

04 September 2014 | Sector update

Semiconductor

Maintain POSITIVE

GSS continues to make new highs

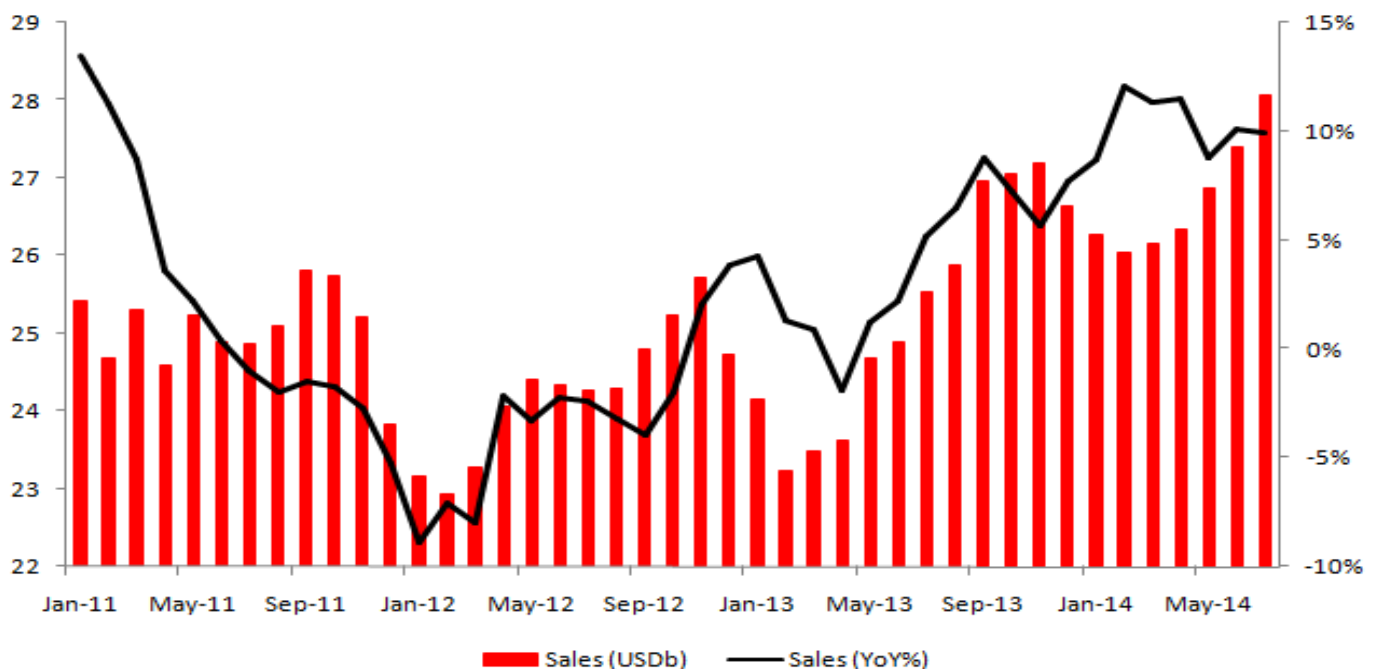
INVESTMENT HIGHLIGHTS

- Global semiconductor sales increased nearly +10%yoy to USD28.1b.
- Sales from the European region grew at the fastest pace since October 2010.
- Book-to-bill (BTB) ratio stayed above parity for the tenth consecutive months.
- Outlook for the semiconductor industry remains promising - Maintain POSITIVE on the sector.

REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – JULY 2014

Global sales of semiconductors topped USD28.1b in July 2014. GSS for the month of July 2014 advanced by +9.9%yoy to a peak of USD28.1b compared to USD25.5b in July 2013. This marked the industry's highest-ever monthly sales total. All regions posted better year-on-year sales for the fifth consecutive month since March 2014. Sales also increased across all semiconductor product categories. According to Semiconductor Industry Association (SIA), this signifies the market's broad and consistent strength.

