

07 October 2014 | Sector Update

Semiconductor Sector

Maintain POSITIVE

GSS sustains its growth trend

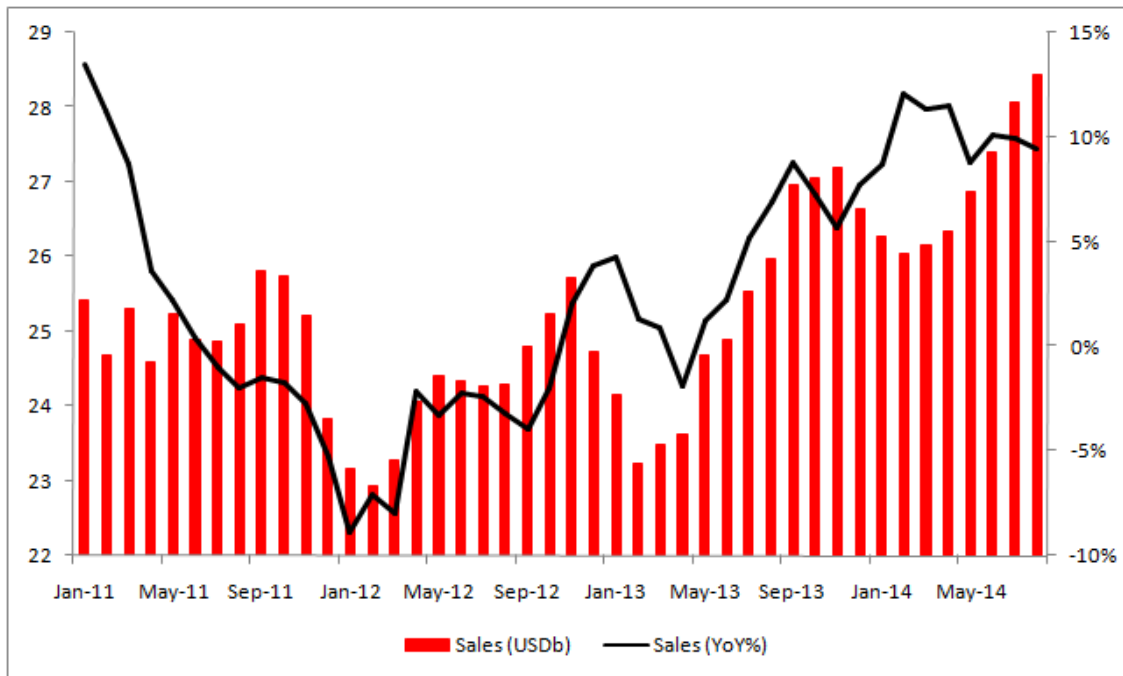
INVESTMENT HIGHLIGHTS

- August 2014 sales topped USD28.4b, outperforming July 2014's all-time high sales level of USD28.1b
- All regions recorded higher sales except Japan
- Demand for semiconductor equipment mainly came from the fab and test assembly segment
- Outlook for the semiconductor industry remains rosy - maintain POSITIVE stance on sector

REVIEW OF GLOBAL SEMICONDUCTOR SALES (GSS) – AUGUST 2014

GSS continues its uptrend. GSS for the month of August 2014 topped USD28.4b. This translates into an increase of +9.5%yoy in comparison with USD26.0b achieved in August 2013. On a monthly sequential basis, the GSS outperformed July 2014's all-time high sales level of USD28.1m by +1.2%qoq. GSS has been on a continuous upward movement for six consecutive months. The Semiconductor Industry Association (SIA) in its latest press release commented that "sales remain well ahead of last year's pace". This is partly attributable to the continued strength in the Americas market. Demand is strong across nearly all semiconductor product categories.

