

04 December 2014 | Sector update

Semiconductor

Maintain POSITIVE

Record high again, 2015 sales forecast revised upwards

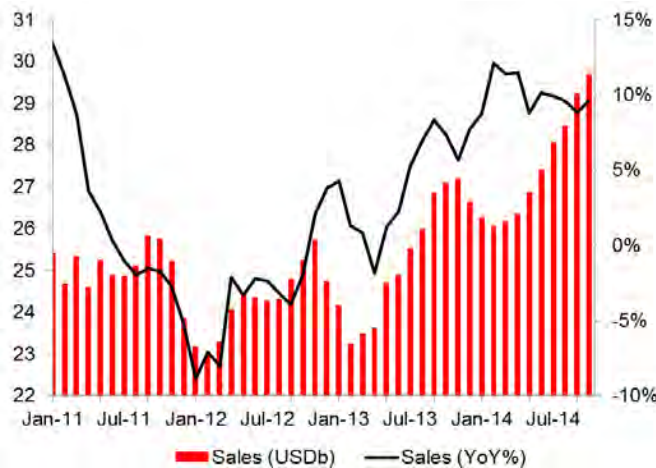
INVESTMENT HIGHLIGHTS

- Global semiconductor sales hit USD29.6b in October, consistently recording new highs in the past 18 months
- Cumulative 10-month sale grew double digit this year, mainly due to the Americas
- World Semiconductor Trade Statistics revised 2014-2016 sales target upwards by 1.4% to 2.5%
- Maintain POSITIVE for the semiconductor industry as overall outlook remains promising

REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – OCTOBER 2014

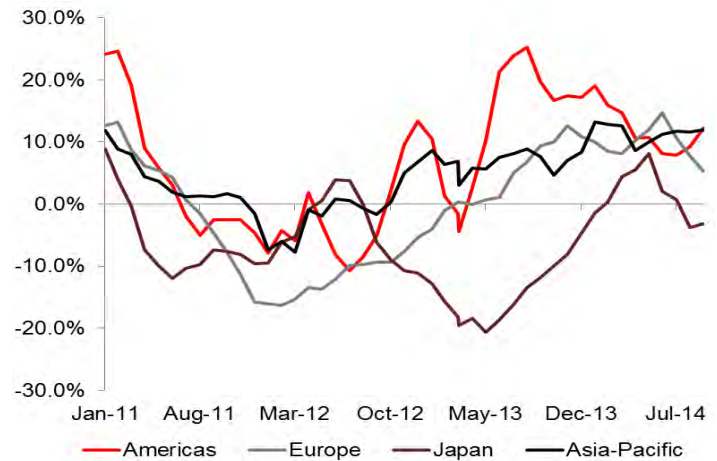
Push on with positive sales growth momentum. GSS for the month of October 2014 topped USD29.7b, an increase of +9.6%yoy. It has also exceeded the preceding month's sales of USD29.2b by +1.5%qoq. GSS has maintained its positive sales growth momentum for 18 consecutive months. According to SIA, "... the industry is well-positioned for a strong close in 2014".

Graph 1: Global semiconductor sales



Source: SIA, MIDFR

Graph 2: Regional sales growth (%)



Source: SIA, MIDFR

Double digit growth for cumulative 10M14. On a monthly cumulative basis, GSS amounted to USD274.5b. This is an increase of +14.0%yoy. Sales from the Americas advanced the most at +24.5%yoy to USD54.87b. This is followed by the Asia Pacific and European regions at +18.8%yoy and +11.8%yoy respectively. However, only sales from Japan trailed 2013's figure by -16.0%yoy. The growth in GSS kept pace with World Semiconductor Trade Statistics (WSTS) revised forecast, accounting for 84.4% of its full year estimates.

