

06 June 2014 | Sector update

## Semiconductor

Maintain **POSITIVE**

Sales growth at double –digit three months in a row

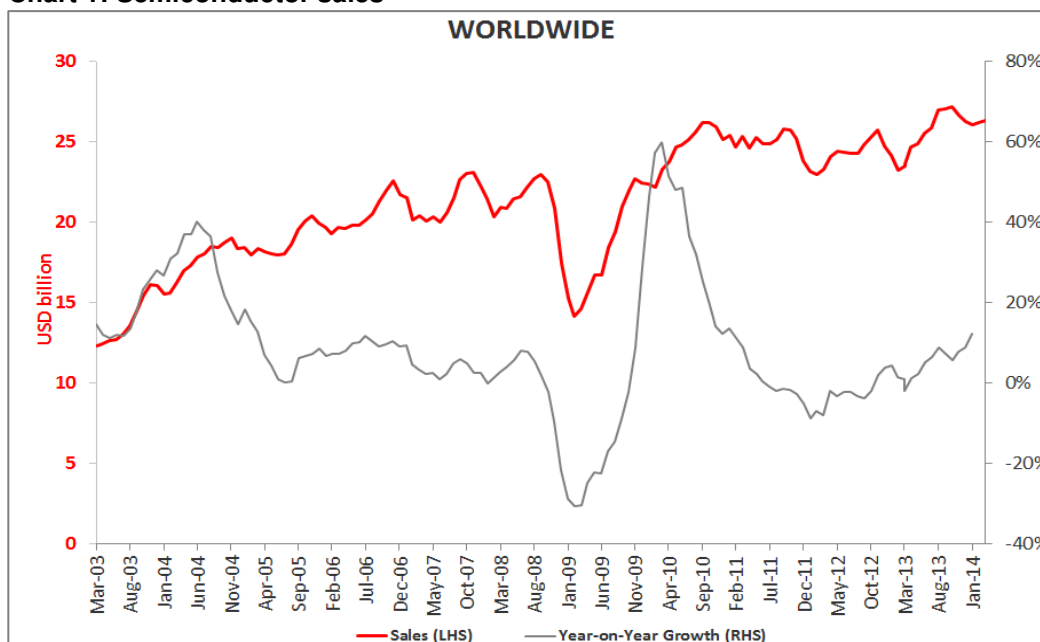
### INVESTMENT HIGHLIGHTS

- Just-released April figures show sales growing at double-digit on a yearly basis for the third consecutive month
- Higher sales were seen across every region and product category
- Strong booking and billings data underline aggressive expansion plan
- WSTS revised upwards 2014 forecast by +2.8% to USD325.4b
- Outlook for the semiconductor industry remains upbeat. Maintain **POSITIVE** stance.

**Strong growth momentum continues.** Global Semiconductor Sales (GSS) for the month of April 2014 came in at USD26.3b, an increase of +11.5% from USD23.6b in April 2013. Sequential month, this translates to a slight increase of +0.7%. Higher sales were seen across every region and product category. The industry has been enjoying brisk sales, i.e. above the USD25b level, for the past 10 months, since July 2013. Despite 2013 being a record year for the semiconductor revenues, the trend is expected to continue throughout 2014 and into 2015.

**Americas leading the pack, but Asia Pacific catching up.** The Americas region grew at the fastest pace of +14.7%yoy. Meanwhile, sales growth in the Asia Pacific region is catching up, gaining +12.5%yoy. We note that sales in Japan has shown two consecutive months of growth, gaining +0.4%yoy and +4.4%yoy in March and April 2014 respectively.

