

08 July 2015 | Sector update

Semiconductor Sector

Maintain **POSITIVE**

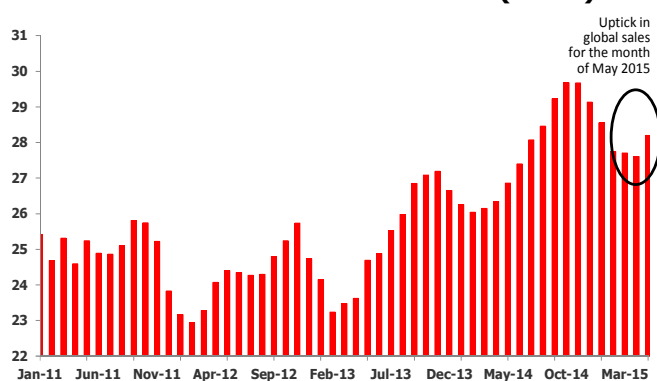
Sales growth accelerated in May; SIA is optimistic on TPA

- **Global Semiconductor Sales (GSS) rose in May 2015, after a seasonally weak April 2015**
- **The Americas and China regions are the main sales growth drivers**
- **The Trade Promotion Authority (TPA) is expected to further improve the outlook of U.S semiconductor industry**
- **Bookings and billings stay above USD1.5b for 2 consecutive months**
- **Reiterate POSITIVE outlook on the semiconductor sector**

REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – MAY 2015

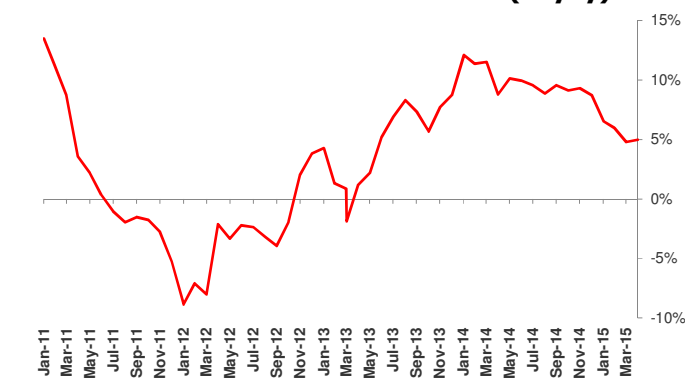
Sales growth accelerated in May 2015. GSS for the month of May 2015 amounted to USD28.2b, the highest in four months. Growth accelerated to +5.1%yoy in May 2015 from 4.8%yoy in April 2015. As expected, the improvement in sales came after the seasonally depressed period of February to April. In fact, in our opinion, the recovery this year came in earlier. This also marked the first month-on-month increase in sales since December 2014. On a longer perspective, GSS has grown on year-on-year basis for 25 consecutive months since May 2013. The statement by the Semiconductor Industry Association (SIA) in conjunction with the release of the GSS is clearly auspicious: “The global semiconductor industry overcame lingering macroeconomic uncertainty to post solid year-to-year growth in May”.

Chart 1: Global semiconductor sales (USDb)



Source: SIA, MIDFR

Chart 2: Global semiconductor sales (%yoy)



Source: SIA, MIDFR

Americas’ sales growth out beat other market. Sales from the Americas and Asia-Pacific regions continue to outperform. For May 2015, sales from the Americas and Asia-Pacific regions improved by +11.4%yoy and +8.7%yoy to USD5.6b and USD17.16b respectively. The Americas region managed to maintain its double-digit growth in sales for the eighth consecutive month since October 2014. Meanwhile, the increase in sales from the Asia-Pacific region was mainly contributed by higher sales growth from China which increased by +9.5%yoy to USD8.1b. Both the Americas and Asia-Pacific regions are the two most important sales regions, making up 80.7% of May 2015 sales.

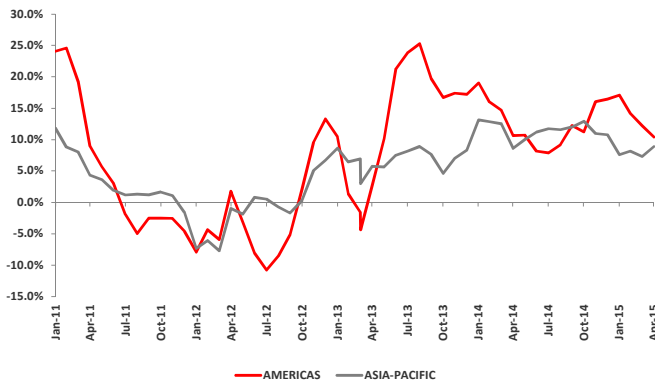
Bullish on TPA: The SIA is bullish on the Trade Promotions Act (TPA) as it is expected to make it easier for the United States to strike deals on free trade agreements. This could further improve the outlook of the U.S. semiconductor industry and other trade-dependent sectors. The TPA, and a successful negotiations of the TPPA, will be positive for Malaysia’s semiconductor industry as we are a prominent part of the industry value chain which originates in the U.S, as well as China and Taiwan.

