

04 January 2018 | Sector Update

Technology Sector

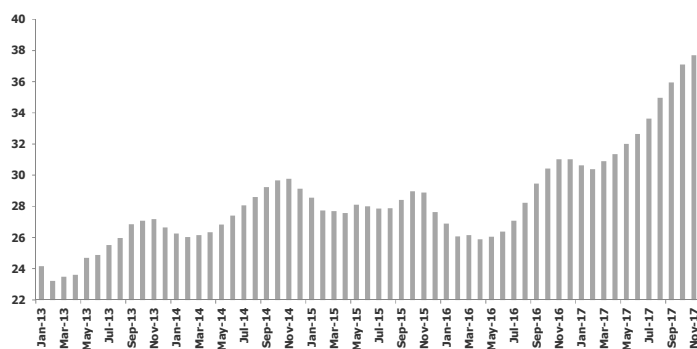
Maintain **NEUTRAL**

Demand for semiconductor products remains robust

- Memory products continue to dominate the semiconductor market
- Monthly sales growth rate tapering off after peaking in July 2017
- Equipment spending sustained above USD2.0b level
- Maintain **NEUTRAL** stance on the sector

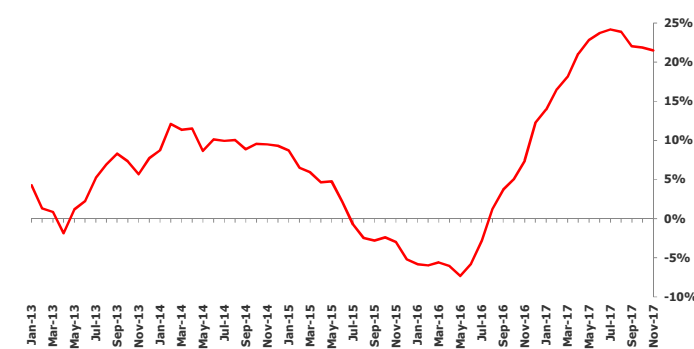
Annual sales on track to top USD400b. Worldwide sales of semiconductor products for the month of November 2017 strengthened by +21.5%yoy and +1.6%mom to USD37.7b, leading to the highest monthly sales. We observed that the pace of growth has been tapering off after peaking in July 2017 at +24.2%yoy. Inclusive of this, the monthly semiconductor sales has come in above the USD30b level for the past 14 months since October 2016. It is also on track to reach the USD400b level in annual sales for the first time. The improvement in the global semiconductor sales (GSS) was mainly attributable to higher sales of memory products. This was further supported by robust sales across all the other major product categories. Regionally, sales from the Americas region continues to outperform the other regions, growing by +40.3%yoy and +2.6%mom.

Chart 1: Monthly global semiconductor sales (USD billion)



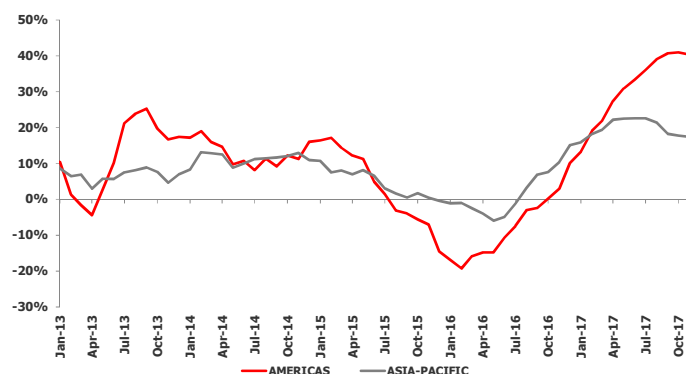
Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



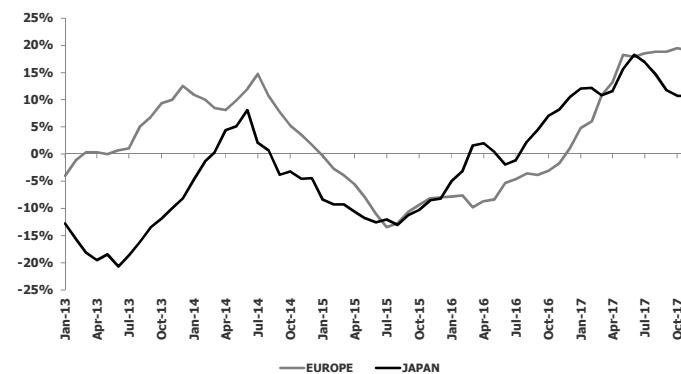
Sources: SIA, MIDFR

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



Sources: SIA, MIDFR
*Includes China

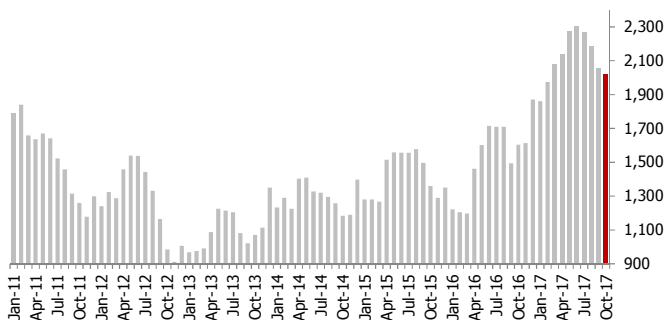
Chart 4: Europe and Japan sales (%yoy)



Sources: SIA, MIDFR

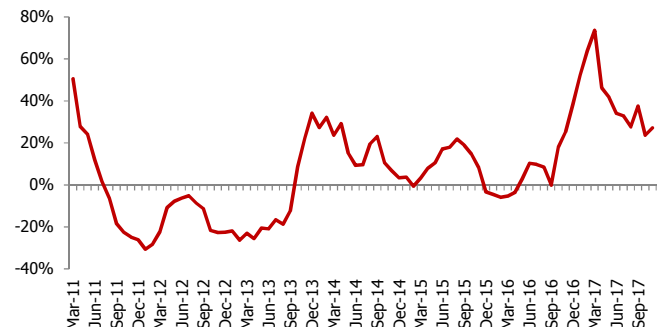
Equipment spending grew at slower pace. The North America-based manufacturers of semiconductor equipment posted November 2017 billings of USD2.05b. This translates into an increase of +27.2%yoy as compared to November 2016 billings of USD1.61b. The growth rate has narrowed after peaking at +73.7%yoy in March 2017. On a sequential basis, the billings are +1.6%mom higher than October 2017 level of USD2.02b. This represents the first marginal increase after tapering for the immediate preceding four months since July 2017 which was partly due to high base effect. Cumulatively, the spending is on track to hit a new record. The positive trend is expected to continue to be seen in 2018. This is mainly attributable to spending on wafer fabrication plants (fab) construction and fab equipment in China, South Korea and Taiwan. According to SEMI's World Fab Forecast, China is set to build 19 new semiconductor fabs from 2017 onwards, and 10 out of 19 projects are planned for 300mm wafer facilities.

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. To recall, 2017 is set to be a new sales record with expectation of strong double digit growth. 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. As such, we do not expect dividend yield of semiconductor companies under our coverage to go above 4% for 2018. Given the impressive share price performance in 2017, we view that most of the semiconductor companies 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.



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

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.