

05 November 2014 | Sector update

## Semiconductor

**Maintain POSITIVE**

**New high of USD29b in September**

### HIGHLIGHTS

- Global semiconductor sales hit a new high of USD29b in September 2014, also its seventh consecutive month of expansion.
- Sales in 3Q14 of USD85.5b has set a new quarterly benchmark.
- Book-to-bill ratio fell below parity in September, but this is seasonal.
- Outlook for the semiconductor industry remains promising - maintain POSITIVE on sector

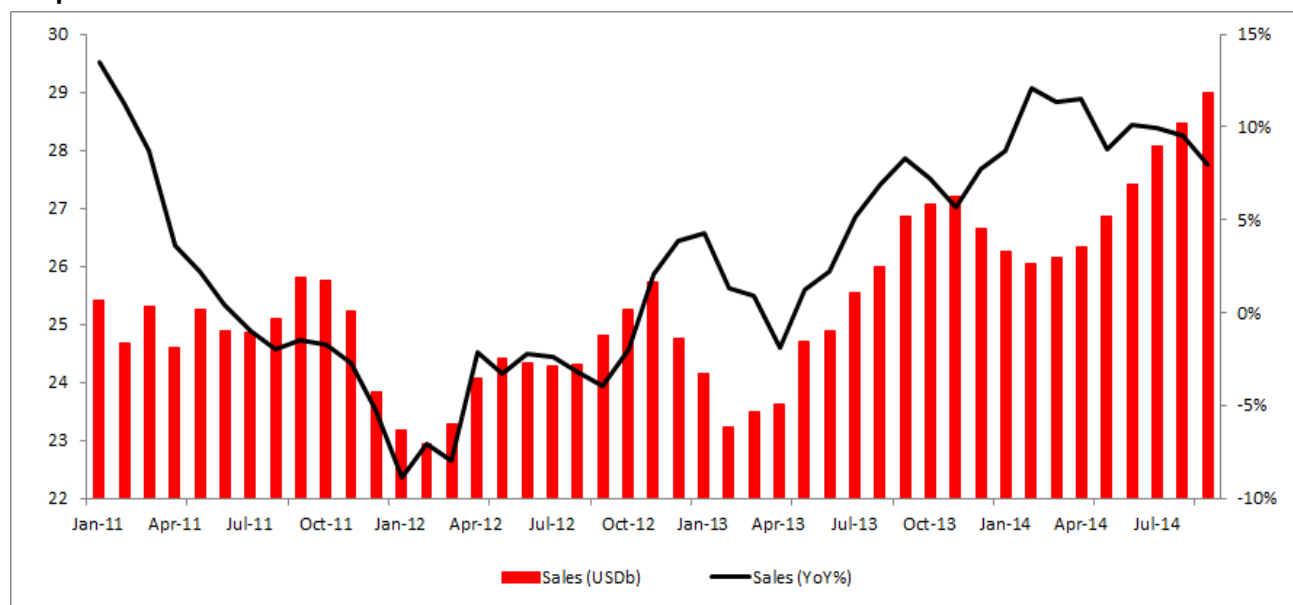
### REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS)

**GSS continues to outperform.** GSS for the month of September 2014 hit a new high of USD29b, the fourth month in a row that records have been broken. This translates into an increase of +8%yoy as compared to USD26.9b attained in September 2013. In terms of value, GSS had grown for seven consecutive months since March 2014.

For the first nine months of 2014, GSS amounted to USD244.6b, an increase of 10.0%yoy. That is significantly outpacing the Semiconductor Industry Association's (SIA) 2014 projected growth of 6.5%. For 2015, the SIA has projected a growth of 3.3%. We believe that this is attainable.

**Highest quarterly sales.** 3Q14 GSS amounted to USD85.5b, a new quarterly benchmark. This is an increase of +9.2%yoy from USD78.4b in 3Q13. The SIA opined that the "year-to-year growth has been strong across nearly all semiconductor product categories, with DRAM and Analog leading the way".

