

07 December 2015 | Sector Update

Semiconductor Sector

Maintain POSITIVE

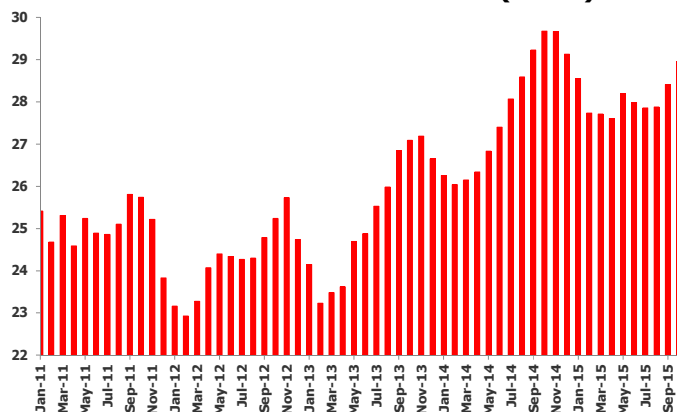
Local export of semiconductor products continue to outperform

- Although recording slightly weaker October 2015 sales figures (-2.4%yoy), GSS has been showing some signs of resilience on a monthly sequential basis
- Outlook for optoelectronics and sensors products segments remain upbeat in view of growing demand
- Both bookings and billings recorded double digit growth on a year-over-year basis
- Local export of semiconductor hit new high in October 2015, expanding by +17.0%yoy
- Reiterate POSITIVE outlook on the Semiconductor sector

GLOBAL SEMICONDUCTOR SALES – OCTOBER 2015

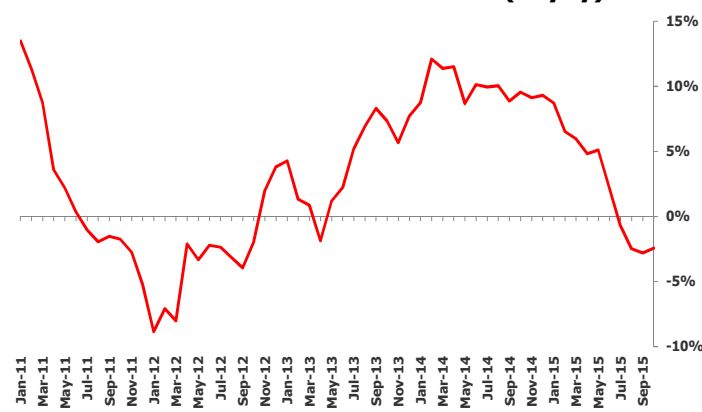
Sales continue to improve on a monthly sequential basis. Global semiconductor sales (GSS) for the month of October 2015 amounted to USD29.0b, a decrease of -2.4%yoy. The slight drop in sales was mainly due to the softening demand and stronger U.S Dollar. On a positive note, GSS has been showing some signs of resilience on a monthly sequential basis for the past three months since August 2015. For the month of October 2015, GSS grew by +1.9%mom. Amid the apparent weakness, certain product categories such as optoelectronics and sensors continue to chart positive sales growths which mainly cater to the automotive and wireless communications segments.

Chart 1: Global semiconductor sales (USD\$b)



Sources: SIA, MIDFR

Chart 2: Global semiconductor sales (%yoy)

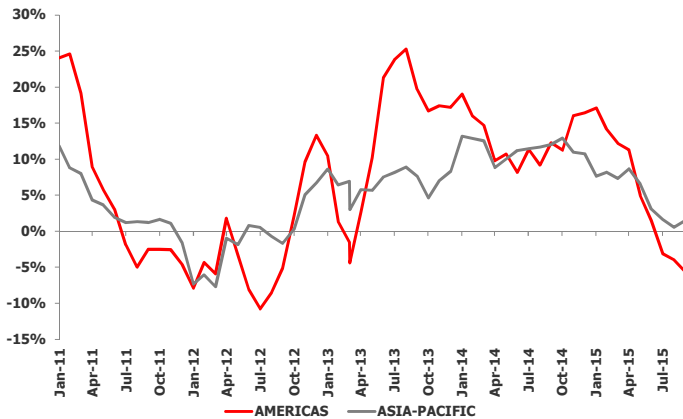


Sources: SIA, MIDFR

A mixed regional performance. On a regional basis, China is the only sales region which managed to sustain a growth in sales. Other regions including the Americas recorded contraction in monthly sales. Sales from the Americas region reduced by -5.6%yoy for the month of October 2015, marking the third consecutive month of decline.