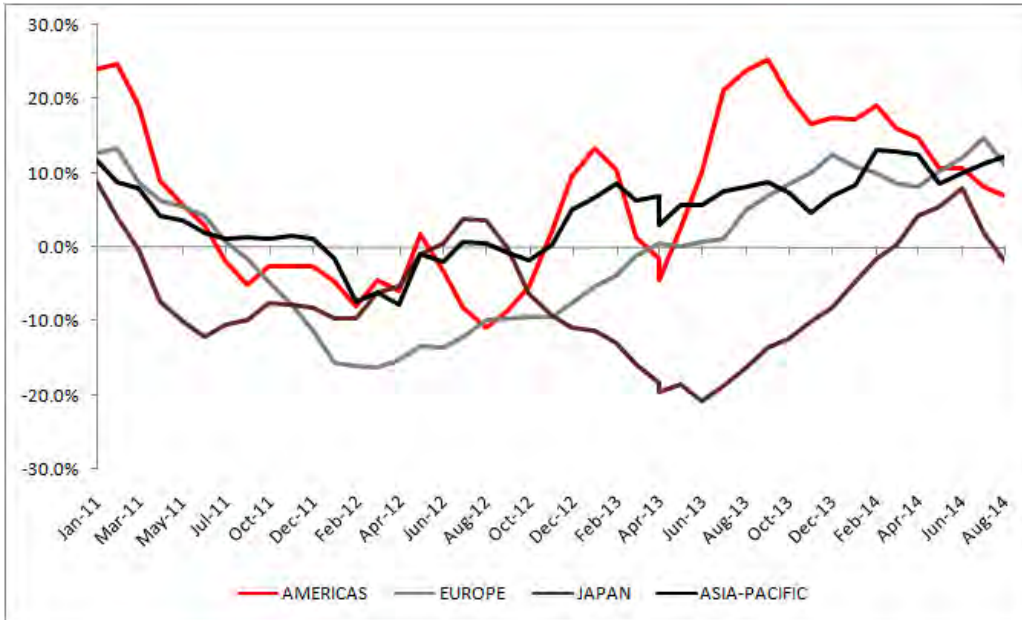
Graph 1: Global semiconductor sales



Source: SIA, MIDFR

Japan failed to keep pace with global uptrend. All regions recorded higher sales except for Japan. Conversely, sales from Japan dropped -2.0%yoy to USD3.0b in August 2014 after recording consistent sales growth for the previous five consecutive months (since March 2014). Meanwhile, all other regions continue to record higher sales for 15 consecutive months. For the month of August 2014, sales from the Americas, Europe and Asia Pacific regions have increased by +6.9%yoy, +11.0%yoy and +12.3%yoy respectively.

Graph 2: Regional sales growth (%)

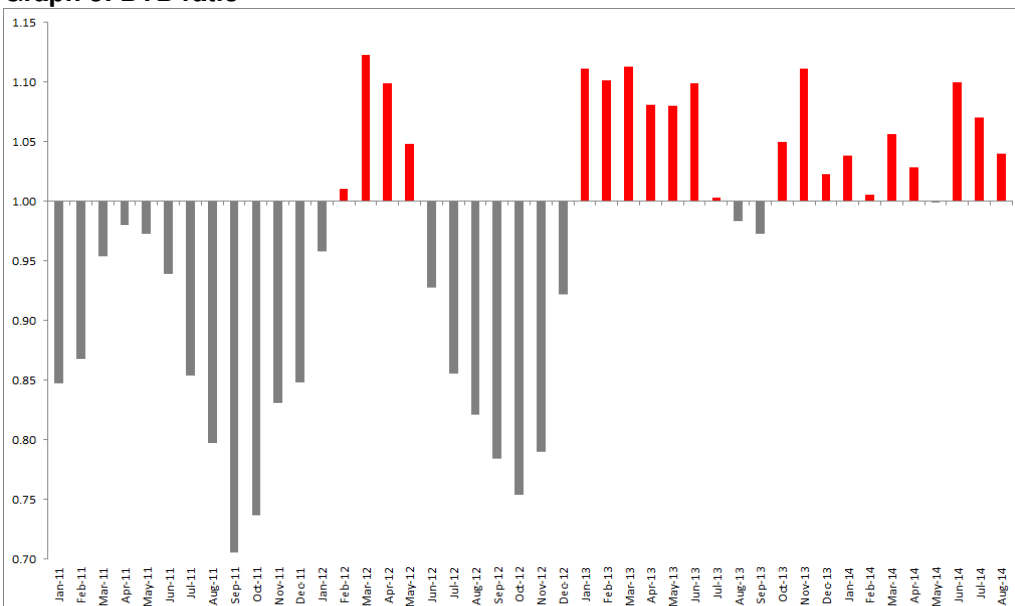


Source: SIA, MIDFR

THE BOOK-TO-BILL (BTB) RATIO

August 2014 BTB ratio still above parity. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.04x for the month of August 2014. This is an improvement as compared to 0.98x achieved in August 2013. BTB ratio has been above parity for the 11th consecutive month. On a sequential monthly basis, the August 2014's BTB ratio registered its third consecutive drop after reaching its highest peak of 1.07x for the year in July 2014. However, this is in-line with historical trends for the past five years where August BTB ratios are normally lower than July's BTB ratios. According to SEMI, "strong equipment spending growth for the year is observed across the fab and test and assembly segments".

