

07 December 2016 | Sector Update

Technology Sector

Maintain NEUTRAL

China continues to lead rebound in global semiconductor growth

- **GSS grew at a faster pace in October 2016, the largest year-on-year sales growth since March 2015**
- **China continues to lead the global growth in semiconductor sales**
- **Possible slowdown in demand for iPhone 7, precursor to reduction in production**
- **BNM's measures, if too inflexibly implemented, may lead to higher cost of doing business**
- **Maintain NEUTRAL stance on the sector**

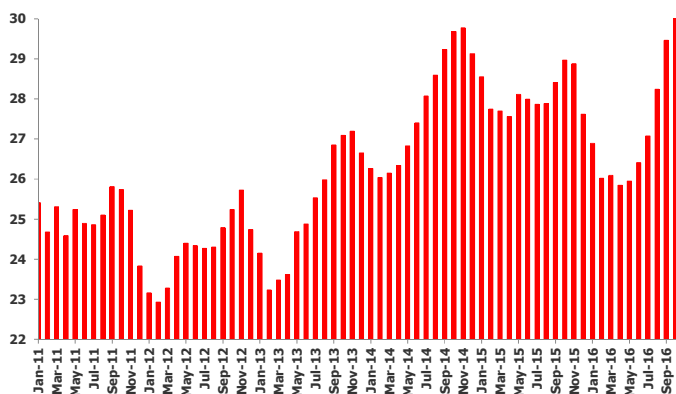
A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

i. Global Semiconductor Sales (October 2016)

GSS grew at a faster pace. Global semiconductor sales (GSS) for the month of October 2016 grew by +5.1%yoy to USD30.5b from USD29.0b in October 2015, representing the largest year-over-year sales growth since March 2015. This marked the third consecutive year-over-year sales growth since August 2016. The increase in sales was mainly attributable to higher sales across all regions with the exception of Europe. Sales growth from China was particularly impressive, registering a double-digit growth. On another note, higher sales are also seen for nearly every major semiconductor products.

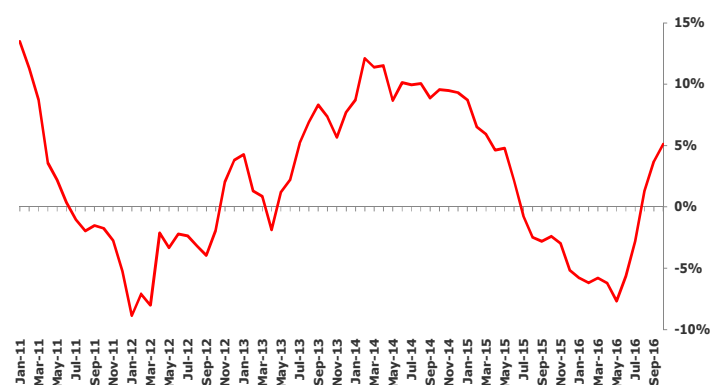
On a cumulative basis, GSS from January to October 2016 amounted to USD272.4b, lagging by -3.0%yoy as compared to the previous year corresponding period. This is slightly behind the World Semiconductor Trade Statistics (WSTS) 2016 revised sales estimates of USD335.0b, accounting for 81.3% of 2016 full year sales forecasts. Thus, to meet WSTS' sales forecasts, both November 2016 and December 2016 sales should come in at USD31.3b per month, representing year-over-year sales growth of between +8.4%yoy and +13.3%yoy.

Chart 1: Monthly global semiconductor sales (USD billion)



Sources: SIA, MIDFR

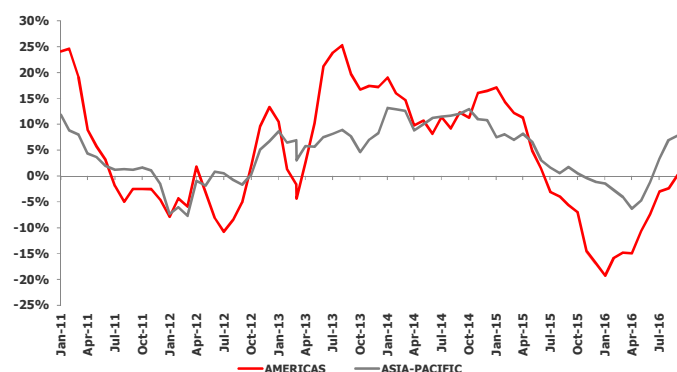
Chart 2: Monthly Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

