

04 November 2015 | Sector Update

Semiconductor Sector

Maintain POSITIVE

GSS rebound above USD28b in September 2015

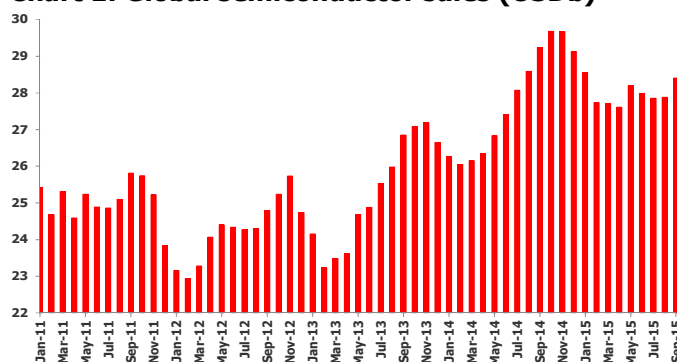
- The semiconductor industry displayed signs of resilience as global sales rebounded in September to USD28.4b, after 2 months being below the USD28b mark.
- Sales volume in September is still strong although it was lower than September 2014. Cumulative growth in the first nine month was 2.9%yoym, still outpacing the industry's 2015 forecast of 2.3%.
- However, there appears to be consolidation in industry capex, after three years of heavy investments.
- Local exports of semiconductor are expected to stay healthy driven by the automotive and smart devices segments, as well as favourable exchange rate.
- Reiterate POSITIVE outlook on the semiconductor sector

GLOBAL SEMICONDUCTOR SALES (GSS) – September 2015

GSS still on a positive uptrend despite declining year-on-year. GSS has shown resilience in September 2015 increasing +1.9%mom. Sales rebounded to USD28.4b after two months being under the USD28b mark. It was 2.8% lower year-on-year due to softer demand and stronger U.S dollar. However, certain product categories such as optoelectronics and sensors, which are catering for the automotive and wireless communications segments, continue to chart positive sales growth.

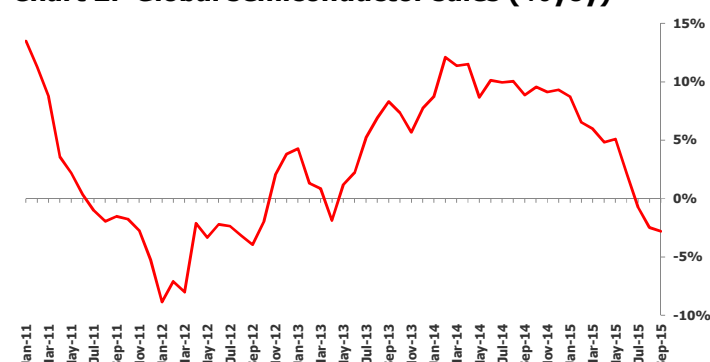
The Semiconductor Industry Association (SIA) remains upbeat on the recent developments surrounding the semiconductor industry. This includes the expansion of the Information Technology Agreement (ITA) to eliminate tariffs on next-generation semiconductors called multi-component semiconductor (MCO) and a wide range of tech products. There are also progresses made on the Trans-Pacific Partnership which will help to spur growth and promote innovation in the industry.

Chart 1: Global semiconductor sales (USDb)



Sources: SIA, MIDFR

Chart 2: Global semiconductor sales (%yoym)

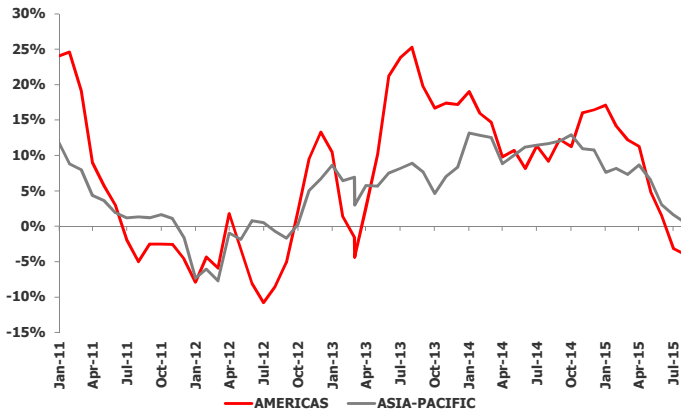


Sources: SIA, MIDFR

9M15 sales. Year-to-date, the cumulative sales for the month of January to September 2015 amounted to USD252.0b. This was an increase of +2.9%yoym and accounted for 73.4% of WSTS (World Semiconductor Trade Statistics) 2015 full year estimates of USD343.4b. The growth rate remains above WSTS forecasted annual sales growth of +2.3% for 2015. However, we caution that sales in the next few months could taper down further before we see some pick-up in sales in 2016.

