

08 April 2015 | Sector update

## Semiconductor

**Maintain POSITIVE**

**Seasonal slowdown in February 2015 sales growth momentum**

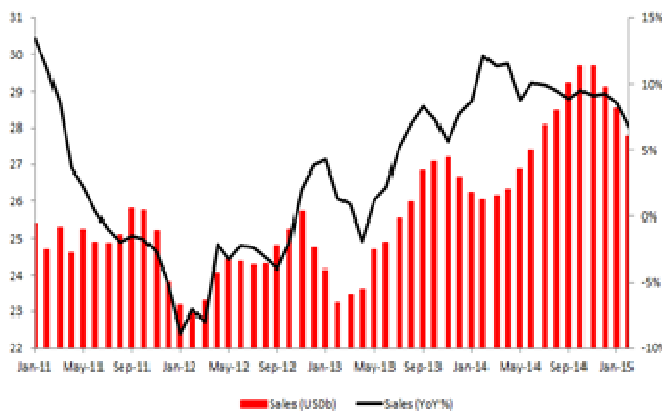
### INVESTMENT HIGHLIGHTS

- Growth in Global Semiconductor Sales (GSS) decelerated to +6.7%yoy in February 2015, signalling the start of seasonal weakness. Total sale remained above USD25b at USD27.8b.
- There is a noticeable divergence between the growth momentum in the Americas region versus that in Europe and Japan. Growth in the Asia Pacific region stays stable.
- Maintain POSITIVE on the semiconductor industry premised on strong demand from the automotive and communications segment

### REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – FEBRUARY 2015

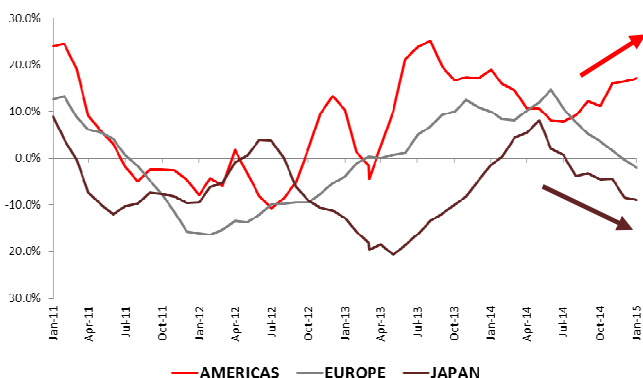
**Seasonal slowdown in sales growth.** GSS for the month of February 2015 came in at USD27.8b. Growth decelerated to +6.7%yoy in February, indicating a seasonal decline in momentum (we mentioned in our report dated 4<sup>th</sup> March 2015 that sales growth tends to dip in the first two months of the year). Sales had grown by more than +7%yoy for the past 14 consecutive months, peaking at +12.1%yoy in February 2014 (due mainly to the base effect). The bull run started in 2H13.

**Chart 1: Global semiconductor sales**

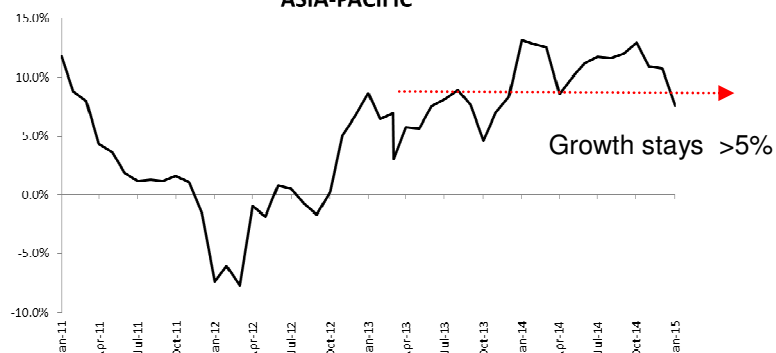


Source: SIA, MIDFR

**Chart 2: Regional sales growth (%)**



**ASIA-PACIFIC**



**Mixed regional sales performance.** The increase in February 2015 sales was mainly supported by expansion in the Americas and Asia-Pacific regions. Sales from both regions grew by +17.1%yoy and +7.6%yoy to USD6.2b and USD16.1b respectively. These two markets accounted for 80.4% of the global sales in February. The Americas region, in particular, achieved its largest year-on-year sales increase for the past 12 months. However, sales growth from the Americas and Asia Pacific regions were partly subdued by the lower contribution from the European and Japan regions, where sales contracted by -2.0%yoy and -8.9%yoy respectively.