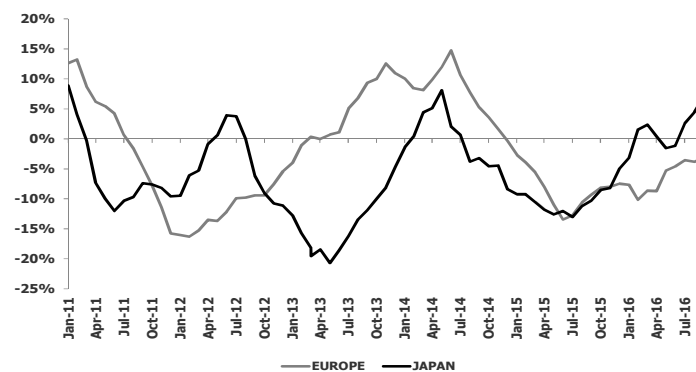
China continues to lead the global sales growth. For the month-in-review, sales from China accelerated by +14.0%yoy to USD9.8b. This is followed by Japan (+7.2%yoy) and Asia Pacific (+1.9%yoy). Sales growth from the Americas was relatively flat at +0.1%yoy. However, sales from Europe dropped -3.0%yoy. Inclusive of October 2016, sales from Europe has declined for 22 consecutive months since January 2015.

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



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)



Sources: SIA, MIDFR

ii. World Semiconductor Trade Statistics (WSTS) – Autumn 2016 sales forecast

Slight upward revision in WSTS' latest sales forecasts. In the latest autumn 2016 sales forecast, annual sales for 2016, 2017 and 2018 have been revised higher by +2.4%yoy, +3.7%yoy and +3.8%yoy respectively. The upward revisions were mainly due to expectation of better sales growth mainly from the sensor and memory product categories. We view that high sensor sales are in tandem with the uptake in Internet of Things (IoT). Meanwhile, higher memory sales forecasts could be driven by shortage of NAND flash memory and new 3D NAND ramp-up coming on-stream.

Table 1: WSTS semiconductor market forecast autumn 2016

Autumn 2016	Amounts (USD'm)				Year on year growth (%)			
	2015	2016F	2017F	2018F	2015	2016F	2017F	2018F
By Region								
Americas	68.7	64.2	67.2	69.0	-0.8	-6.5	4.7	2.6
Europe	34.3	32.6	33.4	34.1	-8.5	-4.9	2.3	2.2
Japan	31.1	32.1	32.9	33.4	-10.7	3.2	2.4	1.8
Asia Pacific	201.1	206.0	212.6	217.4	3.5	2.5	3.2	2.3
Total World	335.2	335.0	346.1	354.0	-0.2	-0.1	3.3	2.3
By Products								
Discrete Semiconductors	18.6	19.4	20.0	20.6	-7.7	4.2	2.9	3.3
Optoelectronics	33.3	32.1	33.0	32.5	11.3	-3.6	2.9	-1.4
Sensors	8.8	10.8	11.7	12.3	3.7	22.6	8.7	5.1
Integrated Circuits	274.5	272.7	281.4	288.5	-1.0	-0.7	3.2	2.5
<i>Analog</i>	45.2	47.4	49.7	51.4	1.9	4.8	4.9	3.4
<i>Micro</i>	61.3	62.7	63.4	64.8	-1.2	2.3	1.2	2.1
<i>Logic</i>	90.8	88.3	90.7	92.4	-1.0	-2.7	2.7	1.9
<i>Memory</i>	77.2	74.3	77.6	80.0	-2.6	-3.8	4.4	3.1
Total Products	335.2	335.0	346.1	354.0	-0.2	-0.1	3.3	2.3

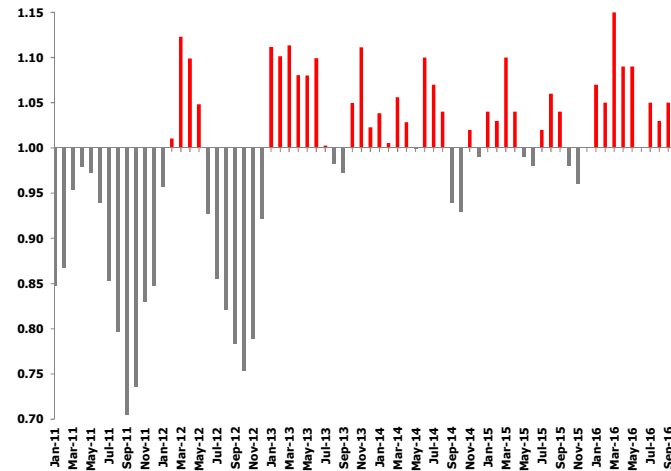
Source: WSTS, MIDFR

ii. Capital spending: Book-To-Bill (BTB) ratio (OCTOBER 2016)

BTB ratio below parity. The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.91x for the month of October 2016. This represents the first drop in BTB ratio after remaining above parity for the past ten months since December 2015. A BTB ratio of 0.91x indicates that USD91 worth of orders was received for every USD100 of products billed for the month. We attributed the drop in BTB ratio to an accelerated billings progress.

