

05 July 2017 | Sector Update

Technology Sector

Maintain **POSITIVE**

Monthly semiconductor sales reaching USD32b

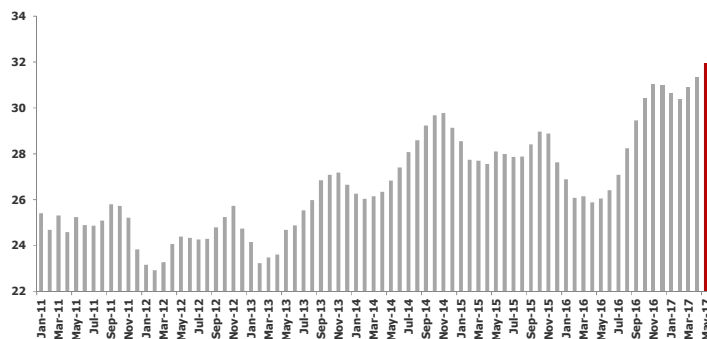
- Strong demand for memory products lifted May 2017 sales by +22.6%yoy to USD31.9b
- All regions posted strong double digit growth on a year-over-year basis
- Investment for semiconductor equipment remains robust
- Maintain **POSITIVE** stance on the sector

A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

Global Semiconductor Sales (May 2017)

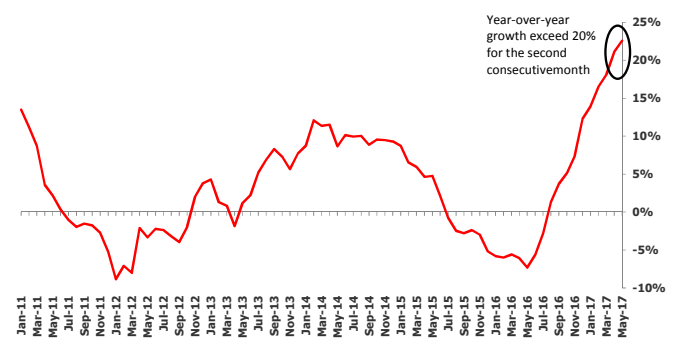
Sales scale new heights. May 2017 worldwide sale of semiconductors rose by +22.6%yoy to USD31.9b. The monthly global semiconductor sales (GSS) has been growing at a faster pace of more than +20%yoy for the past two consecutive months. Inclusive of this, the monthly GSS has come in above USD30b for eight consecutive months. The increase in semiconductor sales was mainly propelled by surging demand from the memory products segment.

Chart 1: Monthly global semiconductor sales (USD billion)



Sources: SIA, MIDFR

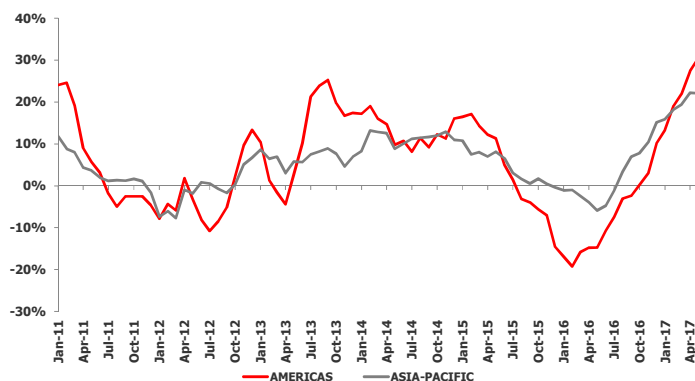
Chart 2: Monthly Global semiconductor sales (%yoy)



Sources: SIA, MIDFR

Cumulatively, 5M2017 GSS amounted to USD155.2b, an increase of +18.4%yoy. This is within the World Semiconductor Trade Statistics' (WSTS) expectation, accounting for 41.1% of full year 2017 sales forecast of USD377.8b.

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



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)



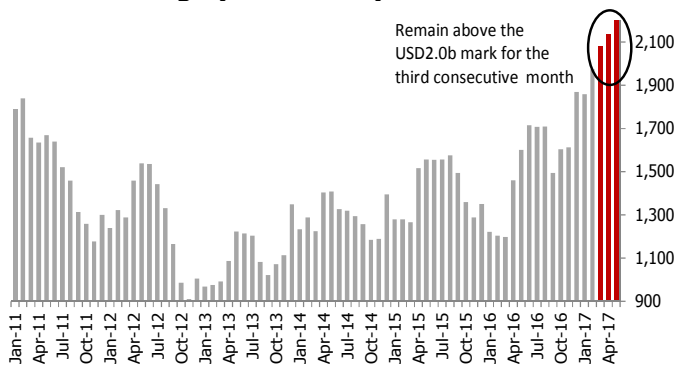
Sources: SIA, MIDFR

Meanwhile, all markets continue to post strong double digit growth on a year-over-year basis. The Americas region grew at a faster pace of +30.5%yoy. This was followed by China (+26.3%yoy), Europe (+18.3%yoy), Asia Pacific (+17.7%yoy) and Japan (+15.8%yoy).

B. CAPITAL SPENDING (May 2017)

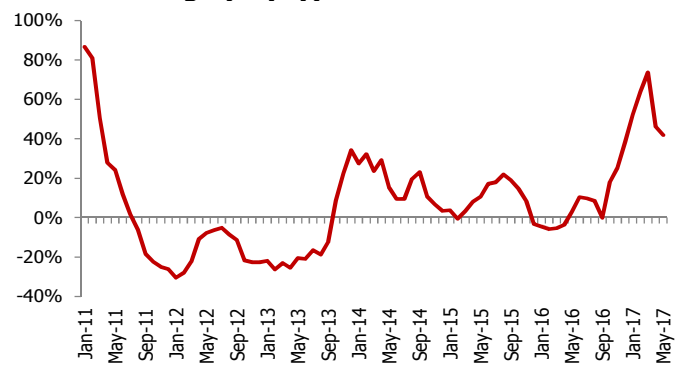
Billings remains above USD2.0b. The North America-based manufacturers of semiconductor equipment posted May 2017 billings of USD2.3b, which translates into a growth of +41.9%yoy. Inclusive of this, billings has been growing on a year-over-year basis for the past thirteen months since May 2016, with the exception of September 2016 where a slight contraction of -0.1%yoy is recorded. The Semiconductor Equipment and Materials International (SEMI) commented that *"The strength of this cycle continues to be driven by memory and foundry manufacturers as the industry invests in 3D NAND and other leading-edge technologies."* Moving forward, we view that investment into semiconductor equipment remains encouraging. Recently, Taiwan indicated its intention to invest approximately USD131m over four years in high-tech chip applications including artificial intelligence (AI). The plan follows the footsteps of the U.S, South Korea and China.

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.

Apart from the smart devices segment, we also expect healthier demand from the automotive, storage and healthcare markets. The automotive market will be 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.