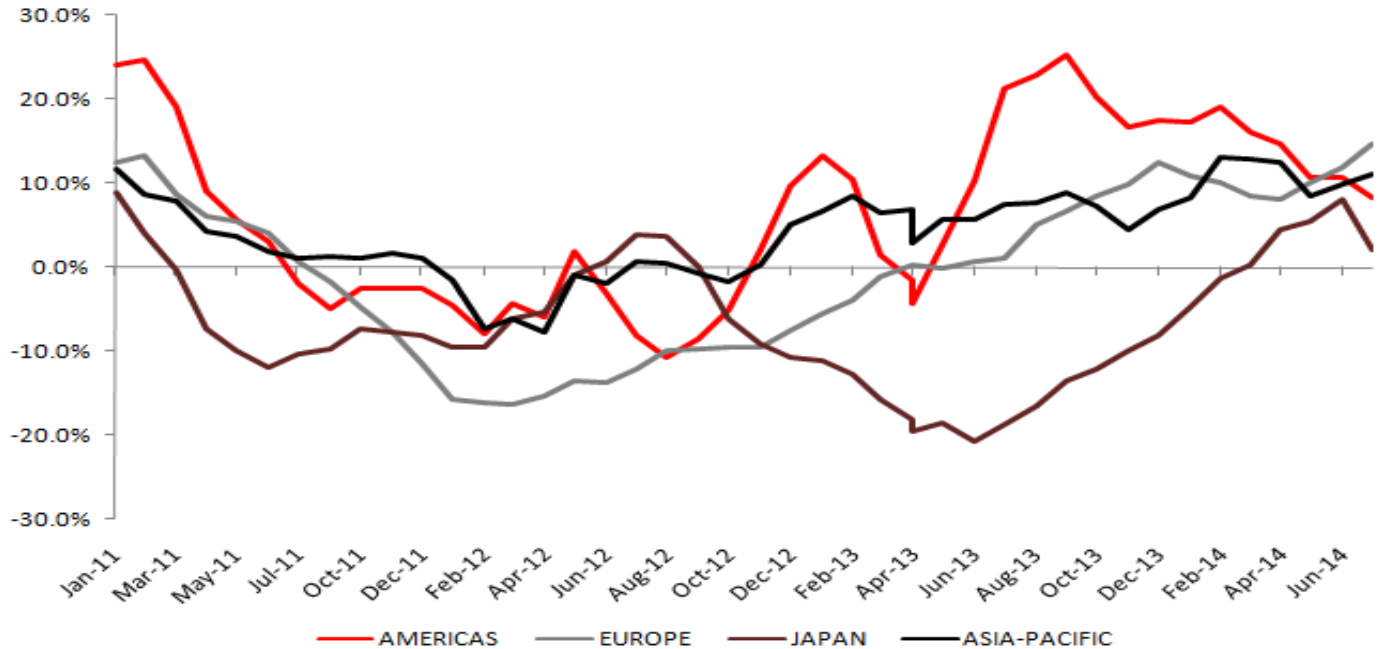
Graph 1: Global semiconductor sales



Source: SIA, MIDFR

Europe in the limelight. Europe recorded its strongest sales growth of +14.9%yoy to USD3.3b in July 2013. Such strength in sales was last seen in October 2010. Meanwhile, sales in the Asia Pacific region improved by +11.2%yoy to USD16.4b after slowing down in May 2014. Sales growth momentum from the Americas' reduced slightly in July 2014 to +8.1%yoy after maintaining double digit growth for the past 13 months. Japan, however, grew at the slowest pace, as compared to the other regions, at only +2.0%yoy to approximately USD3.0b. Despite the slower growth pace, sales in Japan have been showing positive growth for the fifth consecutive months.