WORLD SEMICONDUCTOR TRADE STATISTICS (WSTS)

Upward revision in sales forecasts. WSTS is now anticipating higher global semiconductor sales for 2014, 2015 and 2016 to USD333.1b, USD344.5b and USD355.3b respectively. This is an increase in forecasts by +2.4%, +2.5% and +1.4% respectively. The higher sales revision was made for the Americas (+4.7%) and Asia Pacific (+1.9%yoy) regions. Sales from Japan are expected to show a slight increase of +1.3%yoy this year. Subsequent to the revision, all product categories are expected to record higher sales. Highest growth rates are seen for the memory (+17.3%yoy), discretets (+12.3%yoy) and analog (+10.3%yoy) product categories. Growth will be mainly supported by the smartphones and automotive markets.

Growth in 2015 and 2016 expected to moderate. Although WSTS is expecting a strong sales growth (+9.0%yoy) in 2014, it opined that sales for 2015 and 2016 will grow at a slower pace instead. This is mainly due to its expectations of further global macro recovery throughout the entire forecasted periods. The automotive and communications market are expected to grow at a stronger pace than the total market. Meanwhile, the consumer and computer markets are expected to remain stagnant.

Table 1: WSTS forecast summary

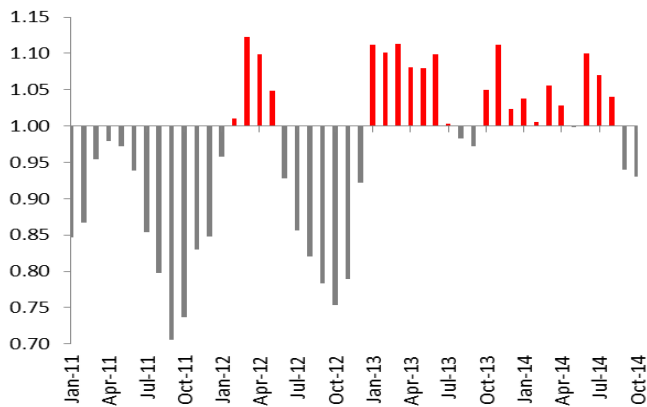
Autumn 2014	Amounts (USD'm)				Year on year growth (%)			
	2013	2014E	2015F	2016F	2013	2014E	2015F	2016F
By Region								
Americas	61,496	65,763	69,274	71,432	13.1	6.9	5.3	3
Europe	34,883	37,923	38,491	39,732	5.2	8.7	1.5	3.2
Japan	34,795	35,239	35,133	35,452	-15.2	1.3	-0.3	0.9
Asia Pacific	174,410	194,226	201,648	208,656	7	11.4	3.8	3.5
Total World	305,584	333,151	344,547	355,272	4.8	9.0	3.4	3.5
By Products								
Discrete Semiconductors	18,201	20,441	21,347	21,980	-4.9	12.3	4.4	3
Optoelectronics	27,571	29,498	30,958	31,983	5.3	7.0	4.9	3.3
Sensors	8,036	8,627	9,151	9,624	0.3	7.4	6.1	5.2
Integrated Circuits	251,776	274,586	283,090	291,685	5.7	9.1	3.1	3
Analog	40,117	44,217	47,429	49,175	2.1	10.2	7.3	3.7
Micro	58,688	62,211	63,144	64,240	-2.6	6.0	1.5	1.7
Logic	85,928	89,547	91,488	93,927	5.2	4.2	2.2	2.7
Memory	67,043	78,611	81,029	84,343	17.6	17.3	3.1	4.1
Total Products	305,584	333,151	344,547	355,272	4.8	9.0	3.4	3.1