Chart 1: Semiconductor sales



Source: SIA, MIDFR

Chart 2: Americas



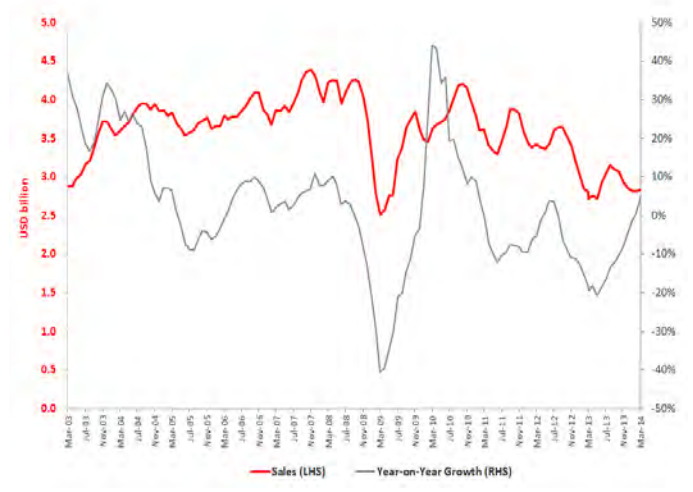
Chart 3: Asia Pacific



Chart 4: Europe



Chart 5: Japan



Source: SIA, MIDFR

**Semiconductor market to hit USD325b in 2014.** World Semiconductor Trade Statistics (WSTS) revised upwards its 2014 forecast by +2.8% to USD325.4b from USD316.6b. This translates into an annual increase of +6.5%. All product segments, except for microprocessors, are expected to record high single digit growth rate. The increase is mainly driven by smartphones, tablets and automotive-related demand. Growth from both sensor and analog segments is expected to reach +9.1%, outpacing the rest. Region wise, all is expected to grow except for Japan which is forecasted to decline due to the depreciation of the Japanese Yen.

**Positive momentum anticipated to carry into 2015 and 2016.** WSTS foresees solid growth in the next two years. It predicts the worldwide semiconductor market to be up by +3.3% to USD336b in 2015 and +4.3% to USD350b by 2016. Segment wise, growth from the automotive and communications are expected to outpace the overall market growth rate. By 2016, the Asia Pacific region is expected to account for 59.1% of total market share, up from 57.1% in 2013.