A sharp decrease in sales was recorded for the European and Japanese regions as well. Sales from both regions are primarily impacted by the currency devaluation relative to the U.S. Dollar. For the month of October 2015, sales from Europe and Japan fell by -9.4%yoy and -10.5%yoy respectively. Despite the reduction in year-over-year sales, 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)

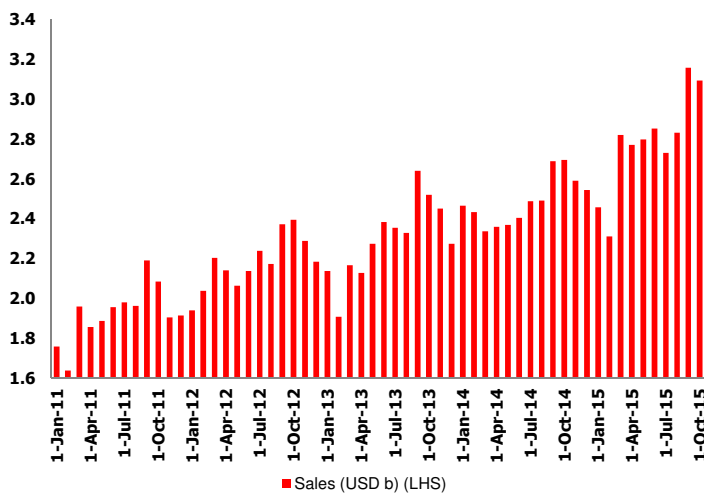


Sources: SIA, MIDFR

Sales growth continues to be seen in optoelectronics products. For the month of October 2015, sales of optoelectronics products grew by +14.8%yoy to USD3.1b. This marks the 30th consecutive month of growth since May 2013. On a cumulative basis, sales of optoelectronics products from January 2015 to October 2015 amounted to USD27.8b, an increase of +12.5%yoy. This accounts for 83.1% of WSTS FY15 full year estimates of USD33.5b. Optoelectronics, 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.

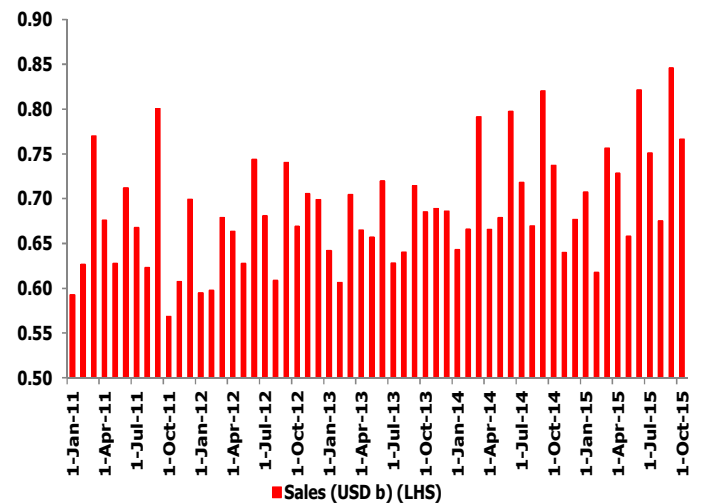
Positive outlook for the sensors and actuators market. Sales of sensors & actuators for the month of October 2015 grew by +4.0%yoy to USD0.8b. Meanwhile, on a cumulative basis, January 2015 to October 2015 sales increase marginally by +2.0%yoy to USD7.3b. This makes up 83.3% of World Semiconductor Trade Statistics' (WSTS) FY15 full year estimates of USD8.8b. Despite recording low single digit growth, we expect growth momentum to pick up pace in 2016 riding 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

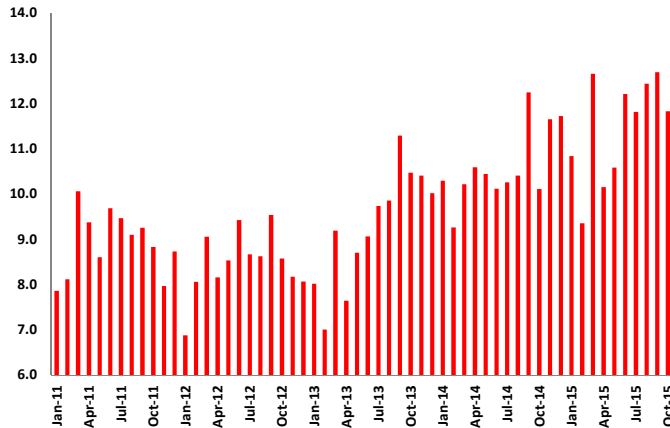


Sources: SIA, CEIC, MIDFR

10M15 sales. Year-to-date, the cumulative sales for the month of January to October 2015 amounted to USD274.6b. This is an increase of +2.3%yoy as compared to the previous year corresponding period. The cumulative sales accounts for 81.6% of WSTS' 2015 full year estimates of USD336.4b. The growth rate remains above WSTS forecasted annual sales growth of +0.2%yoy for 2015. However, we caution that sales leading up to the end of 2015 could taper down further before we see some pick-up in sales in 2016.