To a large extent, the growth in semiconductor sales reflect the underlying growth in economic activity. It is therefore apparent in Chart 2 above, the divergence in terms of the growth performance of the Americas region versus the Europe and Japan markets. Growth in Asia Pacific remains stable.

We note that despite the slowdown in growth, the sales of 'DRAM' and 'Analog' products recorded double-digit growth in February 2015. These two products account for one-third of all semiconductor sale, and are important drivers for the industry.

**Free trade the key driver of the industry.** John Neuffer, president and CEO of Semiconductor Industry Association, attributed the growth in the semiconductor market for the past two years to free trade. He added that the US Congress should re-enact the Trade promotion Authority (TPA) pending several free trade agreements which are currently under negotiation.

**WSTS revised up 2015 and 2016 sales forecast.** The World Semiconductor Trade Statistics (WSTS), which forecasts semiconductor sales, based on SIA's statistics has upgraded its numbers for 2015 and 2016 in March. The world's semiconductor sales is now expected to grow at a faster pace of +4.9%, compared with 3.4% in 2015. In 2016, growth forecast is maintained at 3.1%, implying a higher sales value of USD363.3b compared with USD355.3b previously. Total sales for 2015 projected at USD352.3b implies an average monthly sales USD29.4b. This would be the threshold that we will be using to monitor the health of the industry.

By product category, sales growth from the automotive and communications segments is expected to outpace the total sales growth. In contrast, sales contributions from the consumer and computer segments are expected to grow only marginally.

Based on the revised figure, aggregate sales for the month of January and February 2015 accounted for 16.0% of WSTS full year forecasts for 2015. In comparison, sales for the first two months of 2014 made up 15.6% of full year 2014 sales.

**Higher sales proportion from the Americas and Asia Pacific regions.** Based on regional market basis, 2015 sales growth from the Americas and Asia Pacific regions is expected to accelerate to +15.0%yoy and +4.2%yoy respectively. On the contrary, WSTS is now expecting sales from the Europe and Japan regions to contract by -2.0%yoy and -3.7%yoy respectively. Making reference to the revised sales forecast, sales from the Americas and Asia Pacific region are expected to contribute 80% in aggregate as opposed to 78.4% in 2014.

**Table 1: WSTS forecast summary**

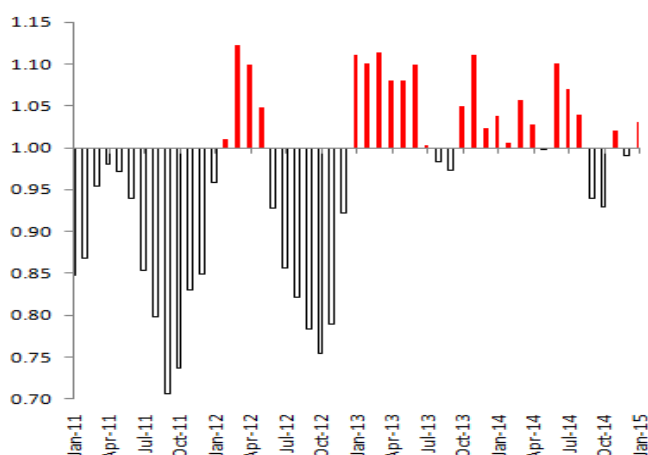
Autumn 2014 – Q4 update	Amounts (USD'm)				Year-on-year growth (%)			
	2013	2014	2015F	2016F	2013	2014	2015F	2016F
By Region								
Americas	61,496	69,234	79,725	82,298	13.1	12.7	15.0	3.2
Europe	34,883	37,459	36,700	37,877	5.2	7.4	-2.0	3.2
Japan	34,795	34,830	33,545	33,850	-15.2	0.1	-3.7	0.9
Asia Pacific	174,410	194,230	202,351	209,316	7	11.4	4.2	3.4
<b>Total World</b>	<b>305,584</b>	<b>335,843</b>	<b>352,321</b>	<b>363,342</b>	<b>4.8</b>	<b>9.9</b>	<b>4.9</b>	<b>3.1</b>
By Products								
Discrete Semiconductors	18,201	20,170	20,207	20,800	-4.9	10.8	0.2	2.9
Optoelectronics	27,571	29,868	32,493	33,613	5.3	8.3	8.8	3.4
Sensors	8,036	8,502	8,630	9,077	0.3	5.8	1.5	5.2
Integrated Circuits	251,776	277,302	290,991	299,852	5.7	101.0	4.9	3
Analog	40,117	44,365	48,019	49,781	2.1	10.6	8.2	3.7
Micro	58,688	62,072	62,547	63,617	-2.6	5.8	0.8	1.7
Logic	85,928	91,633	97,158	99,795	5.2	6.6	6.0	2.7
Memory	67,043	79,232	83,267	86,659	17.6	18.2	5.1	4.1
<b>Total Products</b>	<b>305,584</b>	<b>335,843</b>	<b>352,321</b>	<b>363,342</b>	<b>4.8</b>	<b>9.9</b>	<b>4.9</b>	<b>3.1</b>