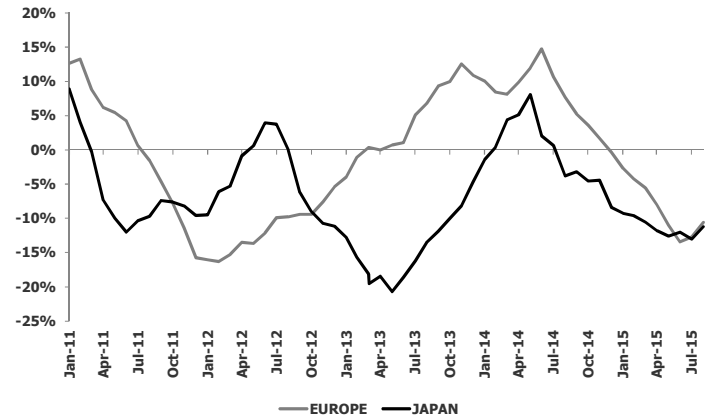
A mixed regional performance. On a regional basis, China is the only region which managed to sustain a growth in sales, albeit slower pace. Other regions including Americas recorded a contraction in monthly sales. Sales from the Americas region reduced by -4.0%yoy, marking the second consecutive month of decline. A sharp decrease in sales was recorded for the Europe and Japan regions as well. Sales from both regions are primarily impacted by the currency devaluation relative to the U.S. Dollar. For the month of September 2015, sales from Europe and Japan fell by -10.6%yoy and -11.2%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)

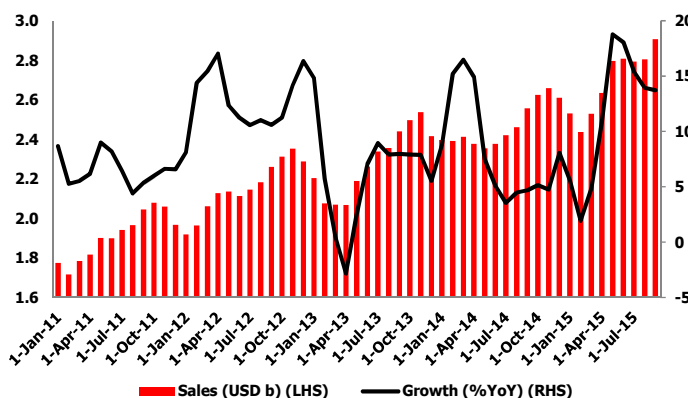


Sources: SIA, MIDFR

Double digit growth in optoelectronics sales. For the month of September 2015, sales of optoelectronics products grew by +13.7%yoy to USD2.91b. This marked the 29th consecutive month of growth since May 2013. On a cumulative basis, sales of optoelectronics products from January 2015 to September 2015 amounted to USD24.2b, an increase of +11.5%yoy. This accounted for 71.1% of WSTS FY15 full year estimates of USD34.0b. Optoelectronics, which account for roughly 10% of total semiconductor sales, is expected to gain substantial popularity with surging application of optoelectronic equipment in consumer electronic goods segment as well as the automotive segment. According to 'Research and Markets' the global automotive optoelectronics market is expected to grow at a CAGR of 17.4% over the period of 2014 – 2019. Optoelectronics are increasingly being used in vehicles to automate the vehicle functions such as head lights and brake lights.

