

09 July 2014 | Sector update

Semiconductor

Maintain POSITIVE

GSS on track to meet 2014 target

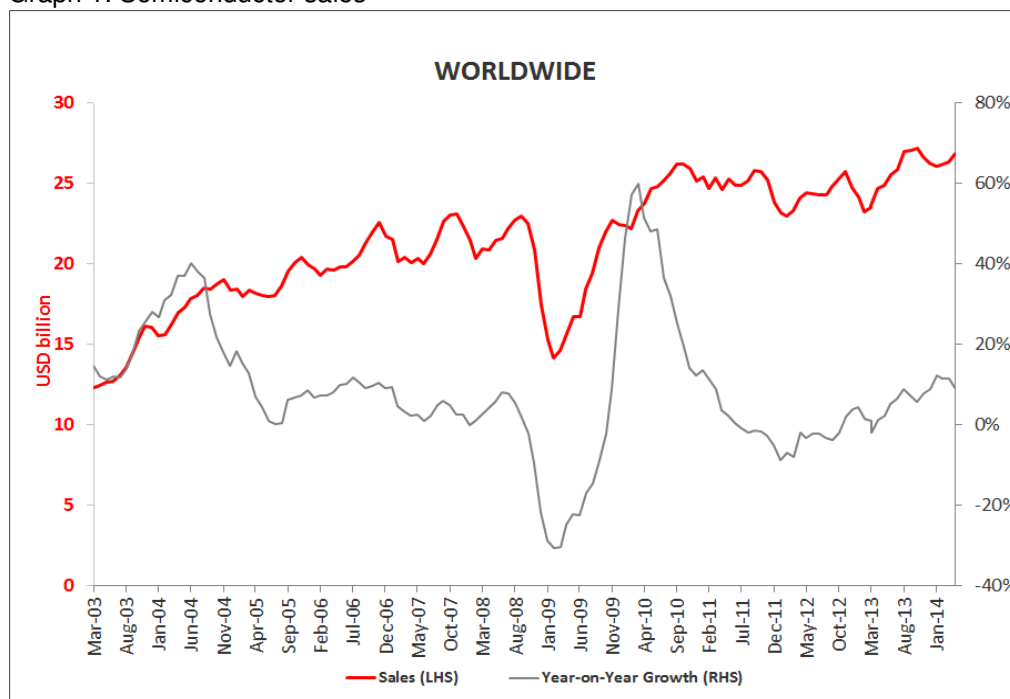
INVESTMENT HIGHLIGHTS

- **May 2014 sales figure grew by +8.8%yoy to USD26.9b**
- **All regions recorded higher sales volume**
- **DRAM and analog products led the growth in May 2014**
- **Outlook for the semiconductor industry remains promising - maintain POSITIVE on sector**

5M14 GSS achieved 40.5% of WSTS' full year sales target. Up to May 2014, Global Semiconductor Sales (GSS) sales made up 40.5% of the World Semiconductor Trade Statistics' (WSTS) full year target of USD325.4b. On a cumulative basis up to May 2014, GSS has increased by USD12.5b or +10.5% compared with 5M13 to hit USD131.7b. GSS has been showing commendable growth for the past 13 months since May 2013. For the month of May 2014, GSS climbed to USD26.9b. This translates into an increase of +8.8%yoy and +2.0%qoq. All regions continue to record higher sales. Meanwhile, almost all of the product categories, especially DRAM and analog products, showed commendable increase in sales figure.

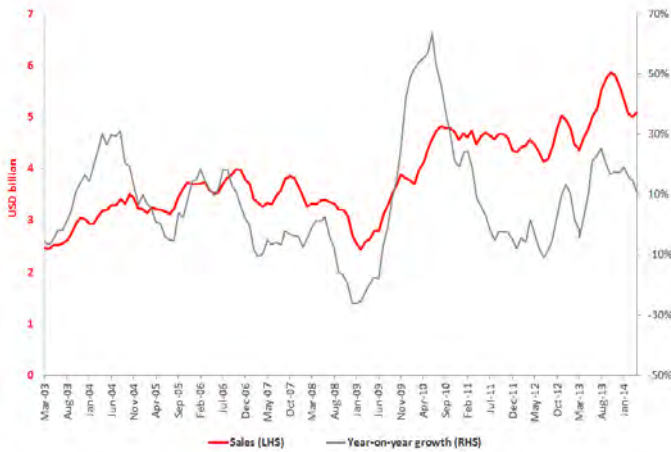
The Americas continue to record double digit growth. Sales figure for the month of May 2014 came in at USD5.1b, an increase of +10.7%yoy. Sales from this region have been showing consistent double digit growth for the past 12 months since June 2013. Meanwhile, sales from Europe and Japan has been picking up pace since March 2014. Both regions grew by +8.1%yoy and +4.4%yoy to USD3.1b and USD2.9b respectively. Japan, in particular, has posted three straight months of year-on-year growth for the first time in nearly two years.

