

07 April 2014 | Sector update

Semiconductor

Maintain POSITIVE

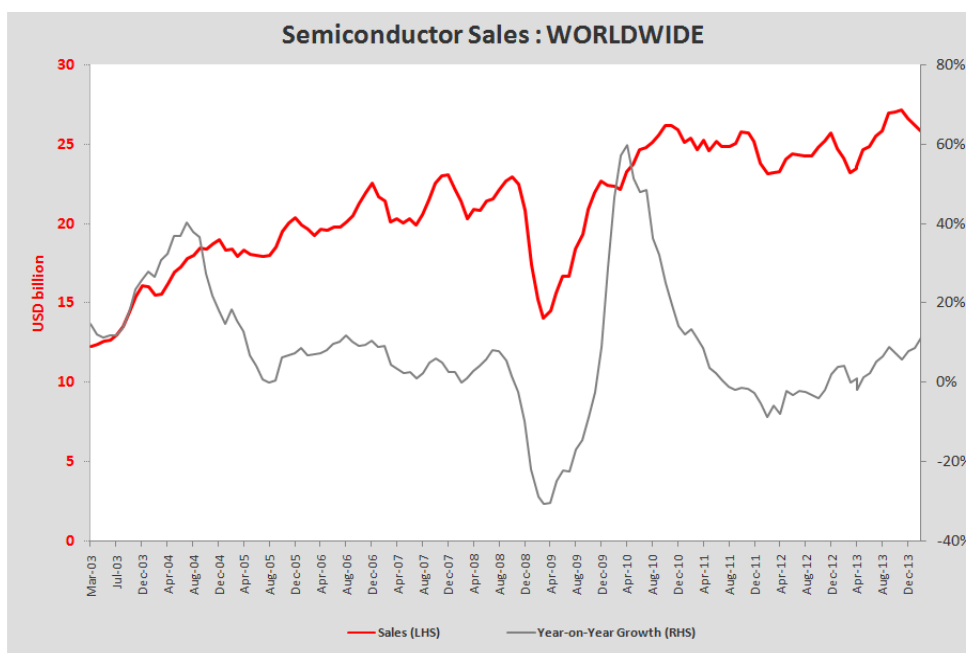
Fastest annual growth in more than 3 years