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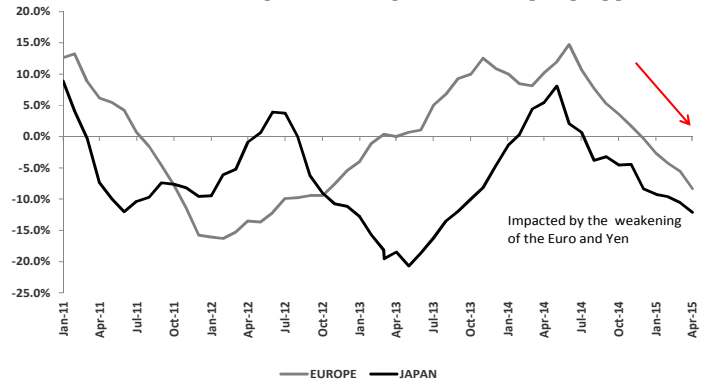
Sales from Europe and Japan continue to deteriorate. Sales from European and Japan regions continue to decline further due to the weakening of the Euro and Yen to the Dollar. For the month of May 2015, sales from both regions contracted by -7.8%yoy and -11.8%yoy to USD2.9b and USD2.5b respectively. For the month-in-review, the US Dollar has strengthened by +1.9%mom and +3.3%mom against the Euro and Yen respectively.

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



Source: SIA, MIDFR

Chart 4: Europe and Japan sales (%yoy)

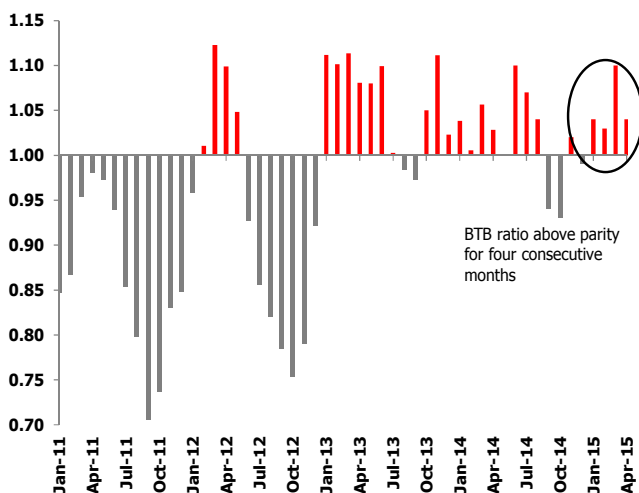


Source: SIA, MIDFR

Year-to-date sales came in within WSTS estimates. Year-to-date, cumulative sales for the month of January 2105 to May 2015 amounted to USD139.8b. This is an increase of +6.2%yoy as compared to the previous year corresponding period. This made up 41.3% of World Semiconductor Trade Statistics' (WSTS) 2015 full year estimates of USD347.2b. The growth remains encouraging as it outpaced WSTS forecast annual sales growth of 3.4% for full year 2015.

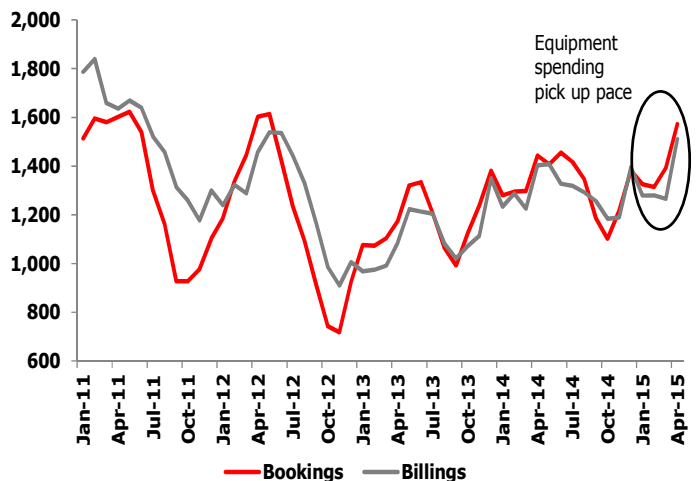
BOOK-TO-BILL (BTB) RATIO

Chart 5: BTB ratio



Source: SEMI, MIDFR

Chart 6: Bookings & billings (USDm)




Source: SEMI, MIDFR

Slightly below parity. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.99x for the month of May 2015. This showed that USD99 worth of orders were received for every USD100 product billed for the month. The slip in BTB ratio was mainly due to improvement in billings as well as slower bookings as compared to April 2015. In comparison with the previous year corresponding period, both bookings and billings continue to trend higher (i.e. above USD1,500m).

Bookings still maintained above USD1.500m level. Semiconductor equipment bookings for the month of May 2015 came in at USD1,561.4m. This translates into a growth of +11.0%yoy. This is the second consecutive months whereby bookings came in above USD1,500m level.

Billings pick up pace in May 2015. Billings for the month of May 2015 accelerated by +11.6%yoy to USD1,571.2m as compared to USD1,407.8m recorded in May 2014. The improvement in billings is in tandem with the higher bookings recorded in April 2015.

Maintain POSITIVE. Demand for communication devices will continue to be supported by the 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 who are able to offer the end-product at a competitive price, 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. On another note, given the high correlation, we expect 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. 

Selected Semiconductor Stock

Stocks	Recomd'n	Price @7 July (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				15E	16F	15E	16F	15E	16F	15E	16F	15E	16F
UNISEM	BUY	2.31	2.74	13.9	16.1	62.1	15.2	16.6	14.3	8.0	9.5	3.5	4.1
GLOBE' TRONICS	BUY	5.81	7.05	28.7	32.0	25.1	11.5	20.2	18.2	25.0	27.0	4.3	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.