

07 August 2017 | Sector Update

Technology Sector

Maintain **POSITIVE**

2H2017 sales prospect remains promising

- **Global semiconductor sales growth momentum maintained at more than +20%yoy in June 2017**
- **The sales growth in the Americas market was particularly robust at +33%yoy, surpassing the rest**
- **Strong June 2017 sales figure serves as a strong indication of healthy numbers in the coming months**
- **Spending on semiconductor equipments remained encouraging in June 2017**
- **Maintain POSITIVE stance on the sector**

A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

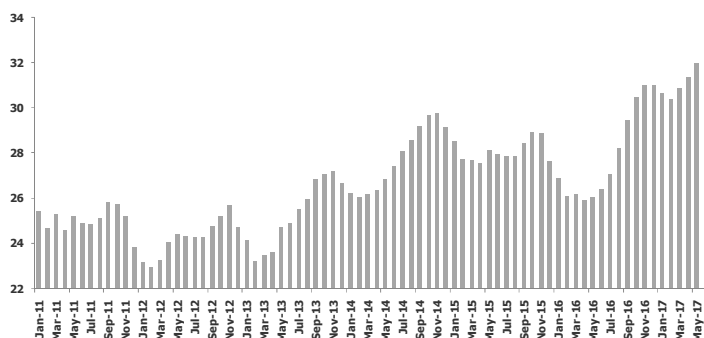
Global Semiconductor Sales (June 2017)

Another record monthly sales. June 2017 worldwide sales of semiconductors grew strongly by +23.7%yoy to USD32.6b. Such pace of sales growth was last seen in September 2010 when sales increase by +25.0%yoy. This also marks the highest-ever sales recorded for the month of June. Inclusive of this, the global semiconductor sales (GSS) has been growing on a year-over-year basis for the past 11 months since August 2016. Notably, the GSS has been growing at a faster pace of more than +20%yoy for the past three consecutive months since April 2017. All markets posted strong double digit growth on a year-over-year basis of at least +18%yoy. The Americas market was particularly robust, growing by +33.4%yoy to USD6.6b. This was followed by the China market at +25.5%yoy.

On-track to meet full year estimates. Cumulatively, 1H2017 GSS amounted to USD187.9b, an increase of +20.8%yoy. This is within the World Semiconductor Trade Statistics' (WSTS) expectation, accounting for 49.7% of full year 2017 sales forecast of USD377.8b. To recall, the healthy increase was partly driven by lower volume order in 1H2016 which was caused by elevated inventory levels as well as strong dollar in some regions.

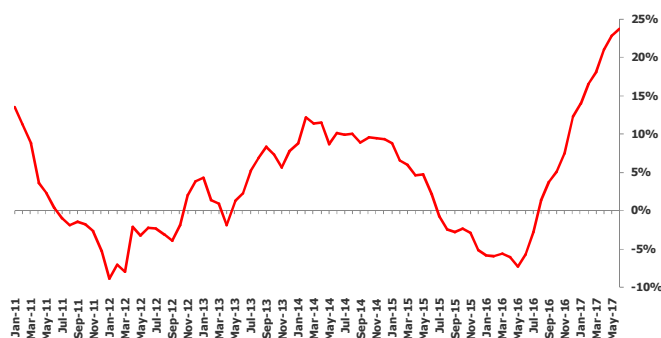
Expecting stronger months ahead. The Semiconductor Industry Association commented that "*Conditions are favourable for continued market growth in the months ahead.*" Historically, positive June month-over-month growth in 2016 and 2014 led to a very strong second half. On the contrary, negative June month-over-month growth in 2015, 2012 and 2011 led to a stagnant second half. Taking cue from June 2017 sales which grew by +2.0%mom, we are expecting that the monthly semiconductor sales should increase steadily throughout 3Q2107 before tapering off toward the end of the year. Premised on this, we do not discount the possibility that there could be further upward revision for full year 2017 sales projections.

Chart 1: Monthly global semiconductor sales (USD billion)



Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)