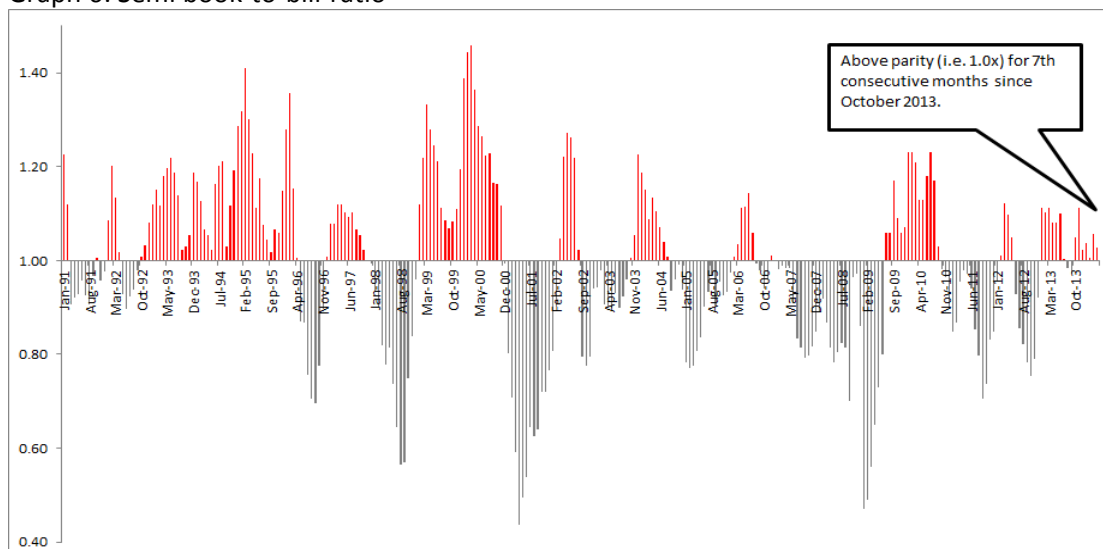
**Table 1: WSTS Forecast summary**

Spring 2014	Amounts (USD'm)				Year on year growth (%)			
	2013	2014E	2015F	2016F	2013	2014E	2015F	2016F
By Region								
Americas	61,496	62,796	64,462	66,985	13.1	2.1	2.7	3.9
Europe	34,883	37,644	38,716	40,334	5.2	7.9	2.8	4.2
Japan	34,795	34,360	35,036	36,078	-15.2	-1.3	2.0	3
Asia Pacific	174,410	190,580	197,933	207,077	7	9.3	3.9	4.6
<b>Total World</b>	<b>305,584</b>	<b>325,379</b>	<b>336,148</b>	<b>350,474</b>	<b>4.8</b>	<b>6.5</b>	<b>3.3</b>	<b>4.3</b>
By Products								
Discrete Semiconductors	18,201	19,492	20,379	21,123	-4.9	7.1	4.6	3.7
Optoelectronics	27,571	29,952	31,483	32,768	5.3	8.6	5.1	4.1
Sensors	8,036	8,764	9,403	9,896	0.3	9.1	7.3	5.2
Integrated Circuits	251,776	267,172	274,882	286,687	5.7	6.1	2.9	4.3
Analog	40,117	43,775	46,315	48,695	2.1	9.1	5.8	5.1
Micro	58,688	59,241	60,912	63,293	-2.6	0.9	2.8	3.9
Logic	85,928	92,062	94,996	98,246	5.2	7.1	3.2	3.4
Memory	67,043	72,094	72,659	76,453	17.6	7.5	0.8	5.2
<b>Total Products</b>	<b>305,584</b>	<b>325,379</b>	<b>336,148</b>	<b>350,474</b>	<b>4.8</b>	<b>6.5</b>	<b>3.3</b>	<b>4.3</b>

Source: WSTS, MIDFR

**BTB ratio normalizing in April 2014.** The BTB ratio, which indicates capital expenditure in the industry based on the billings and bookings of North America-based manufacturers of semiconductor equipment, fell slightly to 1.03x in April, after rising to 1.06x in the previous month. The slightly lower BTB ratio is attributable to an increase in billings, even though booking was also running at a high level. Nonetheless, the ratio has been above parity for seven consecutive months. This reflects positive sentiment in the industry. We believe that technology companies continue to aggressively expand their respective manufacturing capability and/or capacity to keep step with the global demand.

**Graph 6: Semi book-to-bill-ratio**

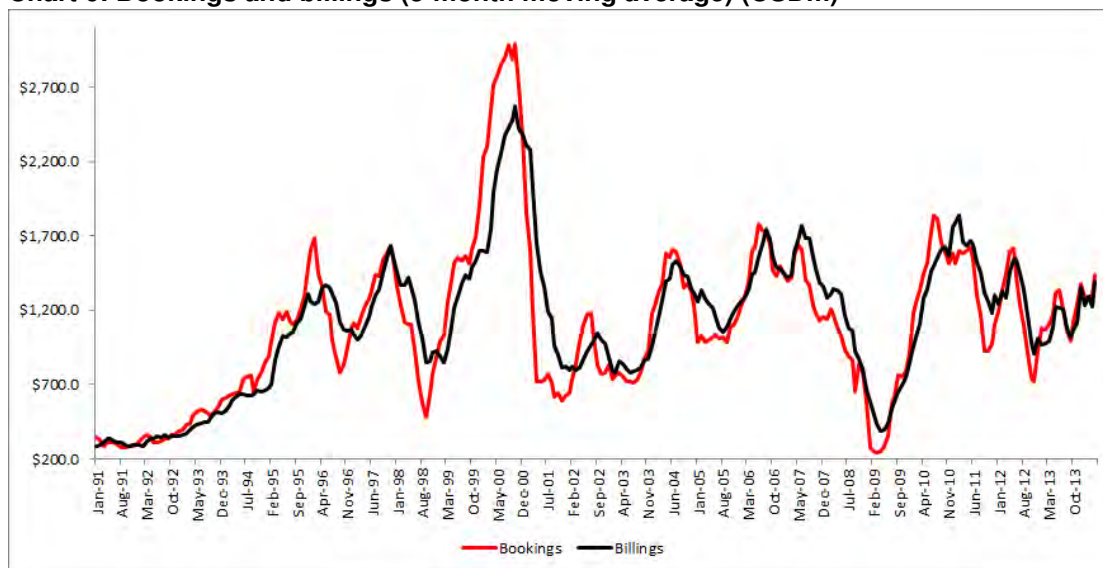


Source: SEMI, MIDFR

**Highest bookings for the past 23 months since peaking in May 2012 at USD1.61b.** Bookings for the month of April 2014 advanced by USD264.3m or +22.5%yoy to USD1.44b. It also expanded by +10.8% from USD1.30b in March 2014. This is the fastest expansion recorded since the beginning of 2014, despite being at a higher base. According to SEMI, the data through the first quarter reflects momentum in memory, foundry and back-end spending.