Graph 2: Regional sales growth (%)

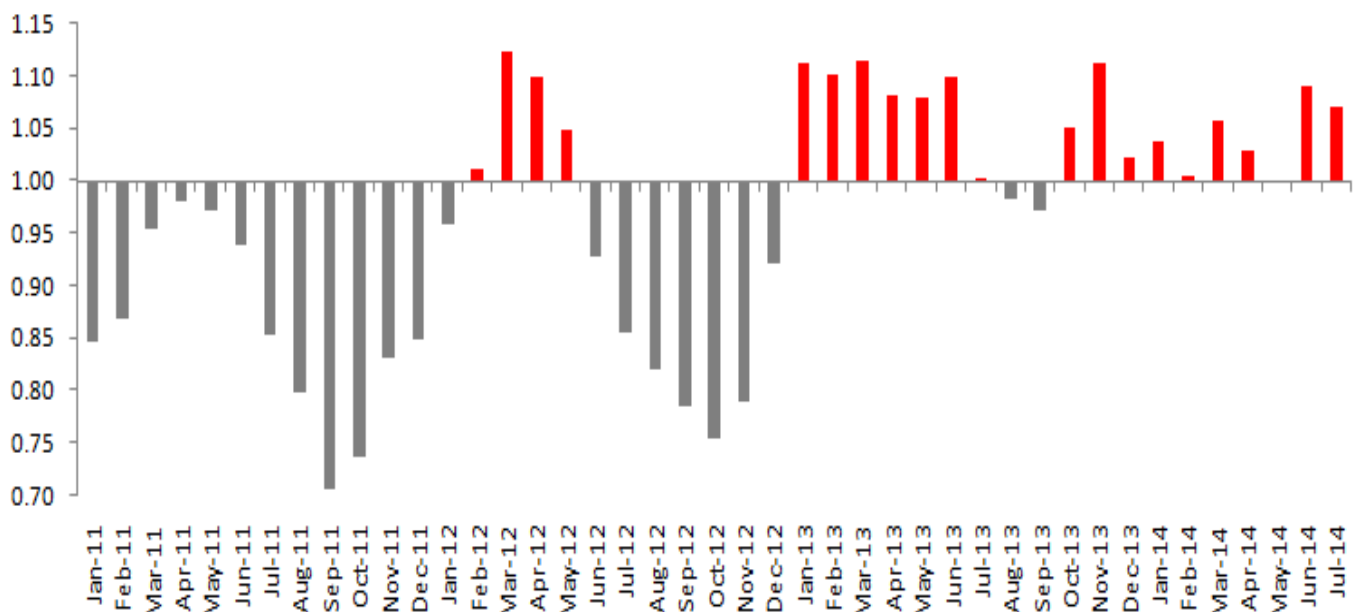


Source: SIA, MIDFR

THE BOOK-TO-BILL (BTB) RATIO

BTB ratio stayed above parity for the tenth consecutive months since October 2013. The North American-based manufacturers of semiconductor equipment posted a BTB ratio of 1.07x for the month of July 2014. On a monthly sequential basis, this was slightly below the 1.09x achieved in June 2014. Order activities remain at a steady level since the beginning of 2014. The Semiconductor Equipment and Materials International’s (SEMI) president and CEO, Denny McGuirk was quoted saying that *“this trend, along with improvements in semiconductor device sales and unit shipments, is consistent with our outlook for strong equipment sales growth this year.”*

