

05 April 2017 | Sector Update

Technology

Maintain POSITIVE

Monthly sales remain above USD30b

- Global semiconductor sales (GSS) remained above the USD30b level in February 2017, which outperformed the normal down-cycle trend
- There is an increasing demand for memory products such as DRAM and NAND flash
- Sales from China continues to pick up pace, surpassing the other regions
- Capital spending reach new heights of approximately USD2.0b in February 2017
- Maintain POSITIVE stance on the sector

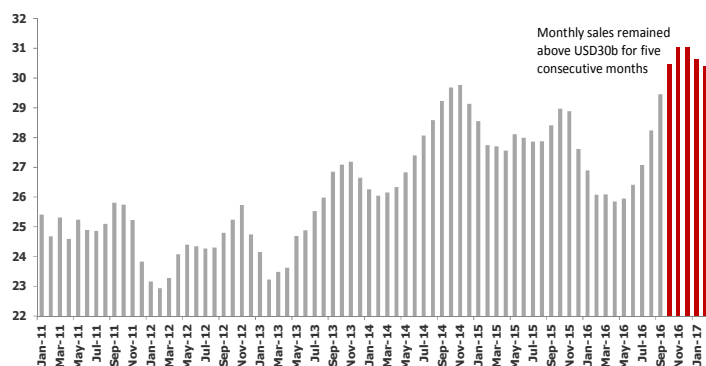
A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

i. Global Semiconductor Sales (February 2017)

New norm in sales. The worldwide sales of semiconductor continue to outperform in February 2017, recording an impressive growth of +16.5%yoy to USD30.4b. This marks the highest-ever February sales and largest year-over-year growth since October 2010. Inclusive of this, GSS has consistently stayed above the USD30b level for the past five consecutive months since October 2016. The sales level is also in-tandem with the average 2017 sales monthly forecast of USD30.1b (based on 2017 full year WSTS forecast of USD360.9b). The Semiconductor Industry Association (SIA) commented that *"the global semiconductor industry has posted strong sales early in 2017, with memory products like DRAM and NAND flash leading the way."* Regionally, the China and Americas markets grew at a faster pace as compared to its peers. Nonetheless, all the remainder regions performed commendably on a year-over-year basis.

On a sequential basis, GSS decreased marginally by -0.8%mom from USD30.6b as at January 2017. However, this has exceeded the normal seasonal market performance. To recall, based on historical track record, February sales will normally decline by about one to four percent on a month-over-month basis.

Chart 1: Monthly global semiconductor sales (USD billion)



Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



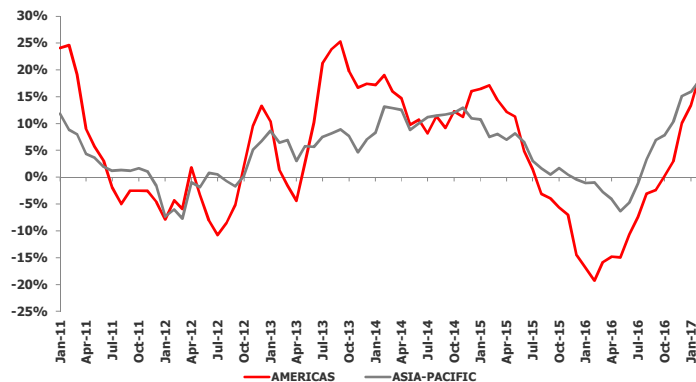
Sources: SIA, MIDFR

China remains the fastest growing region. Higher semiconductor sales were seen across all regions. China spearheaded the sales growth at +25.0%yoy. As a result, the China market currently made up approximately one-third of global sales. Meanwhile, sales from the Americas, Japan and Asia Pacific regions also grew in the tune of +11.2%yoy to +19.1%yoy. Commendably, Europe has posted the third consecutive month of sales growth at 5.9%yoy for the month of February 2017.