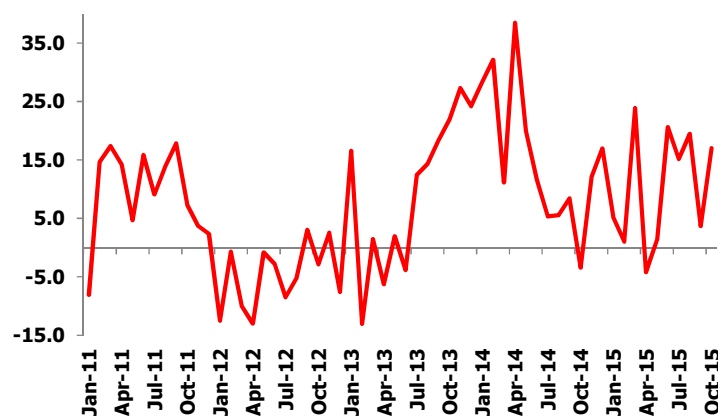
MALAYSIA EXPORT

Chart 7: Sales figures for local export of semiconductor products (USD b)



Sources: DOS, CEIC, MIDFR

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



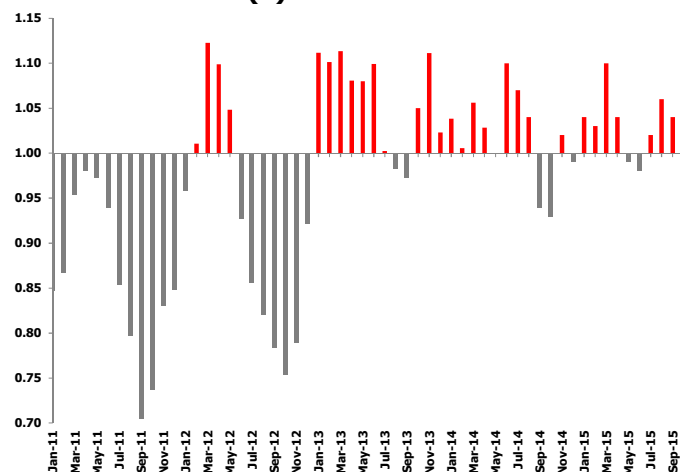
Sources: DOS, CEIC, MIDFR

October 2015 export hit new high. Malaysia's export of semiconductor products for the month of October 2015 amounted to RM11.8b, an increase of +17.0%yoy. This is the highest export achieved for the month of October. The local export of semiconductor products has been growing for the past 28 months since July 2013. Based on historical track record, we are expecting export for the month of November 2015 to continue to show positive growth momentum.

We remain positive on the outlook of local semiconductor despite GSS recording weaker numbers. 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.

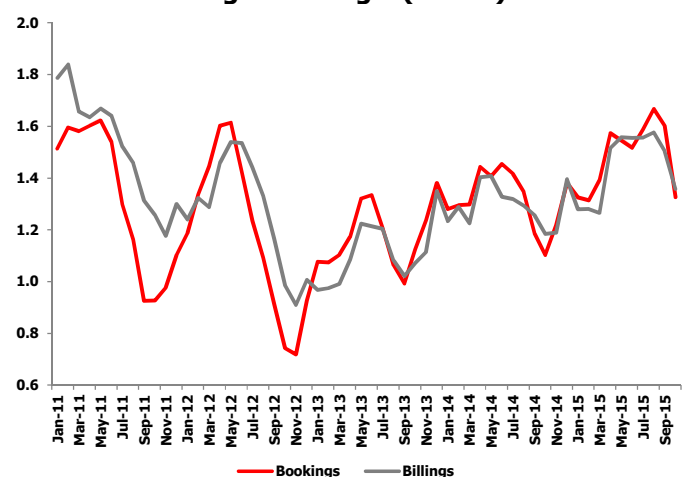
BOOK-TO-BILL (BTB) RATIO

Chart 9: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 10: Bookings & billings (USD b)




Sources: SEMI, MIDFR

Resilient BTB ratio. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.98x for the month of October 2015. Prior to this, BTB ratio has remained above parity for three consecutive months. A BTB ratio of 0.98x indicates that USD98 worth of orders were received for every USD100 of products billed for the month. In our previous report dated 4th November 2015, we mentioned that Semiconductor Equipment and Materials International (SEMI) is expecting demand of semiconductor equipment to be weaker in the near term. On a positive note, local automated testing equipment manufacturers are signalling a strong 1Q16 premised on healthy order book.

Bookings stayed above USD1.3b. Semiconductor equipment bookings for the month of October 2015 came in at USD1,325.8m. This translates into a strong a strong growth of +20.3%yoy. Bookings have been recording double digit growth for the past four months since July 2015.

Billings recorded healthy growth. Billings for the month of October 2015 increased by +14.7%yoy to USD1,358.4m as compared to USD1,184.2m recorded in October 2014. This represents the sixth consecutive month where billings grew by double digits since May 2015.

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 requires all new 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 gather 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. In-line with our call recommendation, Unisem and Globetronics' share prices have increased by +21.0% and +47.7% on a year-to-date basis respectively. 

Semiconductor stocks under coverage

Stocks	Recomd'n	Price @ 4 Dec (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				15E	16F	15E	16F	15E	16F	15E	16F	15E	16F
UNISEM	BUY	2.36	3.13	17.2	18.4	99.8	7.3	13.7	12.8	9.0	10.0	3.8	4.2
GLOBE' TRONICS	BUY	6.35	7.05	28.0	32.0	22.0	14.2	22.7	19.8	25.0	27.0	3.9	4.3

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.