Source: WSTS, MIDFR

## BOOK-TO-BILL (BTB) RATIO

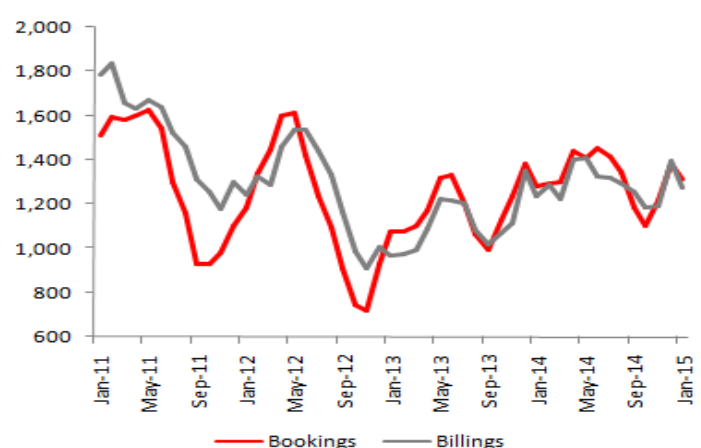
**Remained above parity in February 2015.** The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.02 for the month of February 2015. On a year-to-date basis, bookings and billings for North American semiconductor equipment are higher than last year for the same period. SEMI president and CEO Denny McGuirk commented that there is growth in bookings from the back-end sector.

**Graph 3: BTB ratio**



Source: SEMI, MIDFR

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



Source: SEMI, MIDFR

**Bookings maintained above the USD1,300 levels.** Semiconductor equipment bookings came in at USD1,308.1m for the month of February 2015. The bookings translates into a growth of +1.0%yoy as compared to bookings of USD1,295.4m recorded in February 2014. However, on a monthly sequential basis, bookings fell by -1.3%mom from USD1,325.6m in January 2015.

**Billings still growing on a year-on-year basis.** Billings for the month of February 2015 decreased by -0.9%yoy to USD1,277.1m. On a monthly sequential basis, billings decreased by -0.2%mom from January 2015 level of USD1,279.1m

**Future sales growth intact.** We are not surprised by the slowdown in monthly sales growth in February 2015 owing to seasonal factors. Moreover, GSS has been consistently outpacing itself for 22 consecutive months. We view that demand for semiconductor product to remain robust in the foreseeable term. Our view concurs with WSTS' which projected higher sales for 2015 and 2016. The positive sales growth for 2015 is expected to come from the automotive and communications segments. All in, we are reiterating our **POSITIVE** stance on the semiconductor industry.



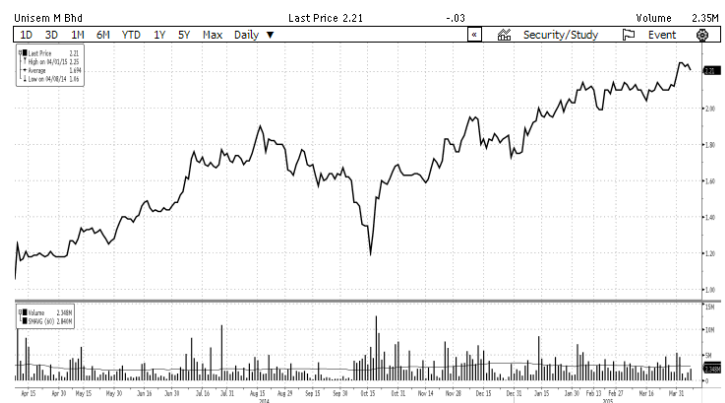
Selected Semiconductor Stock													
Stocks	Recom'd	Price @7 April 2015 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				14E	15F	14E	15F	14E	15F	14E	15F	14E	15F
UNISEM	BUY	2.21	2.37	13.9	16.1	37.5	15.2	15.9	13.7	8.5	9.5	3.8	4.3
GLOBETRONICS	NEUTRAL	5.47	5.45	28.7	32.0	25.1	11.5	19.1	17.1	23	25	4.2	4.6

Source: Bloomberg and MIDFR

## DAILY PRICE CHART: GLOBETRONICS



## DAILY PRICE CHART: UNISEM



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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	<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.