Graph 1: Semiconductor sales

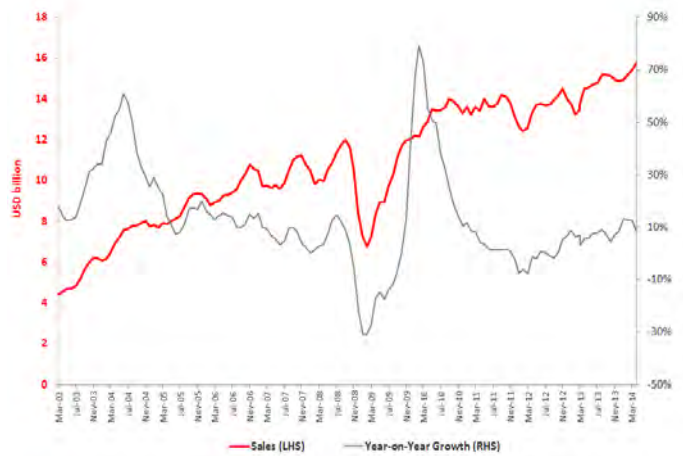


Source: SIA, MIDFR

Graph 2: Americas



Graph 3: Asia Pacific



Graph 4: Europe



Graph 5: Japan



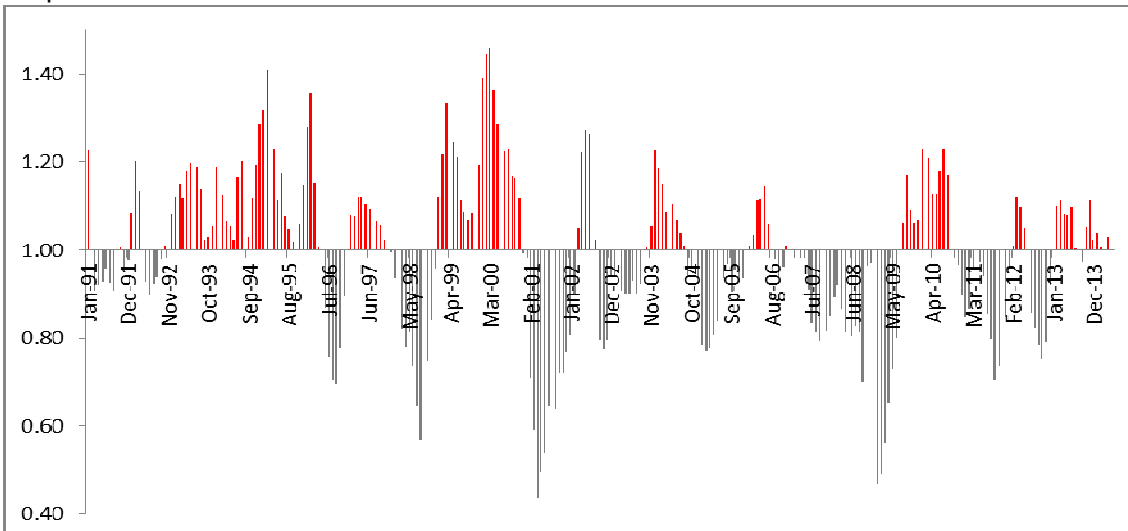
Source: SIA, MIDFR

BTB ratio at parity in May 2014. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 1.00x., The ratio has normalised after peaking at 1.06x in March 2014. Based on past trend, the ratio tends to be slightly weaker during the month of May. According to SEMI, “semiconductor equipment bookings and billings maintain a consistent pace approaching the end of the second quarter”. In terms of absolute value, bookings and billings have shown positive year-on-year performance.

Bookings remain above the USD1.4b level for the second consecutive months. Bookings for the month of May 2014 advanced by USD86.6m or +6.6%yoy to USD1.41b. Sequentially, bookings dipped by -2.4%qoq after peaking at USD1.44b in the month of April 2014.