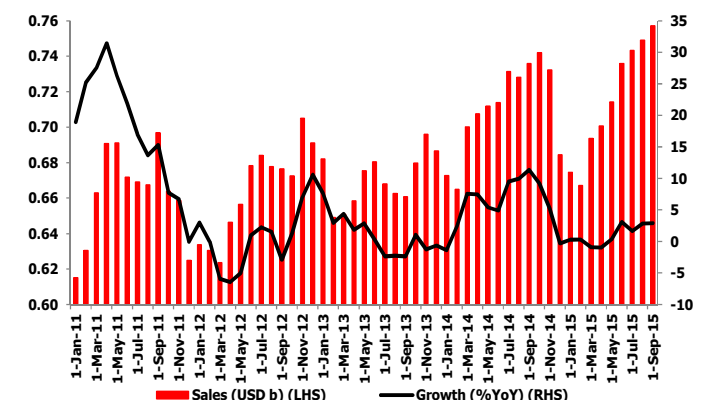
Sensors and actuators market to pick up pace in 2016. Sales of sensors & actuators for the month of September 2015 grew by +2.9%yoy to USD0.76b. Meanwhile, on a cumulative basis, January 2015 to September 2015 sales grew marginally by +1.1%yoy to USD6.44b. This made up 72.6% of World Semiconductor Trade Statistics' (WSTS) FY15 full year estimates of USD8.9b. Despite recording low single digit growth, we expect growth momentum to pick up pace 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

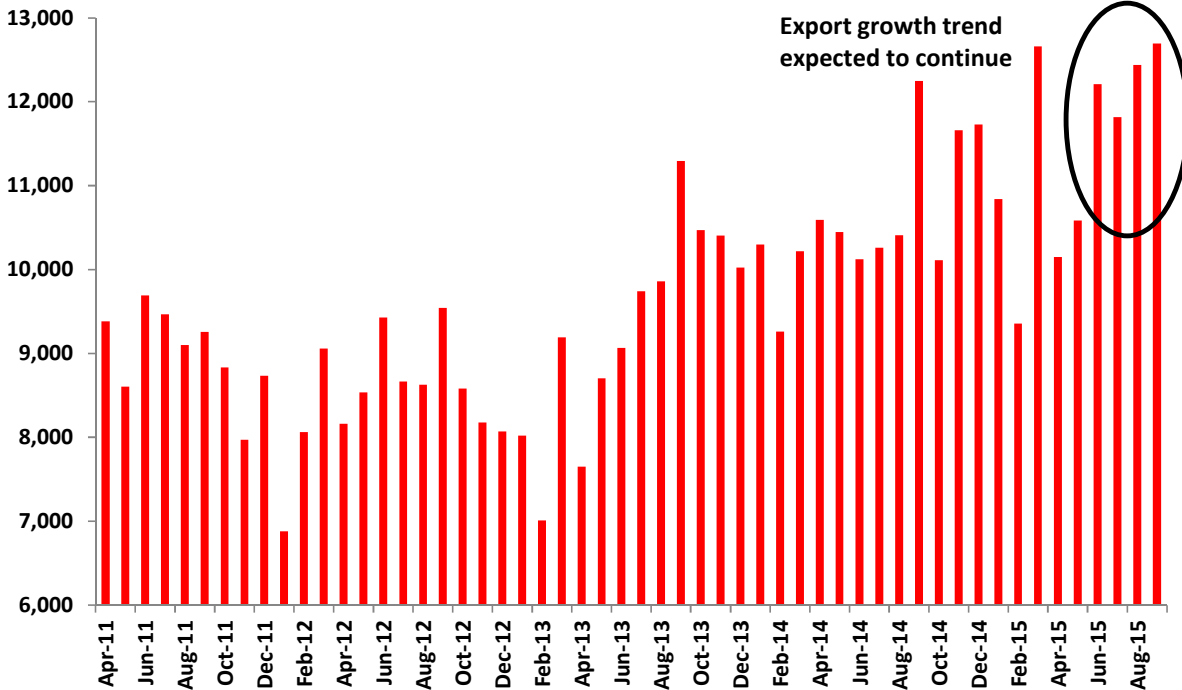
Chart 6: Sensors & Actuators sales



Sources: SIA, CEIC, MIDFR

MALAYSIA EXPORT

Chart 7: Export of Semiconductor products (RM b)