Graph 3: BTB ratio

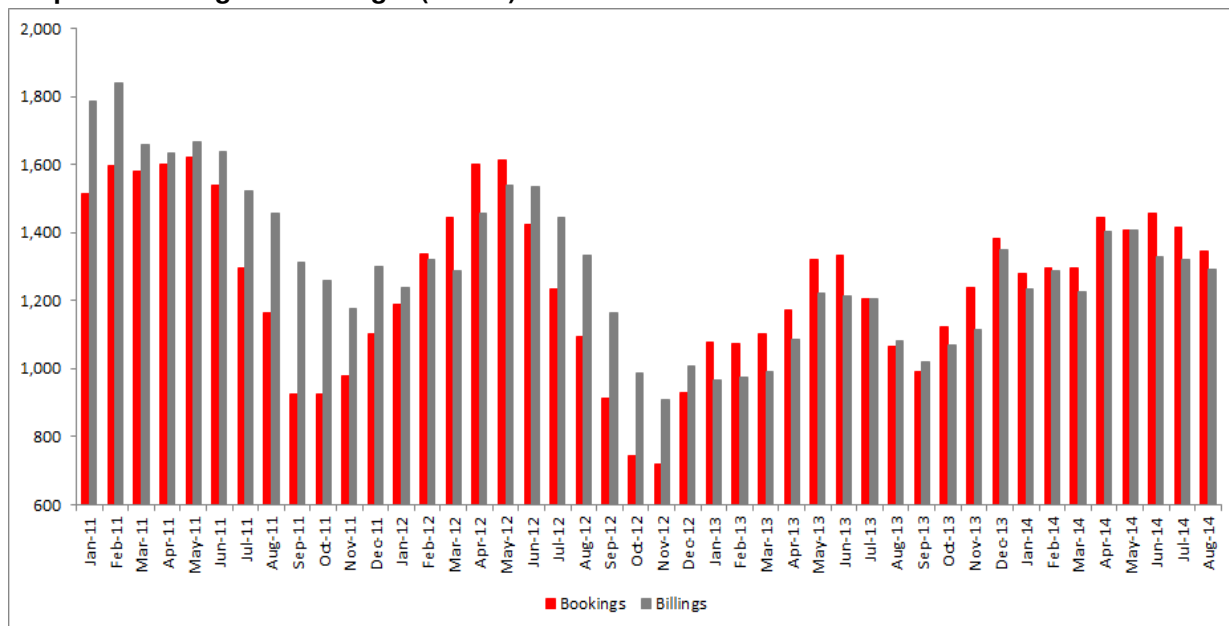


Source: SEMI, MIDFR

Lower bookings in August 2014. Semiconductor equipment bookings came in at USD1,346.2m in August 2014. This translates into a growth of +26.5%yoy from USD1,063.9m in August 2013. On a monthly sequential basis, bookings decreased by -5.0%qoq after topping USD1,417.1m in July 2014. However, this is still higher than 2013 average bookings of USD1,174.1m.

Billings came in at USD1.3b. Billings in August 2014 came in at USD1,293.3m. This is higher by +19.5%yoy as compared to August 2013 billings of USD1,081.9m. However, billings slowed down by -2.0%qoq from USD1,319.1m in July 2014.

Graph 4: Bookings and billings* (USDm)



*3-month moving average

Source: SEMI, MIDFR

CONCLUSIONS

SIA posted an optimistic sales figure for the month of August 2014. It surpassed the previous peak of USD28.1b achieved in July 2014. Following a new high, GSS has been above USD25b mark for 14 consecutive months. This signifies that the semiconductor industry has been enjoying its bull run since 2013. Most of the regions continue to recorded higher sales except for Japan.

The launch of iPhone 6 and iPhone 6 Plus in September 2014 proved to be a success with approximately 10m units sold during its opening weekend. The sales outperformed the company's 2013 iPhone 5 launch weekend which topped 9m units. In addition, according to online sources, it appears that Apple is near to reaching 20m iPhone 6 and iPhone 6 Plus sales mark. Such optimism is expected to benefit semiconductor players within Apple's supply chain. As such, we opine that Malaysian-based semiconductor players which have substantial overseas exposures could possibly be among the potential beneficiaries.

The adoption of smartphone by consumers remains one of the main driving catalysts for the sector. The transition of 2G to 3G and 4G will inevitably create stronger demand of low-to-mid priced range smartphones, especially in emerging markets. Meanwhile, there is an influx of new smartphone models such as Apple's iPhone and Samsung's Galaxy Note to sustain consumer interest on the premium segment. 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.



Selected Semiconductor Stock

Stocks	Recomd'n	Price @3 October 2014 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				14E	15F	14E	15F	14E	15F	14E	15F	14E	15F
UNISEM	NEUTRAL	1.62	1.6	7.3	9.4	n.m.	28.1	22.2	17.2	2.5	2.5	1.5	1.5
GLOBETRONICS	BUY	4.6	5.45	24.3	29.3	28	20.4	18.9	15.7	21	23	4.6	5.0

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.