Source: WSTS, MIDFR

BOOK-TO-BILL (BTB) RATIO

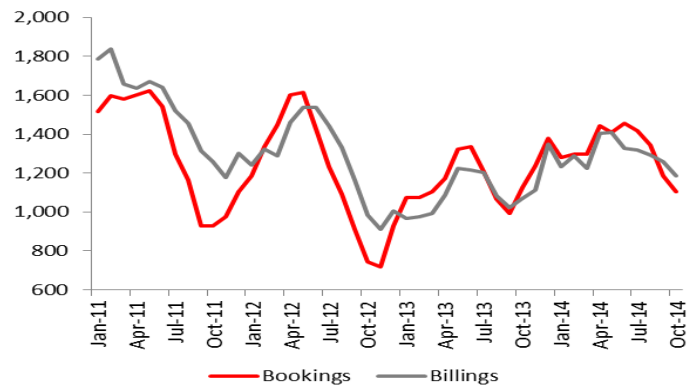
Cyclical downturn. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.93x mainly due to slower order activity. BTB ratio continues to be below parity (sub-1x) for the second consecutive month. We are not perturb by this as spending in semiconductor equipment usually soften towards the end of the year. However, an anomaly was observed in 2013 when the industry moved into the upcycle phase.

Graph 3: BTB ratio



Source: SEMI, MIDFR

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




Source: SEMI, MIDFR

Subdued bookings and billings in October 2014. The three-month worldwide bookings average in October 2014 came in at USD1.1b. This translates into a decrease of -1.9%yoy and -7.0%qoq. On the other hand, billings improved on a year-over-year basis by +10.6%yoy to USD1.2b. However, this is still lower by -5.8%qoq as compared to the preceding month.

CONCLUSIONS

SIA continues to post optimistic sales figures with October 2014 recording the highest monthly sales. GSS has been consistently outpacing itself for the 18 consecutive months. At this juncture, this level of optimism is expected to continue into 2015 and 2016 as concurred by WSTS which had revised the sales projections upward across all regions including for Japan. The positive growth will be mainly attributable to higher demand from the smartphones and automotive industries.

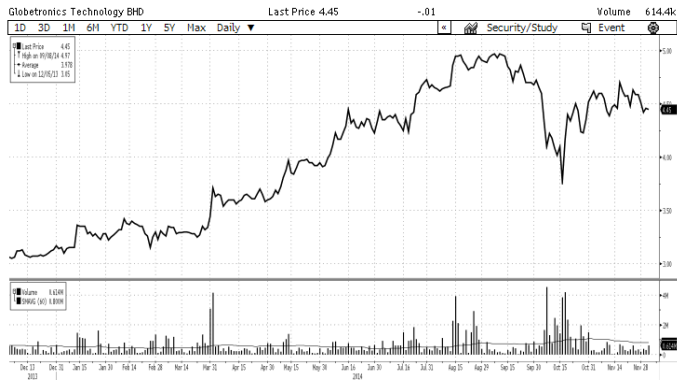
In the foreseeable term, the adoption of smartphones remains one of the key driving catalysts for the sector. The transition of 2G to 3G and 4G will inevitably create stronger demand of low to mid-priced smartphones, especially in emerging markets. Thus, affordability of these smartphones also serves 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

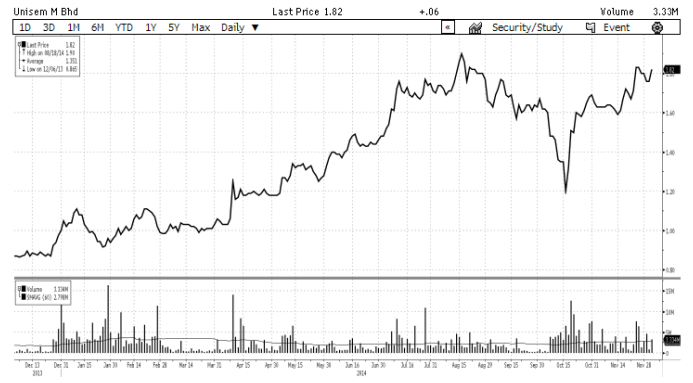
Stocks	Recomd'n	Price @3 December 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				14E	15F	14E	15F	14E	15F	14E	15F	14E	15F
UNISEM	BUY	1.82	2.45	9.3	14.4	n.m.	55.5	19.6	12.6	2.5	2.5	1.4	1.4
GLOBE' TRONICS	BUY	4.45	5.45	24.3	29.3	28	20.4	18.3	15.2	21	23	4.7	5.2

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.