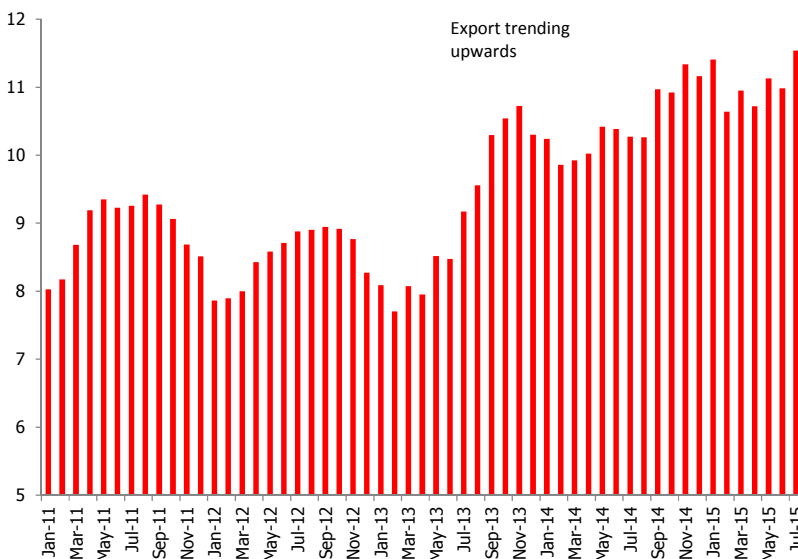


Sources: SIA, MIDFR

7M15 sales growth intact. Year-to-date, the cumulative sales for the month of January to July 2015 amounted to USD195.7b. This is an increase of +4.6%yoy as compared to the previous year corresponding period. This accounts for 56.4% of the World Semiconductor Trade Statistics' (WSTS) 2015 full year estimates of USD347.2b. The growth remains encouraging as it is in-tandem with WSTS forecasted annual sales growth of +3.4% for 2015.

MALAYSIA EXPORT – JULY 2015

Chart 5: Export of Semiconductor products (RM b)

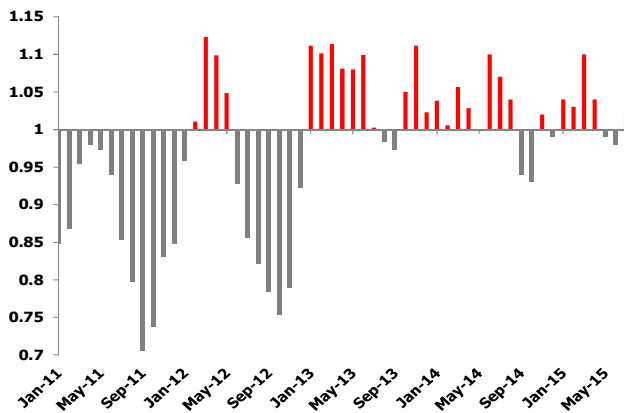


Sources: CEIC, MIDFR

Malaysia's export of semiconductor products remains healthy. In this report, we are introducing Malaysia's export figures on semiconductor products to get a better grasp of how local semiconductor companies perform as compared to GSS. Note that for comparison purposes, the export numbers are based on three-month-moving average sales figures. Despite experiencing some slowdown in GSS in recent months, export of semiconductor products from Malaysia remains healthy. For the month of July 2015, semiconductor exports amounted to RM11.5b, an increase of +12.3%yoy. For the period of January to July 2015, the export has increased by +8.8%yoy to RM77.4b as compared to only RM71.1b in 2014. We believe that the outperformance, as compared to GSS, was mainly attributable to: (i) Focus on niche growing segment especially those related to the IoT and; (ii) Favourable foreign currency exchange.

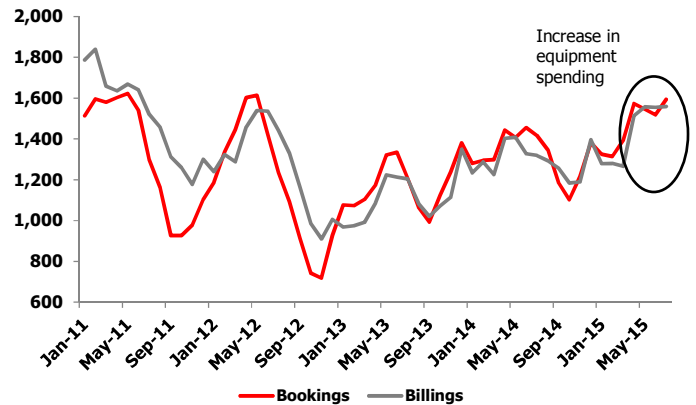
BOOK-TO-BILL (BTB) RATIO

Chart 6: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 7: Bookings & billings (USD m)




Sources: SEMI, MIDFR

July BTB ratio came in above parity. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.02x for the month of July 2015. This indicates that USD102 worth of orders were received for every USD100 of products billed for the month. This is mainly supported by stronger bookings for the month of July 2015.

Reported bookings inching closer USD1.6b in July 2015. Semiconductor equipment bookings for the month of July 2015 accelerated to USD1,594.3m. This translates into a growth of +12.5yoy. Since January 2015, the monthly bookings of semiconductor equipment have been on the rise as compared to the corresponding periods in 2014.

Billings continue to pick-up pace. Billings for the month of July 2015 increased by +18.2%yoy to USD1,559.2m as compared to USD1,319.1m recorded in July 2014. This represents three consecutive months where billings grew by double digits. The higher billings registered are in light of higher bookings recorded for the past few months.

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. Semiconductor companies that positioned themselves in the right production value chain will in-turn benefit from the high volume orders. In the near term, new smartphones line-up this 2H15 is going to further excite the industry. On another note, given the high correlation between the semiconductor industry and global economy, we are expecting uninterrupted growth in the semiconductor industry for as long as the global economy continues to grow. All in, we reiterate our **Positive** stance on the semiconductor sector. 

Semiconductor stocks under coverage

Stocks	Recomd'n	Price @4 Sept (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				15E	16F	15E	16F	15E	16F	15E	16F	15E	16F
UNISEM	BUY	1.78	2.74	13.9	16.1	62.1	152.0	12.8	11.1	10.0	11.0	5.6	6.2
GLOBE' TRONICS	BUY	5.90	7.05	28.7	32.0	25.1	11.5	21.0	18.9	25.0	27.0	3.2	4.6

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.