**Billings stand at USD1.40b in April 2014.** This is an improvement of +28.7% from April 2013 billings of USD1.09b. This is also an increase of +14.1% from USD1.23b in March.


**Chart 6: Bookings and billings (3-month moving average) (USDm)**



Source: SEMI, MIDFR

## CONCLUSIONS

The semiconductor production equipment market continues to reflect optimism with higher sales across every regions and product categories. We do not see any sign of a slowdown given that GSS' growth accelerated to double digit from February 2014 onwards. This is also in-line with the significant improvement seen in April's bookings figure. Moving forward, we view that the well-being of the industry will be mainly supported by demand in smartphone. In 2014, IDC forecasted that smartphone shipments will increase by +23.1% to 1.2b units. This is expected to surge to 1.8b units by 2018. China will account for nearly a third of all smartphone shipments in 2018. Key emerging markets will include India, Indonesia and Russia.

The vibrant scenario in the global semiconductor market is expected to positively impact the local semiconductor industry. Such a view is reflected in our stock recommendations as we are calling a BUY on both Unisem and Globetronics. 

Selected Semiconductor Stock													
Stocks	Recom' dation	Price @5 June 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				14E	15F	14E	15F	14E	15F	14E	15F	14E	15F
UNISEM	BUY	1.40	1.60	7.3	9.4	n.m.	28.1	19.2	14.9	2.5	2.5	1.8	1.8
GLOBETRONICS	BUY	4.03	4.19	22.8	27.6	20.2	21.2	17.7	14.6	19.0	19.5	4.7	6.8

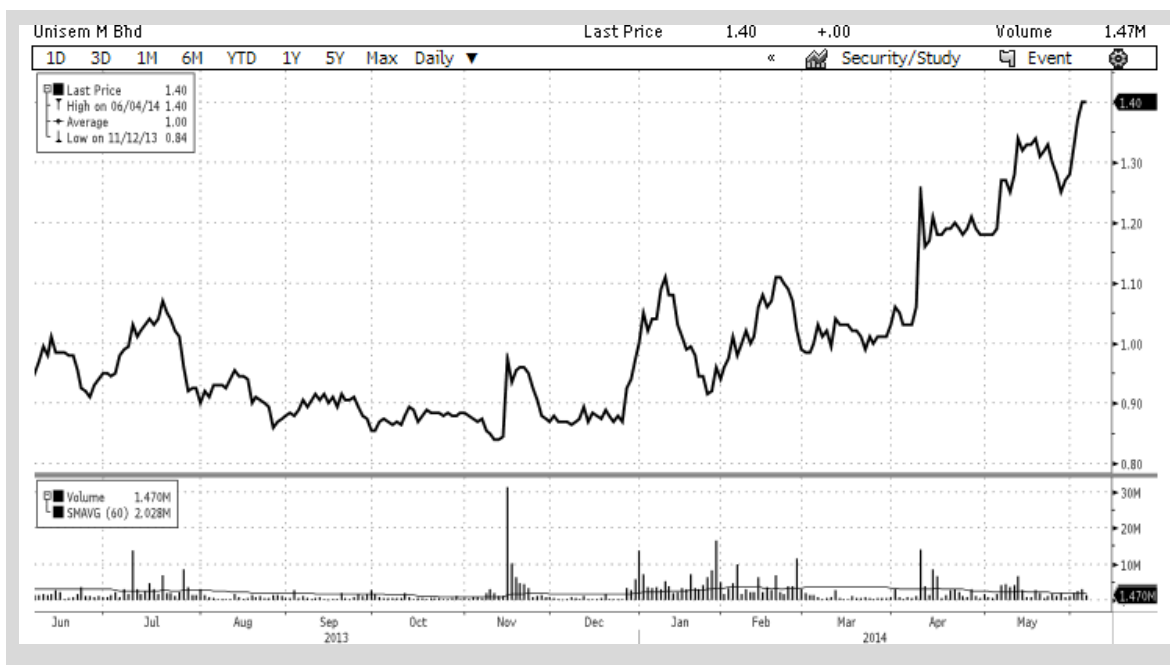
Source: Bloomberg and MIDFR

\* forecasts

## 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.