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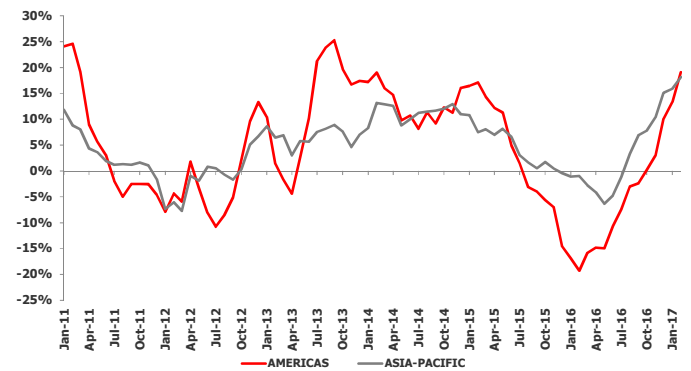
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Chart 3: Americas and Asia Pacific* sales (%yoy)



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)

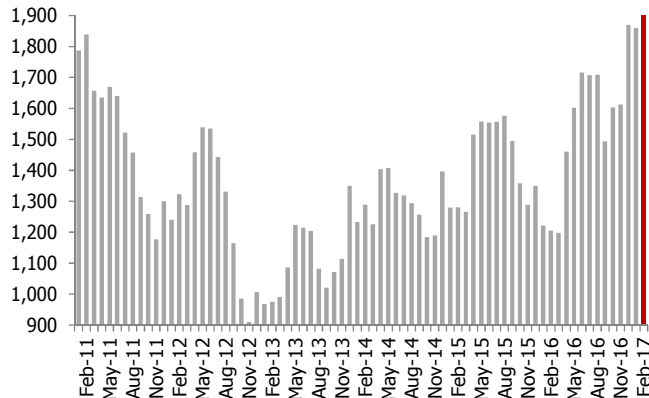


Sources: SIA, MIDFR

B. INDUSTRY UPDATE

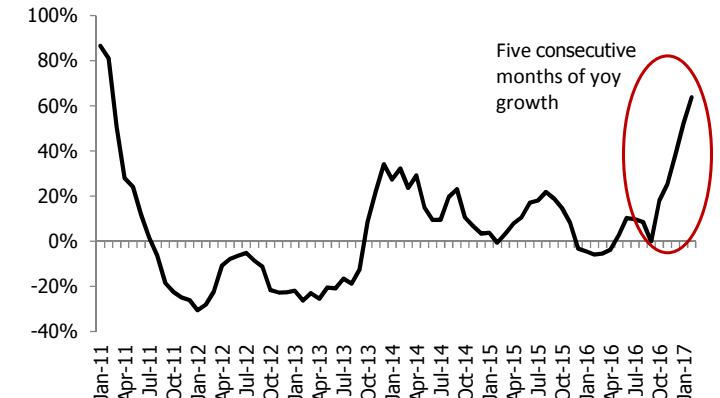
Billings reach new height. The North America-based manufacturers of semiconductor equipment posted February 2017 billings of USD1.97b. This represents an accelerated billings growth of +63.8%yoy as compared to February 2016 billings of USD1.20b. On a sequential basis, billings posted an encouraging growth of +6.1%mom from USD1.86b. The Semiconductor Equipment and Materials International (SEMI) commented that “*billings levels remain elevated as memory and foundry manufacturers continue to invest in advanced semiconductor technologies.*” The bulk of the capital spending will be channelled for the production of 3D NAND and 1X-nm devices.

Chart 8: Billings (USD billion)



Sources: SEMI, MIDFR

Chart 9: Billings (%yoy)



Sources: SEMI, MIDFR

Samsung launched Galaxy S8 and S8+. Samsung’s periodical commitments to launch new smartphone models show that there is still demand for new, cutting edge smartphone. Furthermore, the release of the Galaxy S8 and S8+ will help Samsung to maintain its lead in the high-end Android smartphone market. To alleviate the concern of supply delay, Samsung has also decided to double the initial supply of both smartphone models to 20m units as compared to their predecessors. We view that this would bode wells for semiconductor companies who have positioned themselves within the former’s value chain.

Apple looking to revives the ailing tablet market. The iPad shipment for 2016 has dropped by -14.1%yoy to 42.6m units. This is in-tandem with the overall tablet shipment for 2016 which declined by -15.6%yoy to 174.8m units. In this regard, Apple has recently updated its 9.7-inch iPad with improved features. To further spur sales, the iPad mini 4 still retails at the same price despite incorporating a higher capacity. A new variant, i.e. 10.5-inch iPad, will also be introduced later this year along with an upgraded 12.9-inch iPad Pro.

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.

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.