Graph 3: BTB ratio

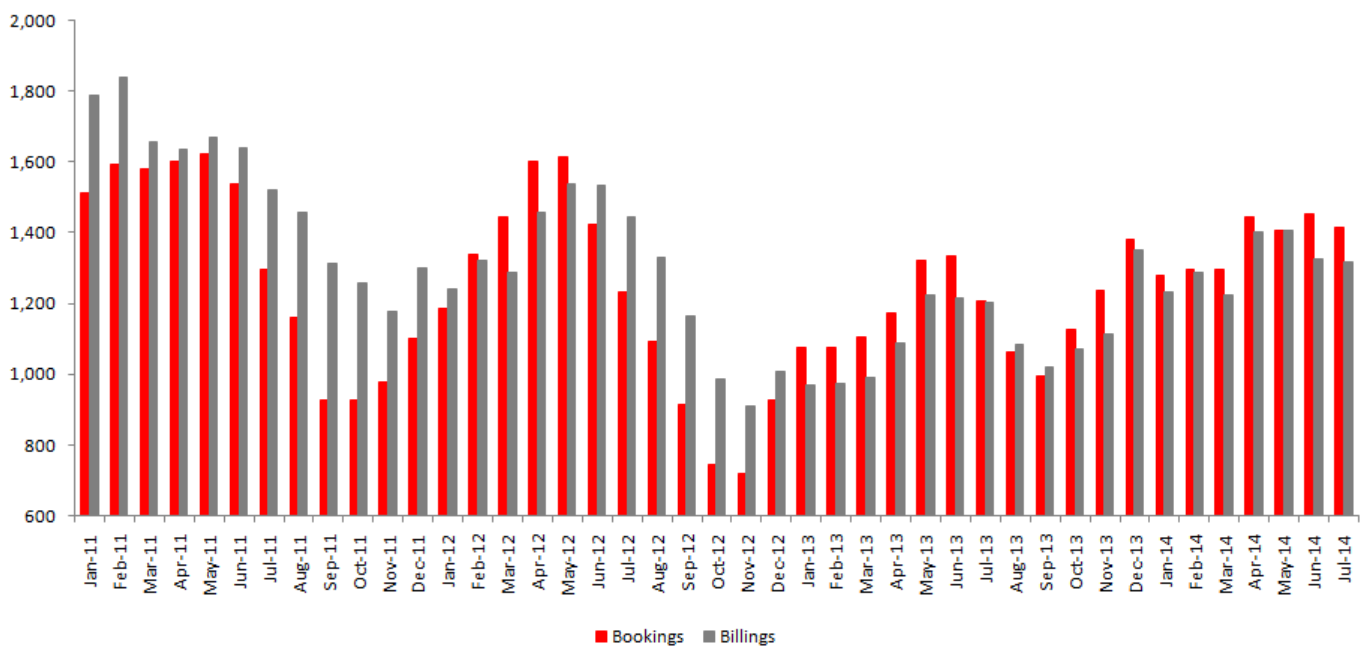


Source: SEMI, MIDFR

Bookings amounted to USD1,413.7m in July 2014. Semiconductor equipment bookings have remained above the USD1,400m level for the fourth consecutive months since April 2014. Bookings for the month of July 2014 translated into a growth of +17.1%yoy from USD1,207.2m in July 2013. However, on a monthly sequential basis, it was slightly lower (-2.8%qoq) compared to bookings made in June 2014 of USD1,455.0m.

Billings for the month of July 2014 stood at USD1,317.6m. Billings for the said month was +9.4%yoy higher as compared to July 2013 billings of USD1,204.0m. Billings have stayed at this level for the past two straight months. In May 2014 and April 2014, billings were higher at more than USD1,400m respectively.

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




Source: SEMI, MIDFR

CONCLUSIONS

Sales figures announced for July 2014 reiterates the bullish worldwide semiconductor sales trend. Following a new high, GSS has been above USD25b mark for 13 consecutive months. This signifies that the semiconductor industry has been enjoying its bull run since 2013. Region-wise, sales from Europe has picked up pace since May 2014. Sales from Japan, which was impacted by the devaluation of the Japanese Yen, has rebounded since March 2014, despite showing signs of weakening growth. Asia Pacific remains as the largest sales by region, in-line with historical trend.

The anticipated unveiling of the iPhone 6 and Samsung Galaxy Note 4 in the immediate term has kept the market and potential buyers buzzing with excitement. This would benefit semiconductor players along the supply chain as Apple and Samsung are placing new orders for component parts which will be embedded in these devices. As such, we are of the opinion that Malaysian-based semiconductor players which have substantial overseas exposures could possibly be among the potential beneficiaries.

