

03 May 2017 | Sector Update

## Technology Sector On track for another record year

Maintain **POSITIVE**

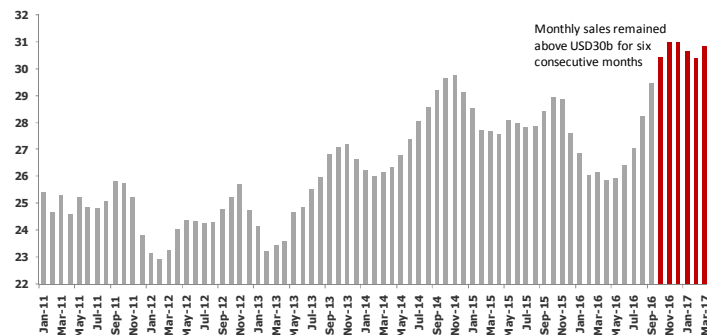
- March 2017 sales grew by +18.1%yoy, underpinned by solid pace of growth across all markets
- Demand for the memory product segment continues to outpace the rest
- Semiconductor investment cycle continue to be seen with billings breaching the USD2.0b mark
- Maintain **POSITIVE** stance on the sector

### A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

#### i. Global Semiconductor Sales (March 2017)

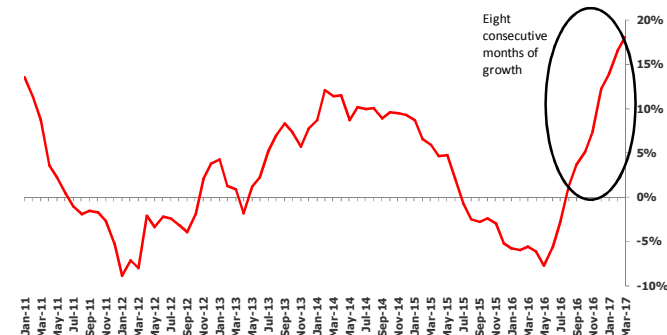
**Strong sales growth across all markets.** March 2017 worldwide sales of semiconductors surged by +18.1%yoy to USD30.9b. Such pace of growth was last seen in October 2011 when sales increased by +19.3%yoy. This marks the highest-ever sales recorded in March. Inclusive of this, GSS has consistently stayed above the USD30b level for the past six consecutive months since October 2016. The sales level is also slightly higher as compared to the average 2017 monthly sales forecast of USD30.1b (based on full year 2017 WSTS forecasts of USD360.9b). All the major regional markets posted double digit growth on a year-over-year basis, led by China. Meanwhile, all the major semiconductor product categories recorded growth, with memory product segment outpacing the rest.