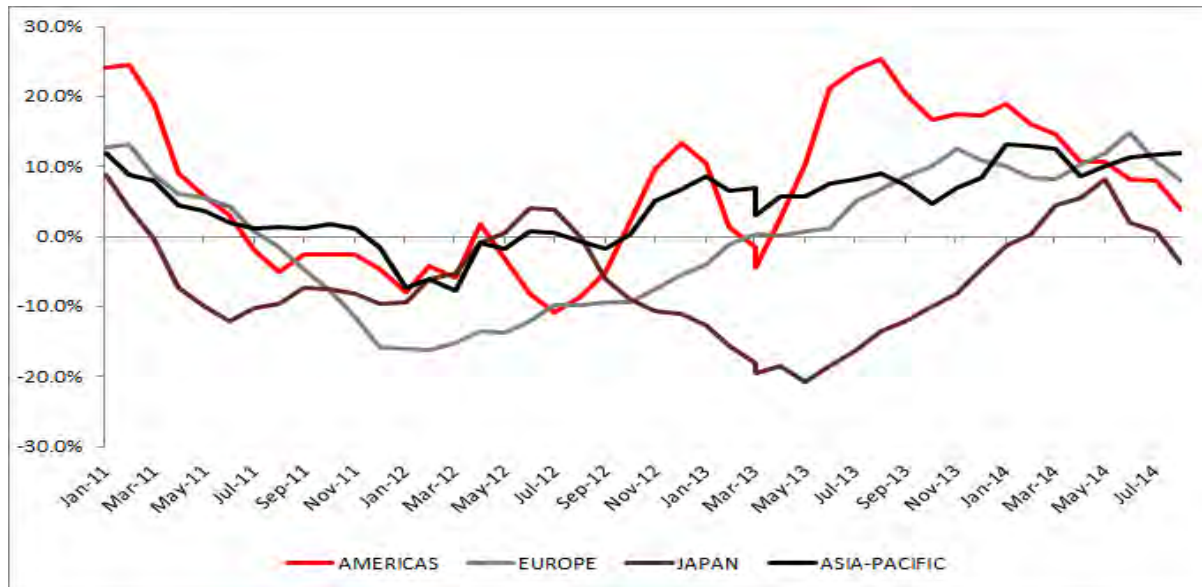
**Graph 1: Global semiconductor sales**



Source: SIA, MIDFR

**Sales from Japan retraced.** After recording six consecutive months of growth on a year-on-year basis, sales from Japan declined -3.8%yoy to USD3.1b. However the contraction was offset by higher sales from Americas, Europe and Asia Pacific which continued to ascend for the 17<sup>th</sup> month. The Asia Pacific region, in particular, has been able to maintain double digit growth for the past four months since June 2014.

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

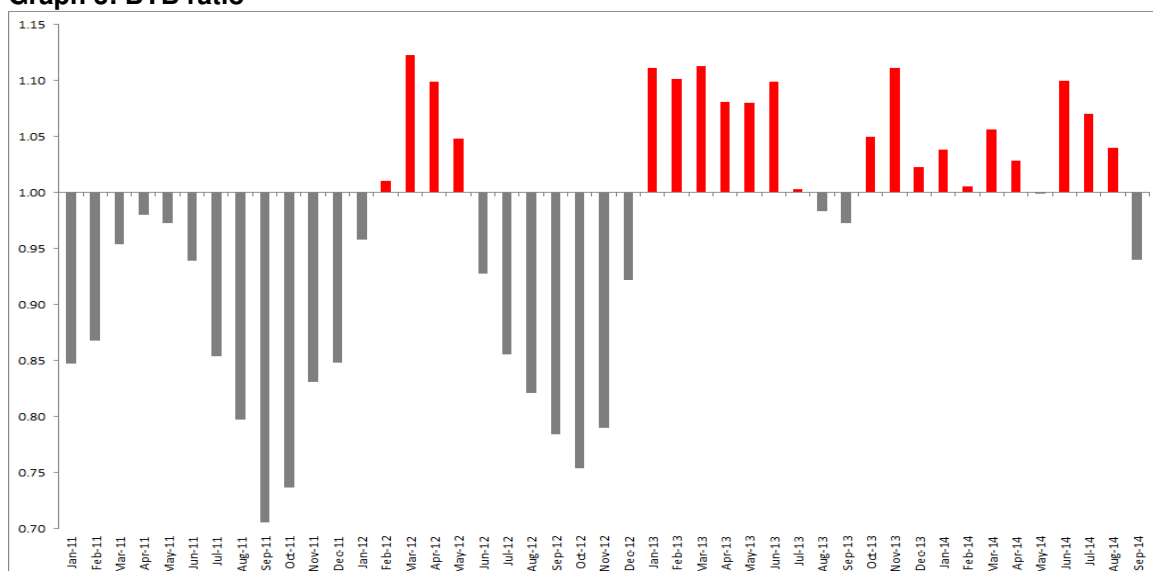


Source: SIA, MIDFR

## THE BOOK-TO-BILL (BTB) RATIO

**A seasonal downtrend.** The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.94x. This is the first time in 2014 that BTB ratio dropped below parity. However, we are not overly concerned as BTB ratio usually weakens during the month of September in-line with the trend in the past five years. Semiconductor Equipment and Materials international (SEMI) commented that “while order activity moderated, equipment spending this year expected to be robust and remain on pace for double-digit year-over-year growth”.