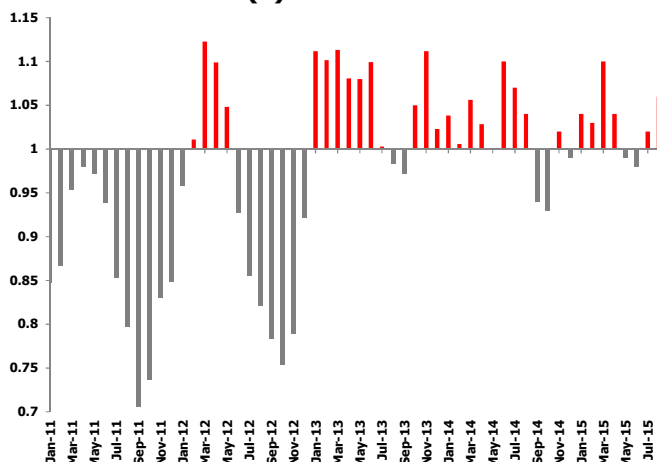
Sources: DOS, CEIC, MIDFR

Expecting semiconductor export to trend higher. Based on history, we note that semiconductor export consistently grew in September, sometimes as high as in the double digits, year-on-year. Hence, conservatively, we are expecting semiconductor export for September 2015 to grow about three percent. Our conservative assumption also take into account the high base effect of September 2014. The official external trade statistics for September will only be released on Friday.

Our conviction is that the growth in local semiconductor exports will outperform the global GSS growth in 2016. This is mainly attributable to: (i) focus on niche growing segments such as automotive and wireless communications and; (ii) favourable foreign currency exchange as U.S. Dollar continues to strengthen against the Ringgit. This is based on our observation of locally listed semiconductor players which have been consistently recording healthy sales growth in recent years, premised on higher production volume and gain on foreign currency exchange.

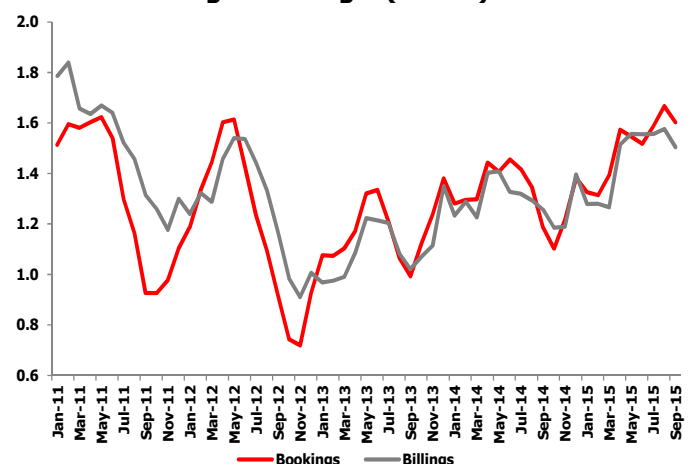
BOOK-TO-BILL (BTB) RATIO

Chart 8: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 9: Bookings & billings (USD b)



Sources: SEMI, MIDFR

BTB ratio remained above parity The North America-based manufacturers of semiconductor equipment posted a higher BTB ratio of 1.07x for the month of September 2015. This is the third consecutive month BTB ratio has remained above parity since July 2015. A BTB ratio of 1.07x indicates that USD107 worth of orders were received for every USD100 of products billed for the month. Semiconductor Equipment and Materials International (SEMI) cautioned that *"uncertainty with semiconductor demand has dampened expectations with capex plans in the near term."*

Bookings remained above USD1.6b. Semiconductor equipment bookings for the month of September 2015 registered USD1,602.3m, an improvement of +35.1%yoy. This marked the second month whereby bookings remained above USD1.6b. The monthly bookings of semiconductor equipment have been on the rise for ten consecutive months since December 2014.

Billings continue to pick-up pace. Billings for the month of September 2015 increased by +19.7%yoy to USD1,503.9m as compared to USD1,256.5m recorded in September 2014. This represents five consecutive months where billings grew by double digits.

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. For instance, the European Union legislation required all new-type passenger vehicles to have tyre pressure monitoring system installed by the manufacturers. The adoption of Euro 6 car emissions standards will also require at least 20 sensors per auto engine. Semiconductor companies that positioned themselves in the right production value chain will in-turn benefit from the high volume orders. Meanwhile, we gathered that local semiconductor test equipment manufacturers are expecting a strong start next year mainly to cater for their customers in the automotive and smart devices industries.

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 factors considered, we reiterate our **Positive** stance on the semiconductor sector. Globetronics Technology Bhd remains our top pick for the sector mainly due to stable earnings growth.



Semiconductor stocks under coverage

Stocks	Recom'dation	Price @ 3 Nov (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				15E	16F	15E	16F	15E	16F	15E	16F	15E	16F
UNISEM	BUY	2.35	3.13	17.2	18.4	99.8	7.3	13.7	12.8	9.0	10.0	3.8	4.3
GLOBE' TRONICS	BUY	6.25	7.05	28.0	32.0	22.0	14.2	22.3	22.0	25.0	27.0	4.0	3.8

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.