**Chart 1: Monthly global semiconductor sales (USD billion)**



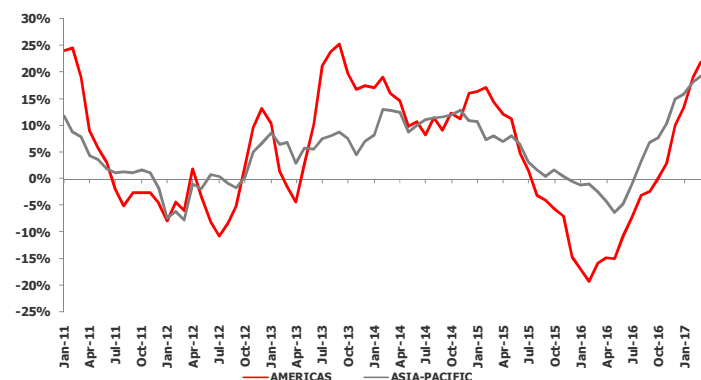
Sources: SIA, MIDFR

**Chart 2: Monthly Global semiconductor sales (%yoy)**



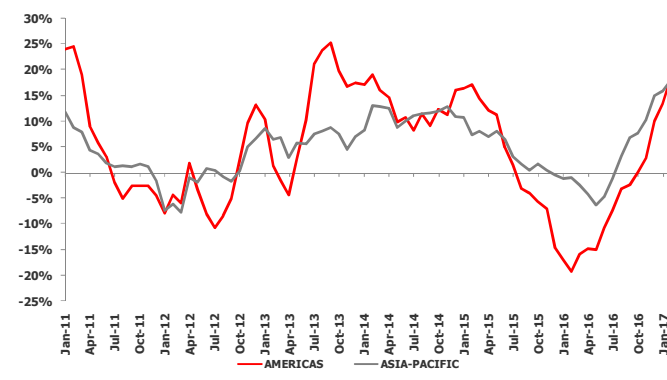
Sources: SIA, MIDFR

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



Sources: SIA, MIDFR  
\*Includes China

**Chart 4: Europe and Japan sales (%yoy)**



Sources: SIA, MIDFR

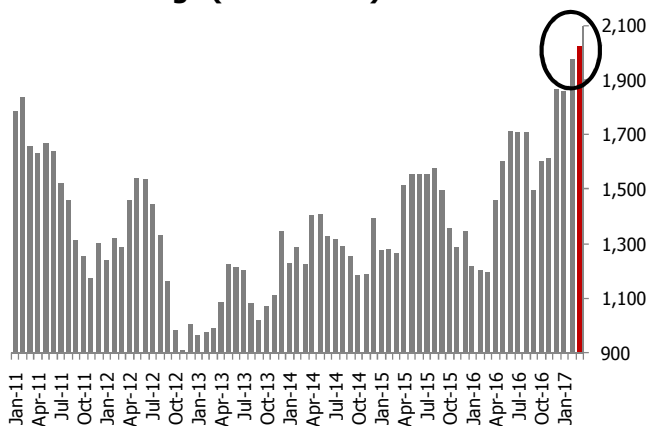
On a quarterly sequential basis, GSS also improved by +1.6%mom from USD30.4b recorded in February 2017. This also marks the first month of increase after declining on a month-over-month basis for the previous three consecutive months since December 2016.

**Europe making a comeback.** Higher semiconductor sales were seen across all regions. China spearheaded the sales growth at +26.7%yoy. Currently, the China market makes up approximately one-third of global sales. This is followed by the Americas region which recorded a growth of +21.9%yoy. Meanwhile, sales from the European region posted an encouraging sales growth of +11.1%yoy. This represents the first double digit growth in sales since August 2014.

## B. INDUSTRY UPDATE

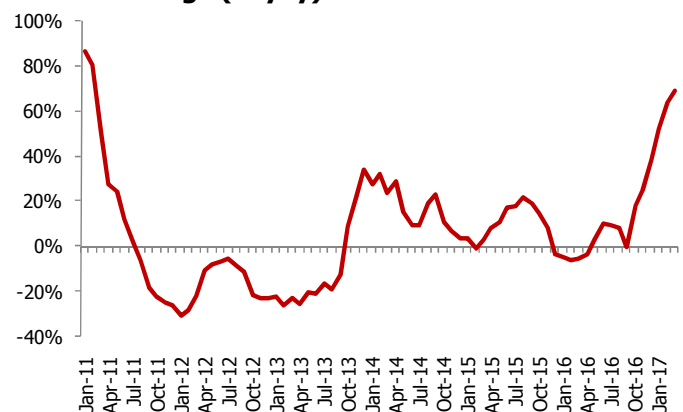
**Billings reached new high.** The North America-based manufacturers of semiconductor equipment posted March 2017 billings of USD2.0b. This represents an accelerated billings growth of +69.2%yoy as compared to March 2016 billings of USD1.20b. Such quantum has not been seen since March 2001. On a quarterly sequential basis, billings posted an encouraging growth of +2.6%mom from USD1.97b as at February 2017. The Semiconductor Equipment and Materials International (SEMI) commented that "the equipment industry is clear benefiting from the latest semiconductor investment cycle."

**Chart 8: Billings (USD billion)**



Sources: SEMI, MIDFR

**Chart 9: Billings (%yoy)**



Sources: SEMI, MIDFR

**Mid-single digit growth in 1Q17 smartphone sales.** The global shipment of smartphone grew by +4.3%yoy in 1Q17 to 347.4m. The growth in shipment was mainly propelled by China-based smartphone vendors such as Huawei, Oppo and Vivo. These vendors also continue to gain traction in increasing their respective market share. Meanwhile, Samsung managed to maintain its top position in the global smartphone market. This was mainly attributable to hefty discount for Galaxy S7 and S7 edge in view of the new launches of S8 and S8 Plus. Apple remains the second largest smartphone vendor, although there is a slight reduction in its market share.

**Increasing demand for dual-lens camera smartphone.** Well-known China-based smartphone vendors such as Oppo, Vivo and Xiaomi are expected to launch their respective models of smartphone with dual-lens cameras. This is subsequent to Huawei's successful launch of Huawei P9 last year. The new models are expected to flood the market in 2H17. Taiwan and China based camera module makers are set to benefit from the rising popularity of dual-lens cameras.

**Slight recovery in 1Q17 PC market.** The global PC market in 1Q17 recorded a marginal increase of +0.6%yoy. This represents the first increase on a year-over-year basis since 1Q12. The increase in PC sales was mainly attributable to higher shipment volume from HP Inc, Lenovo, Dell, Apple and Acer Group. Nonetheless, the PC market remains to be challenging due to competition from tablets and smartphones as well as delayed PC replacement cycles.

**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.