

07 March 2018 | Sector Update

Technology Sector

Maintain **NEUTRAL**

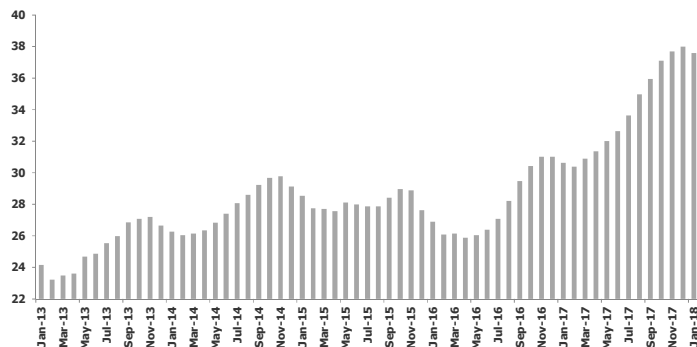
January 2018 sales mildly affected by seasonal factor

- January 2018 sales reduced marginally on a month-over-month basis due to seasonality
- Americas, Japan and Asia Pacific/All other markets contracted marginally
- Equipment spending maintained at approximately USD2.4b level in January 2018
- Maintain **NEUTRAL** stance on the sector due to: i) expectation of modest sales growth, ii) premium valuation and iii) expectation of lower dividend yield

Seasonally lower sales. Worldwide sales of semiconductor products for the month of January 2018 contracted slightly by -1.0% mom to USD37.6b after peaking at USD38.0b in December 2017. This is in-tandem with the normal seasonal market trends. Nonetheless, it is still +22.7%yoy higher as compared to January 2017 sales of USD30.6b. This represents the 18th consecutive months of year-over-year sales increase since August 2016. We expect the year-over-year sales growth rate to taper off steadily towards the end of year mainly due to high base effect.

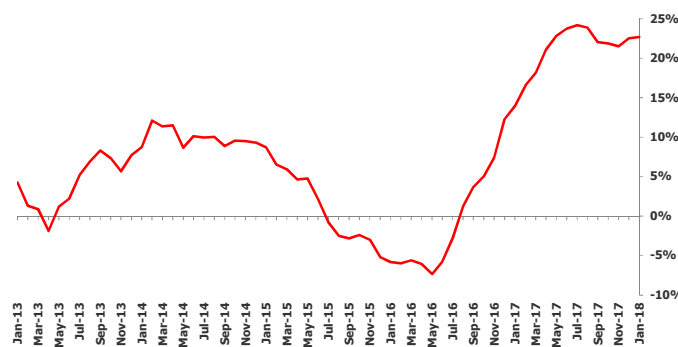
For the month-in-review, the slight decline in sales on a month-over-month basis was mainly attributable to lower sales from the Americas (-3.6%mom), Japan (-1.0%mom) and Asia Pacific/all other regions (-0.6%mom). Meanwhile, on a year-over-year basis, all markets continue to post double digit growth.

Chart 1: Monthly global semiconductor sales (USD billion)



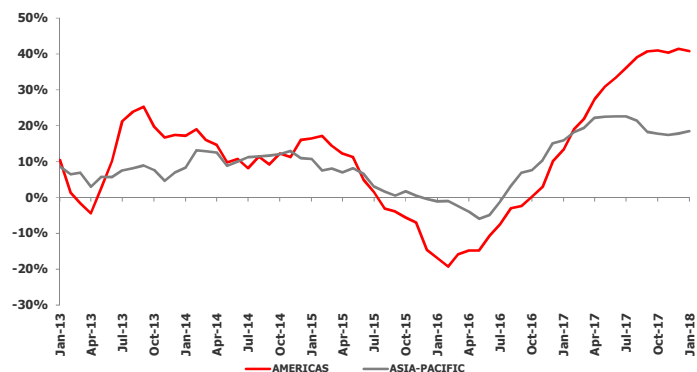
Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

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



Sources: SIA, MIDFR
*Includes China

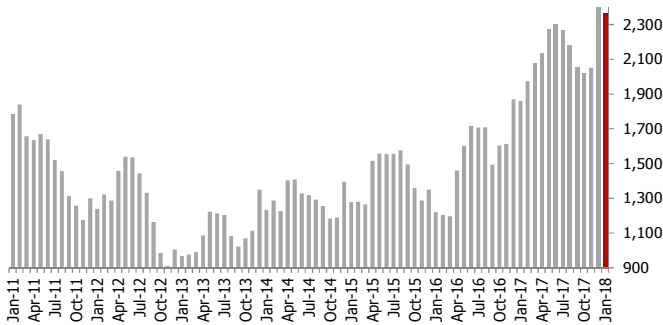
Chart 4: Europe and Japan sales (%yoy)



Sources: SIA, MIDFR

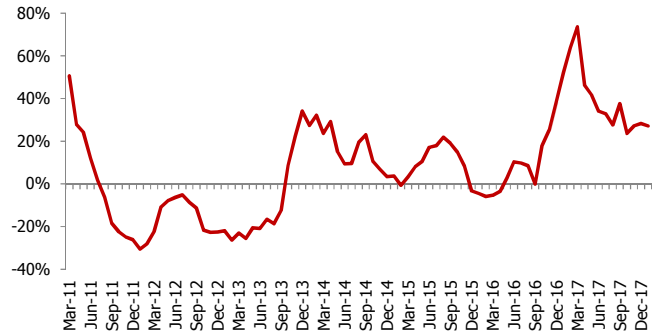
Billings remain elevated in January 2018. The North America-based manufacturers of semiconductor equipment recorded January 2018 billings of approximately USD2,364.8m (-1.4%mom) after peaking at USD2,398.4 as at December 2017. Premised on this, SEMI maintains its positive outlook for the 2018 market. This would represent the third years of growth for equipment spending. To recall, SEMI is expecting the capital spending for 2018 to grow by approximately +9.0%yoy.

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. 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:RM4.27) 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.