

05 February 2015 | Sector update

Semiconductor

Maintain POSITIVE

Strong December sales caps a record-breaking year

HIGHLIGHTS

- Global sale of semiconductor stayed elevated at USD29.1b, a strong increase of 9.3%yoy
- Annual sales for 2014 hit new highs for the second consecutive year
- Both bookings and billings posted double digit growth on a month-over-month basis
- Maintain POSITIVE for the semiconductor industry as overall outlook remains promising

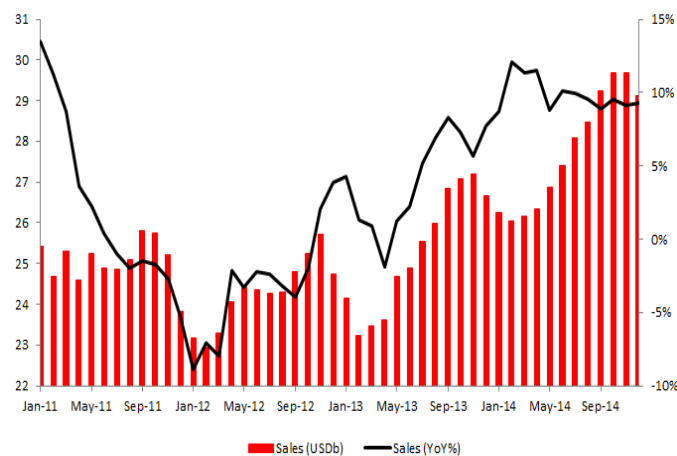
REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – DECEMBER 2014

December 2014 sales exceeded WSTS expectation. GSS for the month of December 2014 amounted to USD29.1b, an increase of +9.3%yoy as compared to December 2013 sales of USD26.6b. GSS has been above the USD29b level for the fourth consecutive month since September 2014. It also exceeded the World Semiconductor Trade Statistics (WSTS) sales projection of USD28.9b, imputed based on its full year sales forecast of USD333.1b.

Second consecutive year of new sales record. GSS for 2014 was USD335.8b, a new record. This was an increase of +9.9% as compared with 2013 annual sales of USD305.6b, exceeding WSTS sales forecast of 9.0%. This was mainly due to the broad and sustained growth across nearly all regions and product.

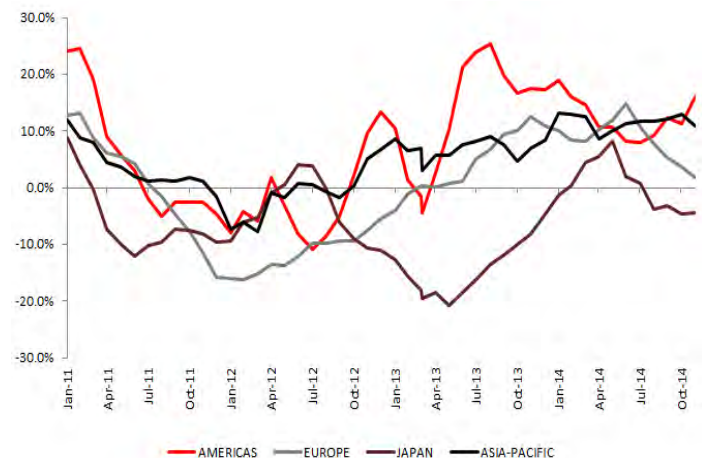
- The 'Logic' segment was the largest sales contributor by segment at USD91.6b, or 27.3% of total sales .
- However, 'Memory' was the fastest growing segment at +18.2% to USD79.2b. The commendable performance in the memory segment was mainly driven by sales of *DRAM* which increased by +34.7%yoy. This was followed by *power transistors* (+16.1%yoy), *discretes* (+10.8%yoy) and *analog* (+10.6%yoy) segments.

Graph 1: Global semiconductor sales



Source: SIA, MIDFR

Graph 2: Regional sales growth (%)



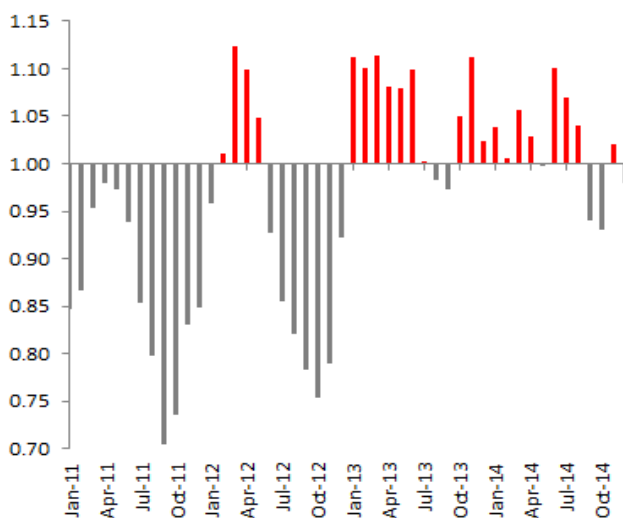
Source: SIA, MIDFR

All regions displayed improvement in sales for the first time since 2010. Double digit growth in sales was recorded for the Americas and Asia Pacific regions at +12.7%yoy and +11.4%yoy respectively. Meanwhile, sales from the European region grew by +7.4%yoy. In a turnaround event, sales from Japan recorded a marginally growth of +0.1%yoy. Nonetheless, this is the first time sales from Japan recorded growth since 2010.