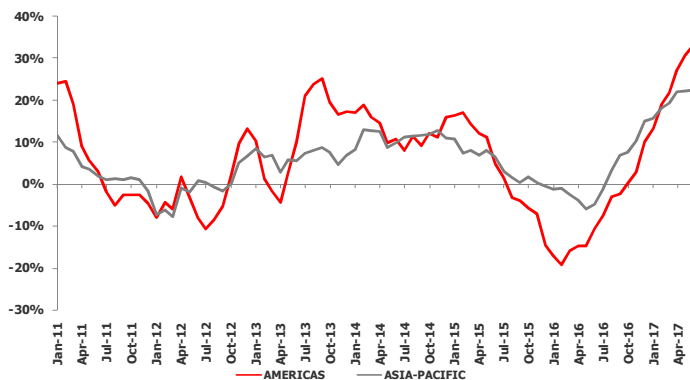


Sources: SIA, MIDFR

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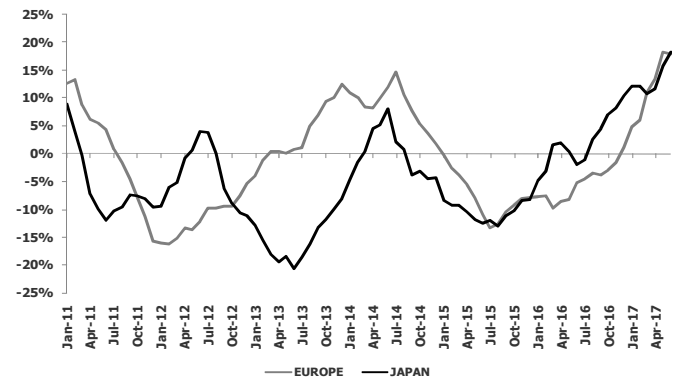
Kindly refer to the last page of this publication for important disclosures

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



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)

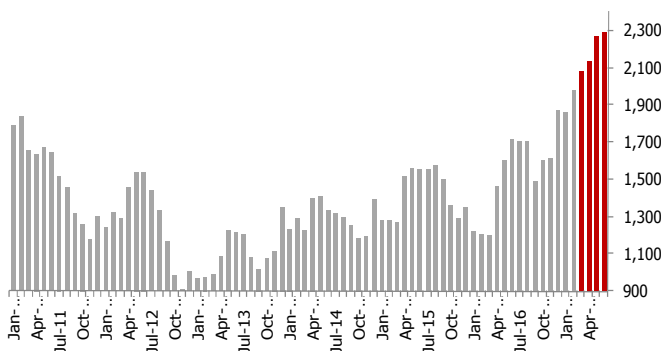


Sources: SIA, MIDFR

B. CAPITAL SPENDING (June 2017)

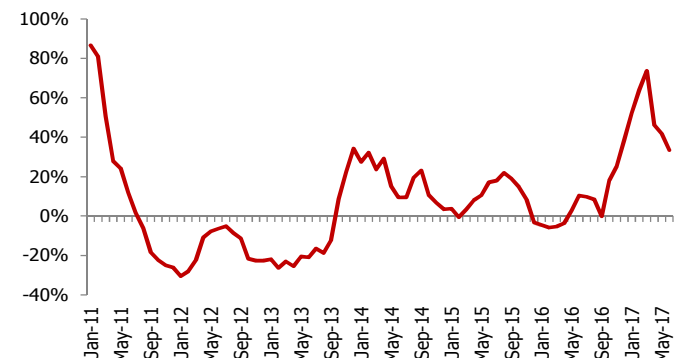
Billings remains above USD2.0b. The North America-based manufacturers of semiconductor equipment recorded June 2017 billings of USD2.3b. This represents an increase of +33.4%yoy as compared to June 2016 billings of USD1.7b. Inclusive of this, billings has been growing on a year-over-year basis for the past fourteen months since May 2016, with the exception of September 2016 where a slight contraction of -0.1%yoy is recorded. Cumulatively, 1H2017 billings has surged by more than +50%yoy to USD12.6b.

Chart 8: Billings (USD billion)



Sources: SEMI, MIDFR

Chart 9: Billings (%yoy)



Sources: SEMI, MIDFR

Maintain POSITIVE. In recent years, the China government has been supporting the Chinese domestic semiconductor industry with tremendous capital budgets. This has led to China gradually playing a pivotal role in upholding the demand of semiconductor products. At present, sales from China has accounted for one-third of global sales. It is also the main export destination of Malaysia semiconductor products.

Moving forward, we expect the sales growth momentum emanating from China to remain robust in the foreseeable term. This is in-tandem with the anticipated heavy investment in fab equipment in the upcoming years. In the immediate term, we expect the global semiconductor sales to continue to record positive sales growth on a year-over-year basis. Our view is reinforced by June 2017 sales figure which remained encouraging.

Apart from the smart devices segment, we also expect healthier demand from the automotive, storage and healthcare markets. The automotive market will driven by the continuous effort to increase the average semiconductor content per vehicle. Demand from this market is also less susceptible to seasonality factors, thus providing a steadier stream of revenue. Meanwhile, higher demand for the storage market would be supported by the cloud computing and data centre industries.

All factors considered, we maintain our **POSITIVE** stance for the Technology sector. 

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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	Total return is expected to be <-15% 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.