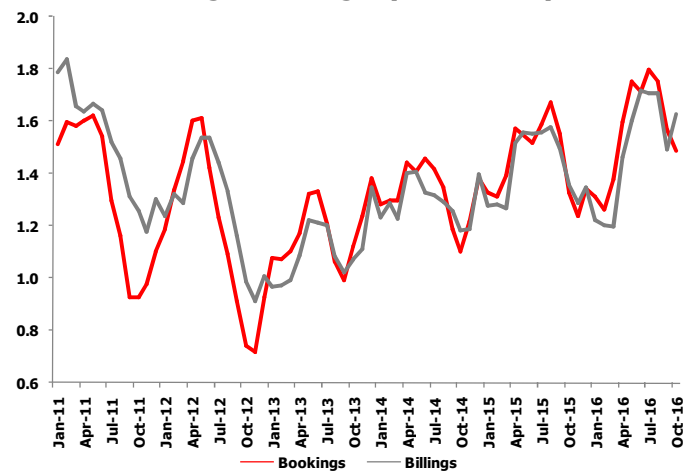
Higher bookings and billings. Both bookings and billings remain at elevated levels in comparison to the previous year corresponding period. Bookings for the month of September 2016 posted an increase of +12.2%yoy higher the October 2015 order level of USD1.3b. Bookings have been growing for seven consecutive months since April 2016. We attribute this to the strong purchasing activity in China. Meanwhile, billings for the month of October 2016 improved at a faster rate of +19.8%yoy to USD1.6b. We view that the elevated October 2016 billings partially made up for the slight delay experienced in the September 2016. Recall that billings for the month of September 2016 reduced marginally by -0.1%yoy, despite higher bookings recorded (+0.8%yoy).

Chart 5: BTB ratio (x)



Sources: SEMI, MIDFR

Chart 6: Bookings & billings (USD billion)




Sources: SEMI, MIDFR

B. INDUSTRY UPDATE

Possible scale down in iPhone 7 production. Apple is expected to cut down the production of iPhone 7 and iPhone Plus despite the two variants debuted in September 2016. Initial interest in iPhone 7 could be boosted by the interest in the “Jet Black” models and the demise of Samsung Galaxy Note 7. However, demand in China and other markets have reduced substantially. We view that the decrease in demand could possibly be due to: i) limited improvements in the iPhone 7 line-up, ii) negative perceptions with regard to the battery issue for the iPhone 6 line-up, and iii) avid Apple customer waiting for the next generation, 10th anniversary iPhone. According to newswires, Apple will revamp the phone’s design, with edge-to-edge OLED displays, glass casings as well as finally introducing the ability to wirelessly charge the device.

Initiatives to strengthen Ringgit. One of the measures taken by bank Negara Malaysia (BNM) to support Ringgit is to allow exporters to retain only up to 25% of export proceeds in foreign currency and also ensure payments to domestic suppliers are in Ringgit. Recall that generally revenue of semiconductor companies is usually received in U.S Dollar (USD). Meanwhile, only 50% of the costs are denominated in Ringgit. This would mean that they would need to convert the USD-denominated income to Ringgit and subsequently reconvert it back to U.S Dollar. We view that this measure could result in foreign currency translation loss. In view of this, our channel checks indicated that these companies are in the midst of applying for waiver from this measure. On this score, it is notable that the announced measures allow exporters to hold higher foreign currency balances, with approval from BNM, to meet their obligations in foreign currency.

Maintain NEUTRAL. We are comforted by the accelerating sales performance for the past three consecutive months since August 2016 which is mainly led by China. In addition, sales from the America have also registered a slight growth in October 2016 after dropping for the past 14 months. However, the recent upgrade in WSTS’ sales projection suggested that sales growth for 2017 remains tepid at +3.3%yoy (previously +2.0%yoy). We view that the subdued sales growth could be partially due to the concern on Apple’s ability to attract its fan to upgrade to the new iPhone 7 line-up as well as the next generation of iPhone. In addition, the BNM’s measures to support the Ringgit, if too inflexibly implemented, may translate into additional cost of doing business for the semiconductor companies. All factors considered, we maintain our **NEUTRAL** stance on the sector. 

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

03-2173-8354

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.