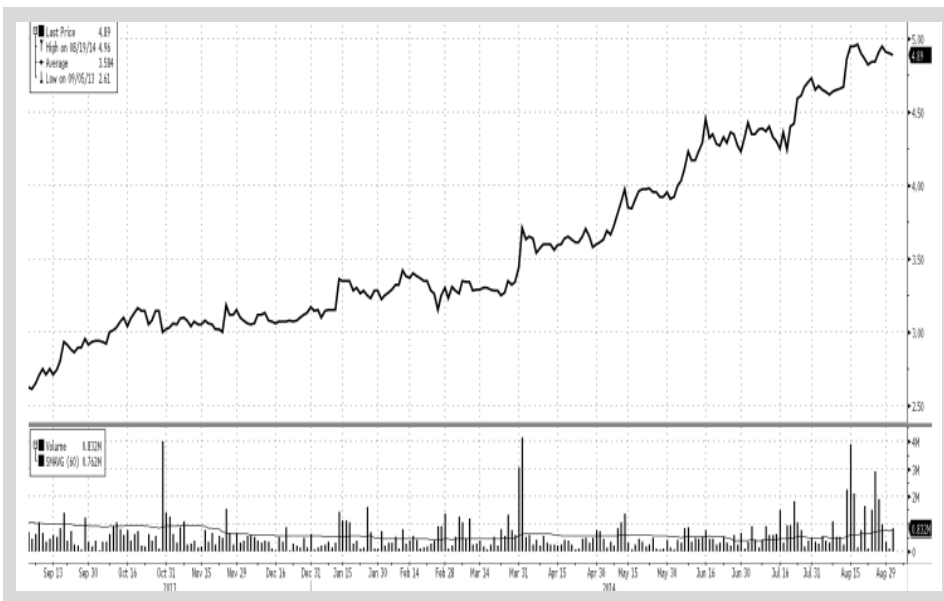
In addition, the adoption of smartphones remains one of the main catalysts to drive the sector. The transition from 2G to 3G and 4G will inevitably create stronger demand for low to mid-priced range smartphones, especially in emerging markets. As such, we are reiterating our **POSITIVE** stance on the semiconductor industry. Year-to-date, shares of both Globetronics and Unisem have appreciated by +54.3% and +65% respectively. 

Selected Semiconductor Stock

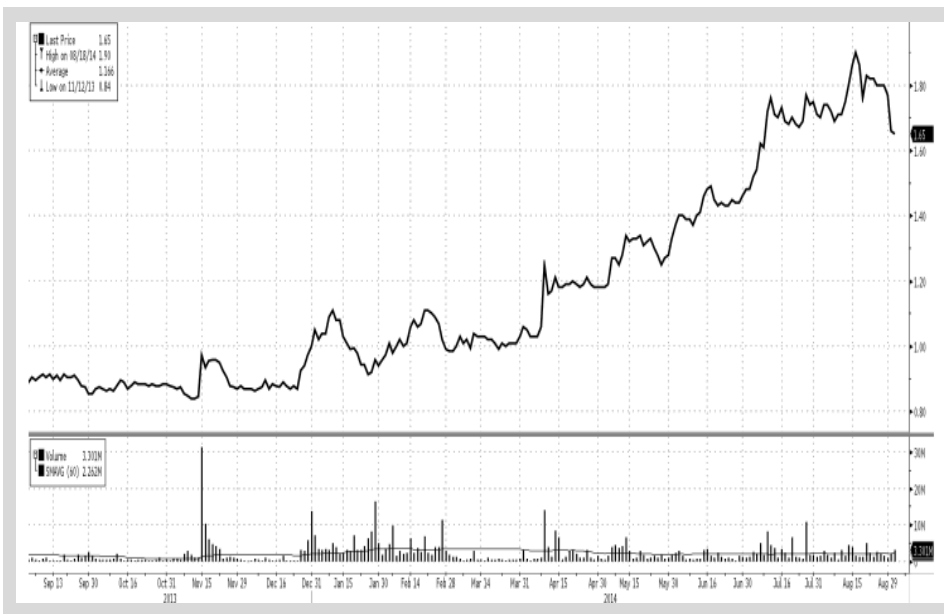
Stocks	Recomd'n	Price @4 August 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER (x)		DPS (sen)		Yield (%)	
				14E	15F	14E	15F	14E	15F	14E	15F	14E	15F
UNISEM	NEUTRAL	1.65	1.60	7.3	9.4	n.m.	28.1	22.6	17.6	2.5	2.5	1.5	1.5
GLOBETRONICS	BUY	4.89	5.45	24.3	29.3	28.0	20.4	20.1	16.7	21	23	4.3	4.7

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.