

Technology Sector

Maintain **NEUTRAL**

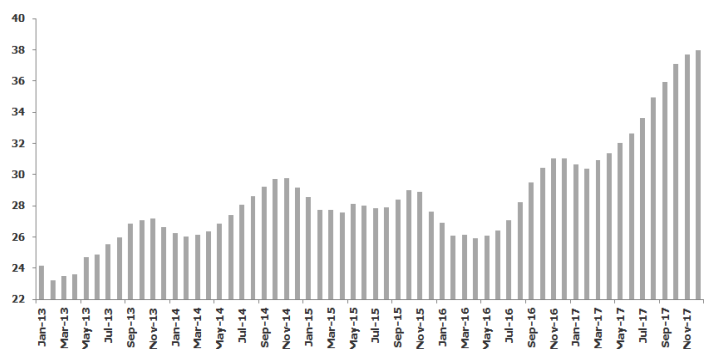
2017 annual sales surpassed USD400b mark

- December 2017 sales came in higher at USD38.0b, contributed to full year 2017 sales of USD412.2b
- Sale of memory products grew at highest pace driven by demand for DRAM and NAND flash products
- Heavy demand for memory products also fuelled the industry's equipment spending in 2017
- Maintain **NEUTRAL** stance on the sector due to: i) expectation of modest sales growth, ii) premium valuation and iii) expectation of lower dividend yield

Annual sales surpassed USD400b mark. Worldwide sales of semiconductor products for the month of December 2017 expanded by +22.5%yoy to USD38.0b, another new height in monthly sales. The pace of sales growth has been hovering at around +20%yoy for the past nine consecutive months since April 2017. Cumulatively, full year 2017 sales climb by +21.6%yoy to USD412.2b, which slightly surpassed the World Semiconductor Trade Statistics' (WSTS) 2017 sales expectation of USD408.7b. This is the industry's highest annual sales.

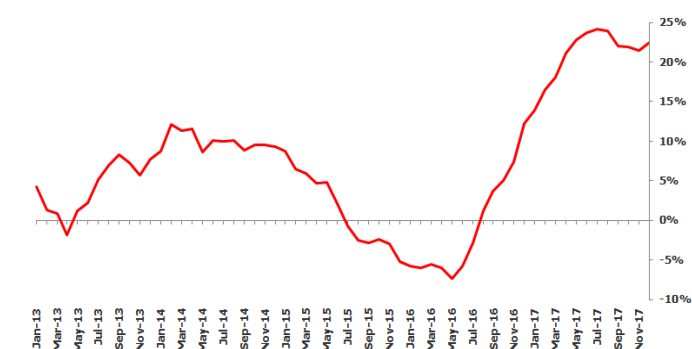
Double-digit sales growth was observed across all regions and almost all major product categories. Of all the product segments, the memory segment grew at the fastest pace at +61.5%yoy to USD124.0b. This accounted for 30.0% of total annual sales. The increase in demand of memory products was driven by the sales of DRAM (+76.8%yoy) and NAND flash products (+47.5%yoy). Meanwhile, the logic and micro-ICs segments were the other two top performers. Regionally, the Americas region grew at the fastest pace of +35.0%yoy as compared to other regions. Nonetheless, all the other regions posted sales growth of between +13.3%yoy and +22.2%yoy.

Chart 1: Monthly global semiconductor sales (USD billion)



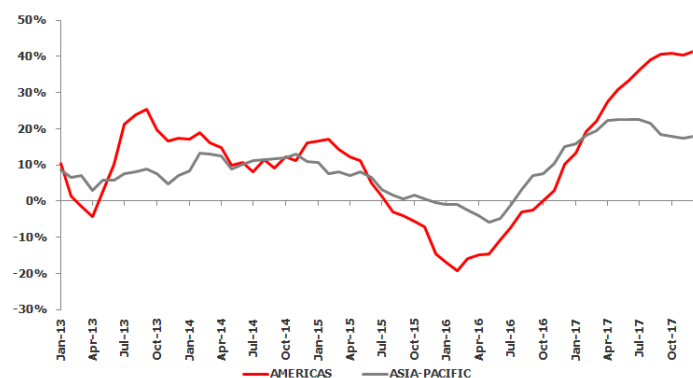
Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