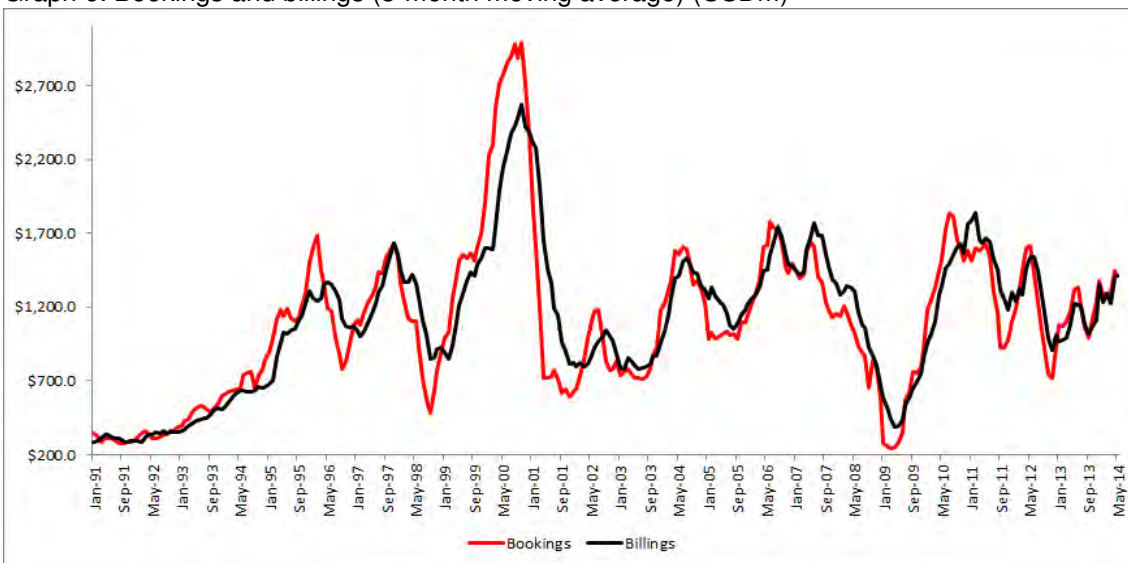
Billings stand at USD1.41b in May 2014. This is an improvement of +15.1%yoy from April 2014 billings of USD1.22b. Meanwhile, this translates into a slight increase of +0.3%qoq from USD1.40b.

Graph 6: Semi book-to-bill-ratio



Source: SEMI, MIDFR


Graph 6: Bookings and billings (3-month moving average) (USDm)



Source: SEMI, MIDFR

CONCLUSIONS

Year-to-date, GSS has been showing an encouraging sales figure. The monthly sales have been improving after it weakened in December 2013. Region wise, Americas recorded the strongest year-on-year growth for the month of May. Meanwhile, both Europe and Japan, which initially show muted growth, have been growing steadily since March 2014. All in, this is in-line with WSTS' full year sales forecast of USD325.4b. Continued growth in the demand for smartphone remains one of the main catalysts to drive the sector in the near term. Additionally, the transition of 2G to 3G and 4G will create stronger demand for low to mid-priced range smartphone, especially in emerging markets.

We believe the world's semiconductor industry remains in a cyclical upturn, which in turn will benefit the local industry. Such a view is reflected in our stocks recommendation. Year-to-date, all the stocks under our universe have been performing well, some of which went beyond our expectations. We reiterate our POSITIVE stance on the sector. 

Selected Semiconductor Stock

Stocks	Recomd'n	Price @5 June 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	1.61	1.60	7.3	9.4	n.m.	28.1	22.0	17.1	2.5	2.5	1.5	1.5
GLOBETRONICS	BUY	4.39	4.19	22.8	27.6	20.2	21.2	19.2	15.9	19.0	19.5	4.3	4.4

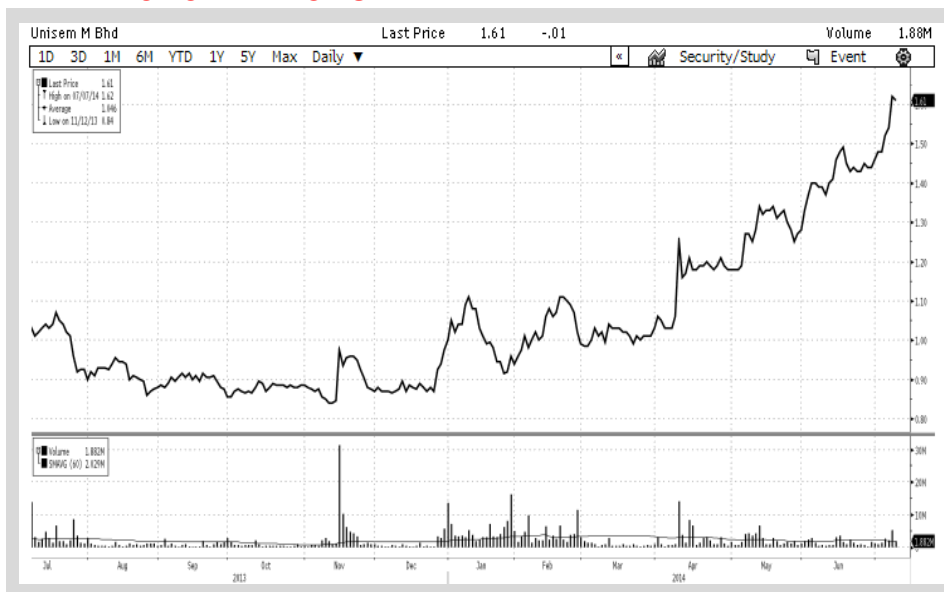
Source: Bloomberg and MIDFR

* forecasts

DAILY PRICE CHART – GLOBETRONICS



DAILY PRICE CHART – UNISEM



Syed Muhammed Kifni
Martin Foo Chuan Loong
martin.foo@midf.com.my
03-2772 8354

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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.