INVESTMENT HIGHLIGHTS

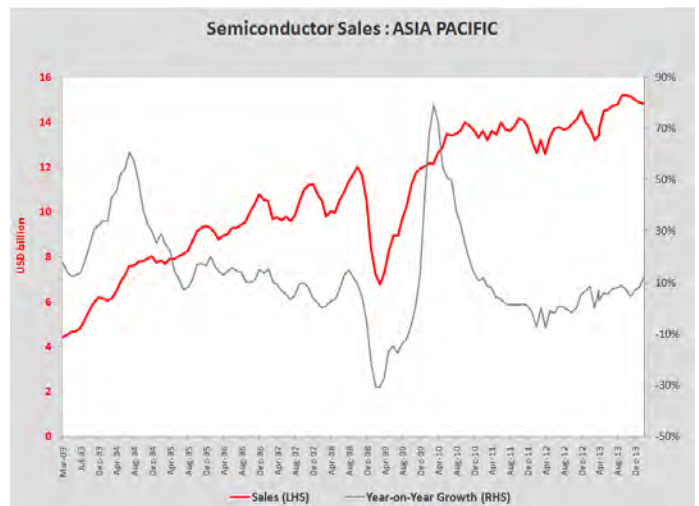
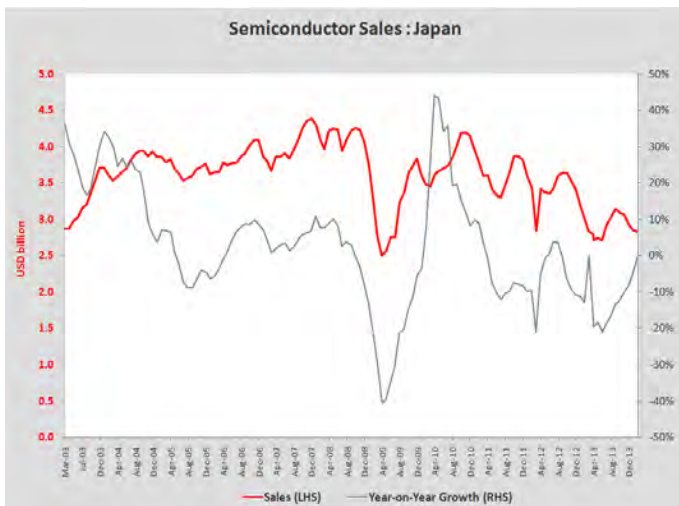
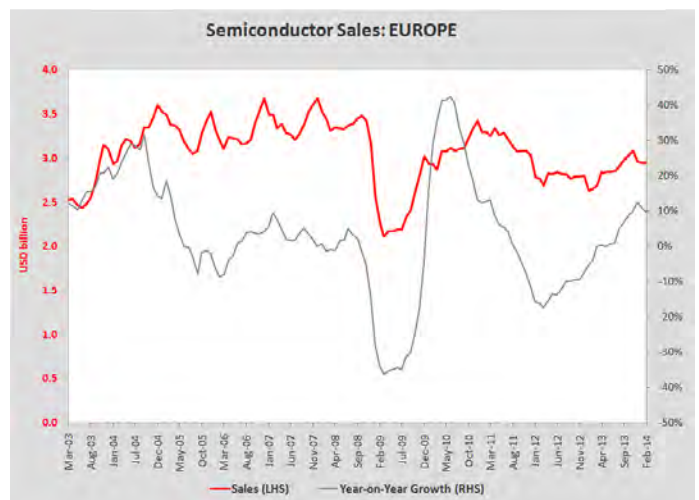
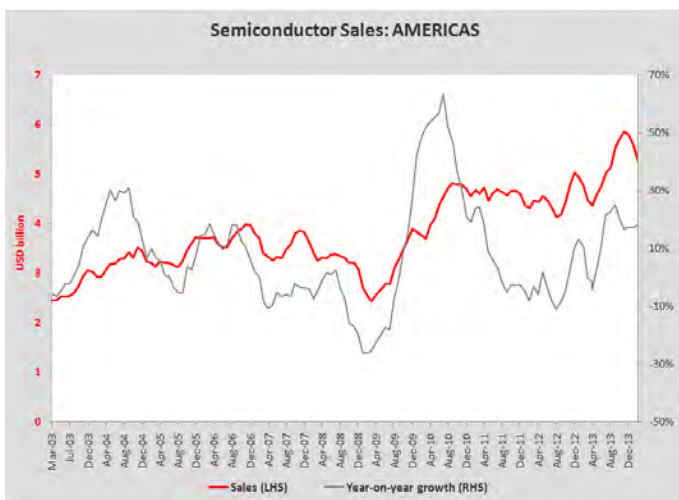
- Global Semiconductor Sales (GSS) rose 11.4%yoy in February 2014, reaffirming the upbeat momentum.
- America and Asia Pacific regions showed double digit growth of +18%yoy and +12%yoy respectively.
- In Japan, recovery is noticeable. Sales is on the verge of growing for the first time since July 2012.
- The Book-to-Bill (BTB) ratio remains at parity for the month of February 2014. In absolute terms, both bookings and billings continue to increase signalling healthy capex utilisation.
- Outlook for the semiconductor industry remains promising. Maintain POSITIVE stance.

Global Semiconductor Sales (GSS) for the month of February amounted to USD25.9b. Sales have now exceeded the USD25b threshold for 8 months in a row. In comparison with February 2013 sales of USD23.23b, it surged by +11.4%yoy. This is the largest year-on-year gain in more than three years. Compared with the preceding month, GSS fell a marginal -1.5% due to seasonal factors.

Geographically, all region reported higher sales as compared to the previous corresponding period. Americas and Asia Pacific regions showed commendable double digit growth in sales of +18%yoy and +12%yoy respectively. In-tandem, sales from the European region grew by 9.6%. Meanwhile, sales from Japan continue to decline (-0.2%yoy), though at a slower pace. This marked the smallest year-on-year decrease since August 2012.