BOOK-TO-BILL (BTB) RATIO

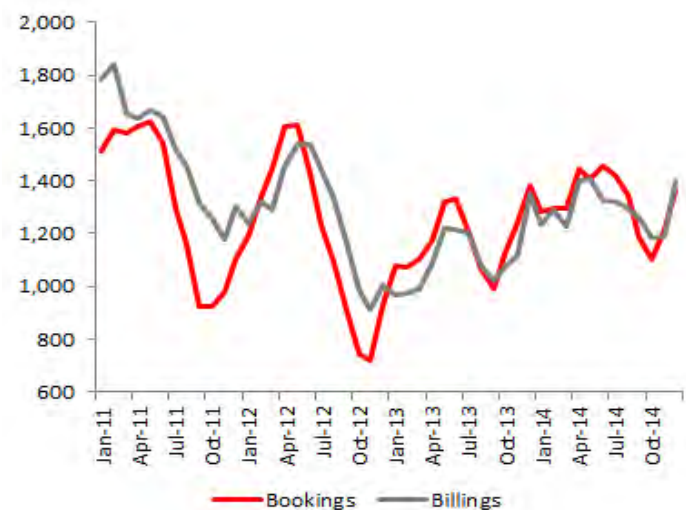
Slightly below parity. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.98x for the month of December 2014. The BTB ratio went below parity after recovering in the month of November 2014. However, we are not overly concerned because bookings have increased by more than +10%qoq in the month of December 2014. Unfortunately, the increase in billings has outpaced that of bookings.

Graph 3: BTB ratio



Source: SEMI, MIDFR

Graph 4: Bookings and billings (3-month moving average) (USDm)



Source: SEMI, MIDFR

Bookings picked-up pace in December 2014. Semiconductor equipment bookings came in at USD1,216.8m for the month of December 2014. On a monthly sequential basis, this translates into an increase of +12.3%. However, it is a slight decrease of -1.1%yoy as compared to bookings for the month of December 2013. The bookings have improved for two consecutive months since November 2014.

Higher billings. Billings for the month of December 2014 grew slightly by +17.0%mom to USD1,391.9m. The billings figure was also +3.1%yoy higher in comparison to December 2013 billings of USD1,349.7m.

INDUSTRY NEWS

Apple Inc. posted strong 1QFY15 results. Global technology company, Apple Incorporated, recently announced a record-breaking quarter ended December, with revenue and net profit of USD74.6b and USD18b, representing growth of +29.5%yoy and +37.4%yoy respectively. Gross margin also improved to 39.9% from 37.9% as compared to the previous year corresponding quarter. This is mainly attributable to the all-time record revenue from the sales of iPhone and Mac, as well as record performance of the App Store. New record sales of 74.5m was achieved for its iPhone units, an increase of +45.9%yoy or 23.4m units.

CONCLUSIONS

The SIA continues to post optimistic sales figures. GSS has been consistently outpacing itself for the 20th consecutive month. This level of optimism is expected to continue into 2015 and 2016 as concurred by WSTS. The positive growth will be mainly supported by higher demand from the smartphones and automotive industries.

In the foreseeable term, the adoption of smartphones remains one of the key driving catalysts for the sector. The transition of 2G to 3G and 4G will inevitably create stronger demand of low to mid-priced smartphones, especially in emerging markets. Thus, affordability of these smartphones also serves as a vital success factor. In the longer term, the availability and acceptance of wearable devices are expected to contribute to the positive sentiments for the semiconductor industry. As such, we are reiterating our **POSITIVE** stance on the semiconductor industry.

Selected Semiconductor Stock

| Stocks | Recomd'n | Price @4 February 2015 (RM) | Target Price (RM) | EPS (sen) | | EPS (% change) | | PER | | DPS (sen) | | Yield (%) | |
|--------------|----------|-----------------------------|-------------------|-----------|------|----------------|------|------|------|-----------|-----|-----------|-----|
| | | | | 14E | 15F | 14E | 15F | 14E | 15F | 14E | 15F | 14E | 15F |
| UNISEM | BUY | 2.03 | 2.45 | 9.3 | 14.4 | n.m. | 55.5 | 21.8 | 14.1 | 2.5 | 2.5 | 1.2 | 1.2 |
| GLOBETRONICS | BUY | 4.82 | 5.45 | 24.3 | 29.3 | 28 | 20.4 | 19.8 | 16.5 | 21 | 23 | 4.4 | 4.8 |

Source: Bloomberg and MIDFR

DAILY PRICE CHART – GLOBETRONICS



DAILY PRICE CHART – UNISEM



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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 | <i>Negative</i> total return is expected, by -15% or more, 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. |