**Graph 3: BTB ratio**

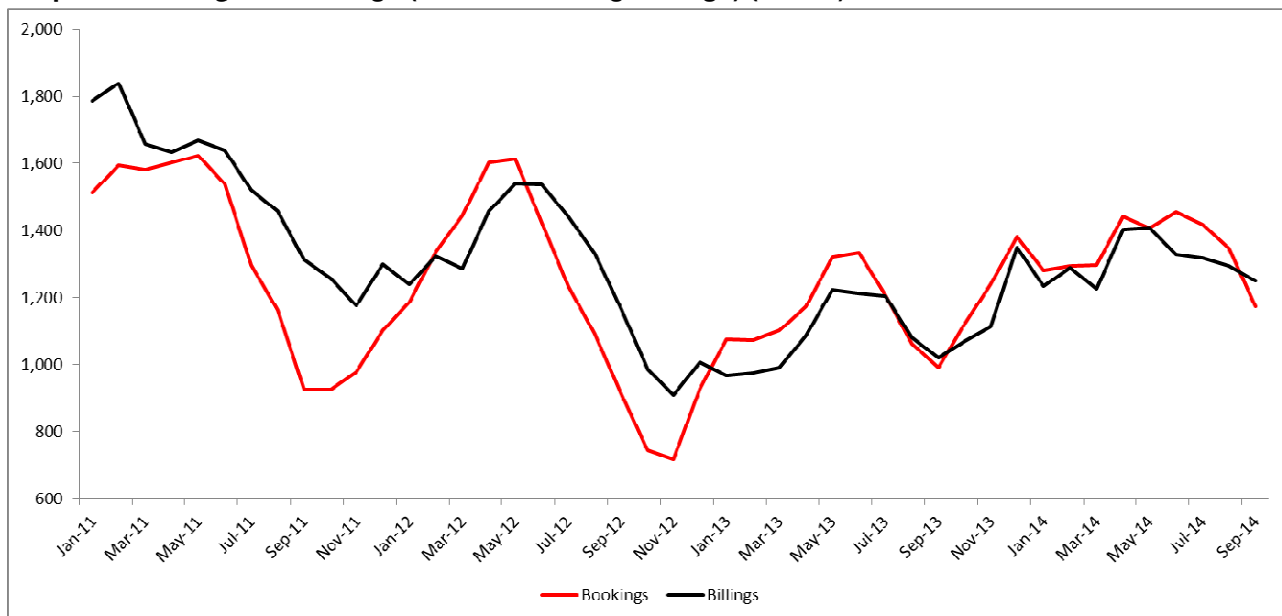


Source: SEMI, MIDFR

**Double digit growth in bookings for three consecutive months.** Semiconductor equipment bookings came in at USD1,172.8m for the month of September 2014. This translates into a growth of +18.1%yoy from USD992.8m recorded in September 2013. On a monthly sequential basis however, bookings decreased by -12.9%qoq to average levels achieved in 2013.

**Billings stands at US1,250.4m.** September 2014 billings grew by +22.5%yoy from USD1,020.9m recorded September 2013. However, billings slowed down by -3.3%qoq from USD1,293.3m as compared to August 2014.

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



Source: SEMI, MIDFR

## CONCLUSIONS

SIA continue to post optimistic sales figures with September 2014 recording the highest monthly sales. It outperformed the previous peak of USD28.4b achieved in August 2014. Following a new high, GSS has been above USD25b mark for 15 consecutive months. Despite a slowdown in sales from Japan, other regions continue to show positive sales growth.

In the foreseeable term, adoption of smartphone remains one of the main catalysts to drive the sector. The transition of 2G to 3G and 4G will inevitably create stronger demand of low to mid-priced range smartphone, especially in emerging markets. On a longer time horizon, the availability and acceptance of wearable devices are expected to extend the positive vibe in the industry. As such, we are reiterating our **POSITIVE** stance on the semiconductor industry. This is reflected in our BUY recommendation for both semiconductor stocks in our portfolio.



## Selected Semiconductor Stock

Stocks	Recomd'n	Price @4 November 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	1.63	2.45	9.3	14.4	n.m.	55.5	17.5	11.3	2.5	2.5	1.5	1.5
GLOBETRONICS	BUY	4.62	5.45	24.3	29.3	28	20.4	19.0	15.8	21	23	4.5	5.0

Source: Bloomberg and MIDFR

## DAILY PRICE CHART – GLOBETRONICS



## DAILY PRICE CHART – UNISEM



Z.Hamzah  
 Martin Foo Chuan Loong  
 martin.foo@midf.com.my  
 03 – 2173 8354

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(Bank Pelaburan)

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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.