

27 March 2014 | Sector update

Semiconductor sector Wearable segment picking up momentum

Maintain POSITIVE

- Smartphone are being equipped with more features
- New entrants of phone manufacturer to excite the market
- Lower selling price to support demand of smart devices
- Wearable devices entering the next phase of growth

More feature...more parts. Existing players have been continuously rolling out new versions of their smartphones. Last month, Samsung unveiled a new version of its flagship device, Galaxy S5. Apart from improved specifications from its predecessor, the S5 is embedded with unique features such as a heart rate monitor and fingerprint reader. This would be a boon to electronic parts manufacturers, as they would be able to diversify their offerings, should they possess the manufacturing technology.

News players in town. Apart from new launches from the technology giants, new brands such as Oppo and Xiaomi are also making inroads, especially in the Asia Pacific region. Since the beginning of this year, Oppo has been aggressively marketing its series of new phones. On the local front, the company is offering approximately 5 new products with price ranging from RM1,000 to RM2,000. A notable variant would be the Oppo N1, the world's first rotating camera with a tag price of RM1,798. Xiaomi was also quick to capture market attention. The company has been selling its smartphone products at a shattering time. When Redmi was launched in Singapore with a tag price of SGD169, it was fully sold out in just 8 minutes. This is despite the fact that customers are only able to order 1 unit per Xiaomi account. Xiaomi will also be offering its product in Malaysia. We view that ECS ICT Bhd, being the largest ICT distributor in Malaysia, would stand a better chance of getting the distributorship.

Figure 1: Oppo N1



Source: website

Figure 2: Redmi



Source: website

Positive momentum supported by lower selling price. With the introduction of a wider variety of smartphone, competition in the market continues to be lively. As a result, we could see the prices of smartphone to continue to be further depressed moving forward. Phone manufacturers such as Oppo and Xiaomi are offering products similar to other flagship phones at a fraction of the price. Also, due to lower average selling price, there could be a demand shift to China and other developing countries where premium-priced phone is undesirable.

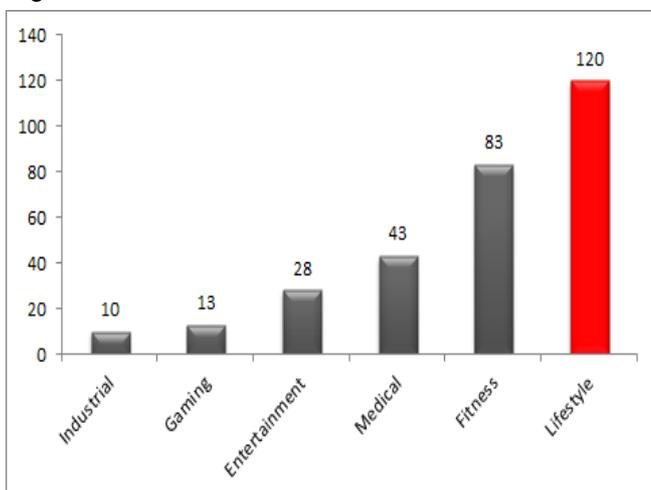
Table 1: Smartphone average selling price in USD (2009 – 2013)

Manufacturer	2009	2010	2011	2012	2013
Samsung	445.0	492.5	409.0	396.6	378.2
Apple Inc	623.2	701.6	709.5	686.4	649.6
Nokia OYJ	322.2	281.6	260.3	291.1	293.4
HTC Corp	482.4	478.1	447.8	409.4	431.6
Blackberry	443.5	420.7	399.9	340.9	393.0
Sony Corp	474.4	411.6	385.0	365.3	392.2
Huawei Technologies	116.7	163.7	154.9	169.5	160.8
Lenovo	239.3	334.4	158.1	137.6	112.7
LG Electronics	336.3	333.1	367.9	358.7	338.7
ZTE Corp	324.4	159.7	154.4	155.2	126.1
Others	434.1	454.3	410.3	249.3	175.0
Blended average	421.8	427.0	424.5	386.9	335.0

Source: IDC

Wearable devices taking centre stage. The outlook of wearable devices is expected to mimic that of smartphone. Currently there are 178 wearable devices currently on the market with an average tag price of USD364. Of this, majority of the devices fall into the lifestyle and fitness category. Most of which are wrist band and smartwatches. Nonetheless, we expect an increase in the number of offering across the category.

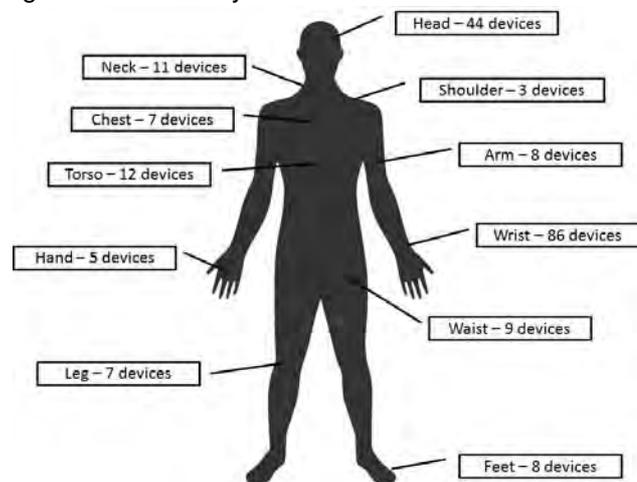
Figure 3: Areas of market focus



Source: Vandrico

*Some devices fall into more than one category

Figure 4: Devices by location



Source: Vandrico

In pursuit of better operating system (OS) and wider apps offering. On the software aspect, having dedicated operating system and apps also play a key role in the wellbeing of these wearable devices. Samsung is inviting apps developer to use its newly launched software development kit for wearable to develop apps that will be compatible for Tizen wearable application. Not being left out, Android also released its version of wearable OS codename Android Wear. Following the launch, we should see a bigger database of apps specifically developed for wearable devices. This will help to entice prospective consumer in selecting these devices.

Maintain POSITIVE stance on the industry. We view that there are still strong demand for smart devices. New feature and functions are expected to keep prospective customer on the lookout for new version. In addition, with the entrant of new phone manufacturers, we expect the prices of smart devices to be more competitively priced. On another note, we expect demand of wearable devices to gain traction as developers are competing to launch new and better versions of wearable devices.



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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.