

04 October 2017 | Sector Update

Technology Sector

Maintain POSITIVE

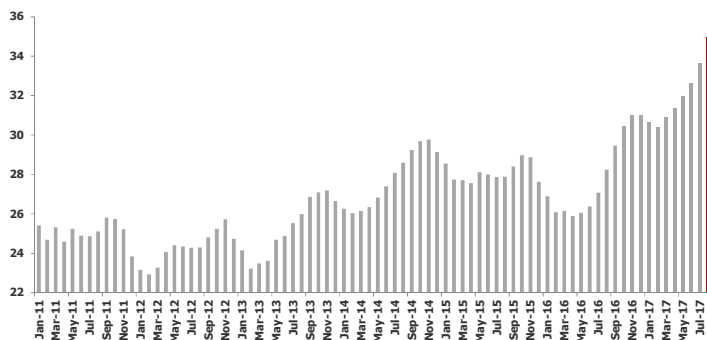
Monthly sales hit new heights of USD35.0b

- Worldwide sales of semiconductor topped USD35.0b in August 2017
- All markets recorded double digit growth on a year-over-year basis
- Double digit growth in capital spending, on-track for a new record for 2017
- Maintain POSITIVE stance on the sector

Sales continues to chart new heights. Global Semiconductor Sales (GSS) strengthened further in August 2017 by +23.8%yoy and +4.0%mom to USD35.0b. Inclusive of this, the GSS has been growing on a year-over-basis for more than one year since August 2016. We are comforted by the fact that the pace of growth has been above +20%yoy for the past four months since May 2017. The improvement in semiconductor sales was supported by higher sales performance from all regional markets as well as across all semiconductor product categories. The memory products continue to be the main driver of overall market growth. We expect the improvement in GSS will be reflected in the upcoming August 2017 trade number for Malaysia's export of semiconductor.

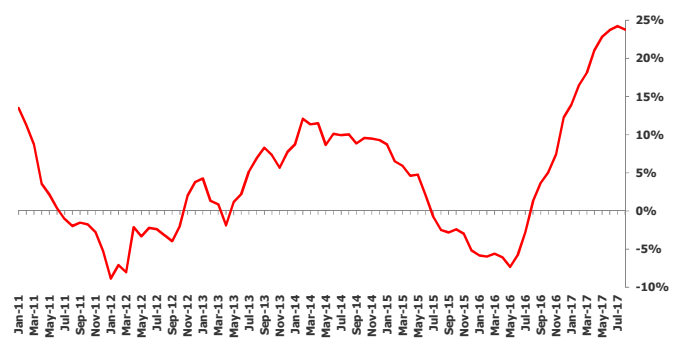
The Americas market outperformed the other markets, recording a growth of +39.0%yoy. SIA commented that the corporate tax reform would make the U.S. tax system more competitive with other countries. This would help to support the future sales growth from the Americas market. Nonetheless, all the other markets also recorded double digit growth, ranging from +14.3%yoy to +23.3%yoy.

Chart 1: Monthly global semiconductor sales (USD billion)



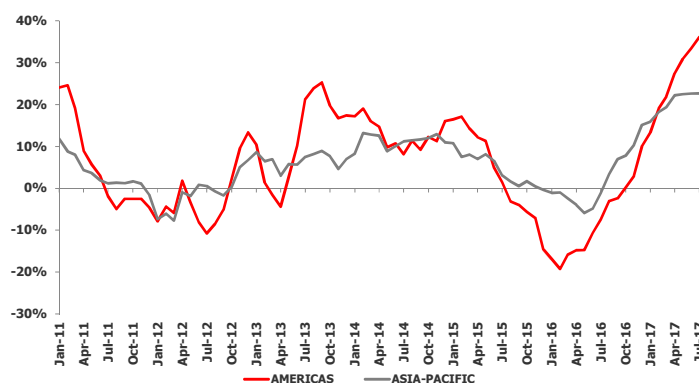
Sources: SIA, MIDFR

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

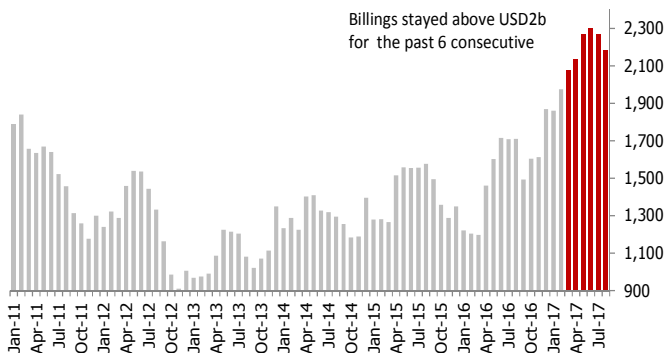
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On-track to meet full year sales estimates. Cumulatively, 8M2017 GSS amounted to USD256.5b which represents an increase of +20.6%yoy. This is in-line with the World Semiconductor Trade Statistics' (WSTS) expectation, accounting for 64.7% of full year 2017 sales forecast of USD396.6b.

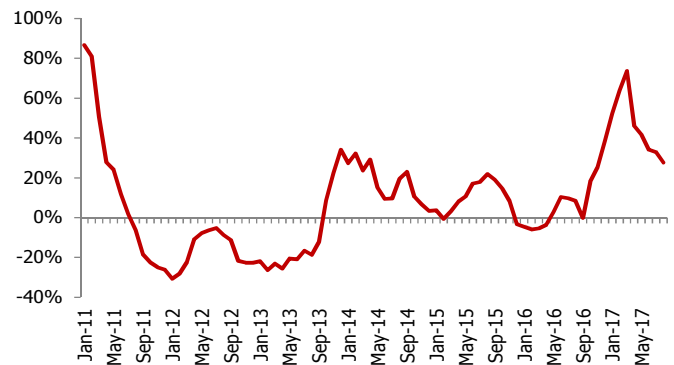
Capital spending continues to rise. The North America-based manufacturers of semiconductor equipment recorded August 2017 billings of USD2.2b. This represents an increase of +27.7%yoy as compared to August 2016 billings of USD1.7b. Inclusive of this, the capital spending of semiconductor equipment has been posting double digit growth for 11 consecutive months since October 2016. Moving forward, we expect capital spending to remain robust as long as there are new smart devices launches in the pipeline.

Chart 5: Billings (USD billion)



Sources: SEMI, MIDFR

Chart 6: Billings (%yoy)



Sources: SEMI, MIDFR

Awaiting the iPhone X. Based on online sources, initial findings indicates that iPhone 8 and iPhone 8 Plus have only muster a combine 0.7% of international market shares during its first weekend. This is falling behind iPhone 7 after its first weekend whereby the handset captured 1% market share. Moreover, there has been claims that the iPhone 8 Plus burst during charging which could be due to possible battery failure. The slower adoption of iPhone 8 and 8 Plus could be due to the pent up demand for the upcoming sale iPhone X in November 2017 which has garnered the interest of Apple followers.

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 have 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. Our view is reinforced by August 2017 sales figure which remained upbeat.

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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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.