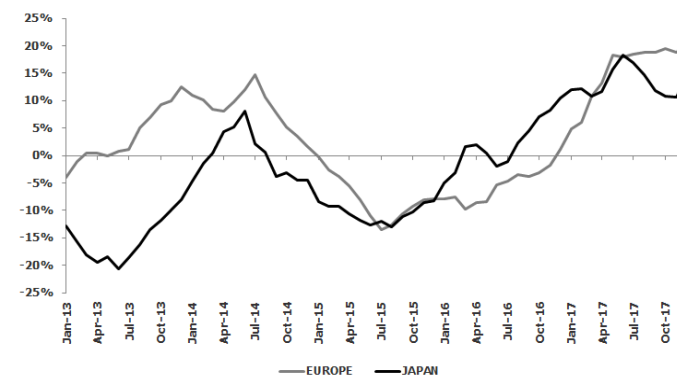
Sources: SIA, MIDFR

Chart 3: Americas and Asia Pacific* sales (%yoy)



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)



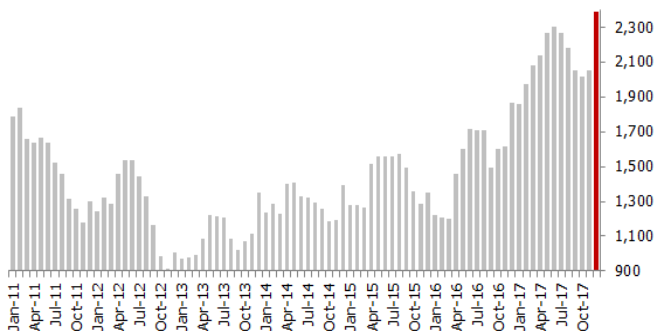
Sources: SIA, MIDFR

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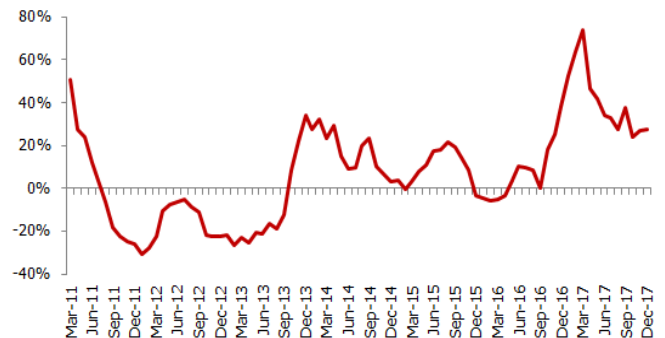
Capital spending for equipment end the year on a high note. The North America-based manufacturers of semiconductor equipment posted December 2017 billings of USD2.39b, the highest monthly billings for the year. This represents an increase of +27.7%yoy as compared to December 2016 billings of USD1.87b. On a sequential basis, the billings are +16.3%mom higher than November 2017 level of USD2.05b. For full year 2017, the equipment spending increased by more than +40%yoy in view of the heavy demand for memory products. We expect equipment spending to trend higher, albeit slower pace, to be supported by spending on wafer fabrication plants (fab) construction and fab equipment in China, South Korea and Taiwan. Nonetheless, we do not discount the possibility that the growth could turn negative should the end-user demand in came in weaker than expected.

Chart 5: Billings (USD billion)



Sources: SEMI, MIDFR

Chart 6: Billings (%yoy)



Sources: SEMI, MIDFR

Maintain NEUTRAL. The worldwide sales of semiconductor does not display signs off cooling, although the growth rate may trend lower mainly due to the high base effect. As expected, 2017 sales came slightly better than expected. Moving forward, the annual growth rate is expected to taper off to single digit in 2018 according to World Semiconductor Trade Statistic (WSTS). Nonetheless, we expect demand for semiconductor products to remain robust, driven by; i) new smartphone line-up, ii) expected recovery in the tablet market, and iii) stable demand from the automotive industry. Capital spending will continue to growth, albeit slower pace. We view that this could negatively impact the dividend payout ratio. Given the impressive share price performance in 2017, we view that most of the semiconductor companies under our coverage does not trade at attractive valuation at this juncture. All factors considered, we are maintaining our NEUTRAL recommendation on the sector. Our top pick for the sector resides with Unisem (M) Bhd (Buy, TP:RM4.58) due to: i) attractive valuation, ii) Batam's operation to turn profitable, and iii) new order wins.



Foo Chuan Loong, Martin
martin.foo@midf.com.my
03- 2173 8354

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.