Source: SIA, WSTS



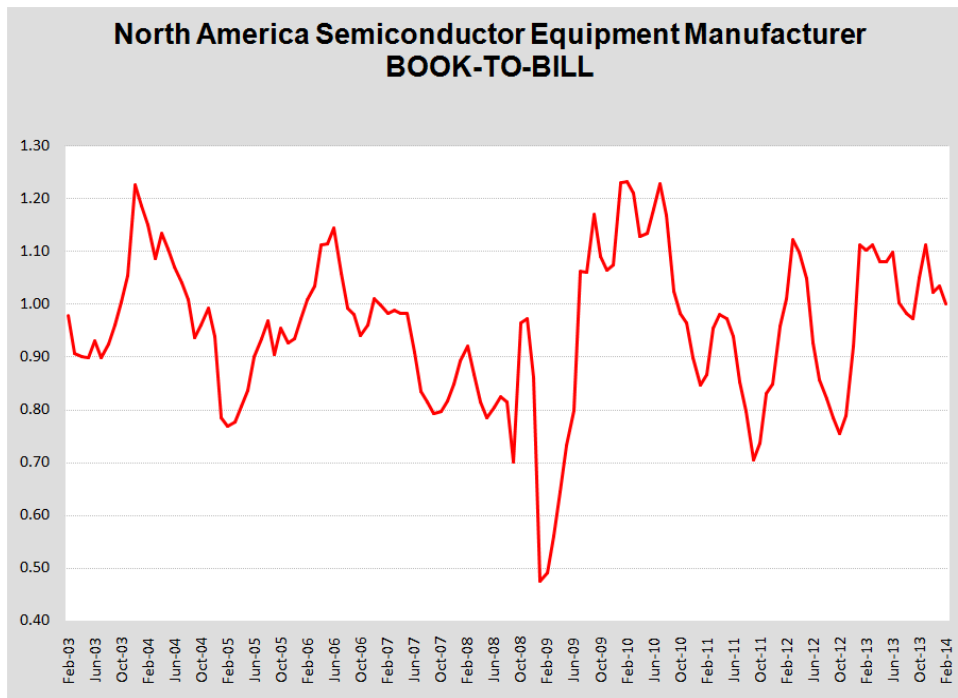
Source: SIA, WSTS

BOOK-TO-BILL (BTB) RATIO

The BTB ratio was lower for the month of February 2014, but was still at parity (i.e.1.0x). It remained at or above parity for the fifth consecutive month.

February 2014's bookings came in at USD1.29b, an increase of +20%yoy as compared to previous year corresponding period of USD1.08b. Sequentially, it is also slightly higher by +0.7%mom. Trending on the same path, billings also showed optimism, growing by a strong +32.3%yoy to USD1.29b. This translated into a sequential growth of +4.1%mom.

Higher bookings and billings figures indicate that manufacturers are allocating more funds to acquire fixed assets and/or upgrading their existing machineries to expand their existing operations. This implies that activities within the semiconductor industry remain bustling.



Source: SEMI

CONCLUSIONS

The semiconductor industry, as shown by the GSS, remains optimistic as of the second month of the year. Sales are backed by double digit growth in Americas and Asia Pacific regions.

While the BTB ratio is at parity, we note that both bookings and billings continue to grow. New technology products as well as expansion of production capacity could be the reasons behind the healthy capex funding.

On the local front, Globetronics (BUY, RM4.19) starts to manufacture new line of products this month. Being in a fast pace and competitive industry, we believe other local players also have strategies to roll out new products this year. Demand of smartphone devices is expected to remain robust in 2014. In terms of growth prospects, however, we expect exponential growth stemming from the demand of wearable devices. All in, we maintain our positive stance on the industry. 

Selected Semiconductor Stock

Stocks	Recomd'n	Price @4 March 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				13	14E	13	14E	13	14E	13	14E	13	14E
UNISEM	NEUTRAL	1.03	1.01	-15.6	7.3	<-100	47.0	-6.6	14.1	1.9	2.3	1.8	2.2
GLOBETRONICS	BUY	3.64	4.19	19.0	23.6	52.8	24.2	19.2	15.4	19*	19.0	5.2	5.2

Source: Bloomberg and MIDFR

* forecasts

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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.