

05 January 2017 | Sector Update

## Technology Sector

**Maintain NEUTRAL**

### China lifted GSS to a new high

- **November 2016 GSS topped USD31b, the highest monthly sales ever recorded**
- **At present, China accounts for one-third of monthly semiconductor sales**
- **Expectation of lower production volume for Apple's iPhone in 1Q17 may negatively impact the earnings of local semiconductor companies**
- **Maintain NEUTRAL stance on the sector**

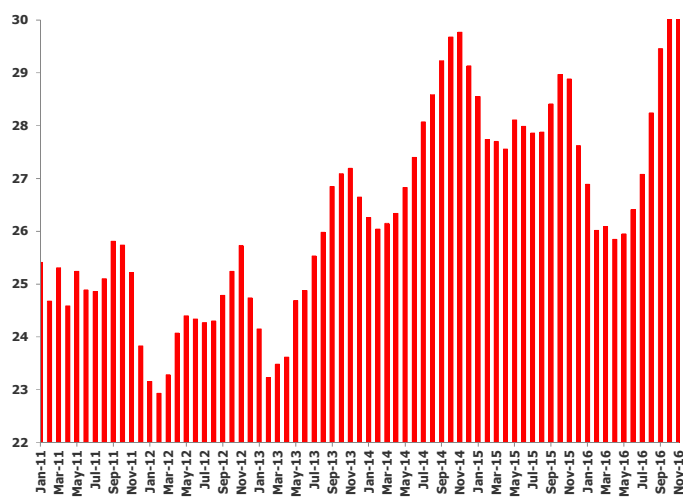
### A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

#### i. Global Semiconductor Sales (November 2016)

**GSS continue sales growth uptrend.** The worldwide sales of semiconductors in November 2016 reached USD31.0b. This represents an encouraging year-over-year sales growth of +7.4%yoy, the highest rate for the past two years. Such growth rate was last seen in January 2015, where GSS grew by +8.7%yoy. Inclusive of the latest figure, GSS has been growing on year-over-year basis since August 2016. Sales continue to accelerate in almost all regions, with the exception of Europe. However, the European region has shown some signs of sales recovery in recent months. Meanwhile, the Chinese market continues to be leading the semiconductor industry, registering a strong double digit sales growth. All in, the Semiconductor Industry Association (SIA) commented that "as 2016 draws to a close, the global semiconductor market appears likely to roughly match annual sales from 2015 and is well-positioned for a solid start to 2017."

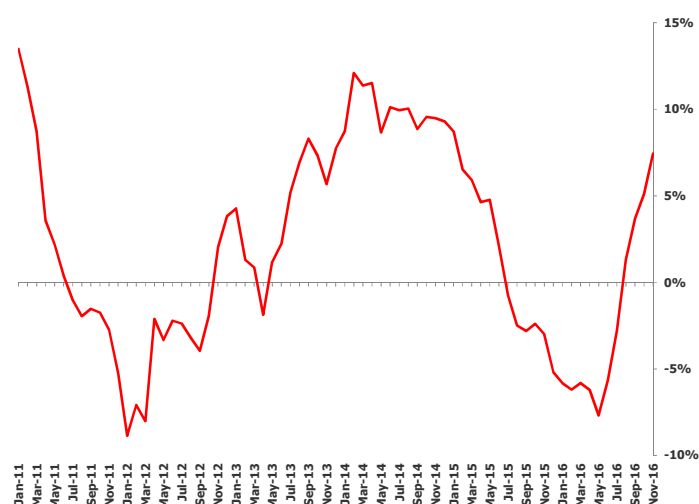
The cumulative (Jan-Nov) 2016 semiconductors sales stand at USD303.4b. This constitutes approximately 90% of World Semiconductor Trade Statistics' (WSTS) 2016 sales estimates of USD335.0b. To match WSTS' full year sales estimates, December 2016 sales would have to come in at USD31.6b. However, we view that December 2016 sales would be between USD30.0b to USD31.0b. Based on historical track record, GSS for the month of December normally came in at two to five percent lower on a monthly sequential basis. Should December 2016 GSS come in at USD30.0b, this would still translates into a healthy sales growth of approximately +4.0%yoy.

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



Sources: SIA, MIDFR

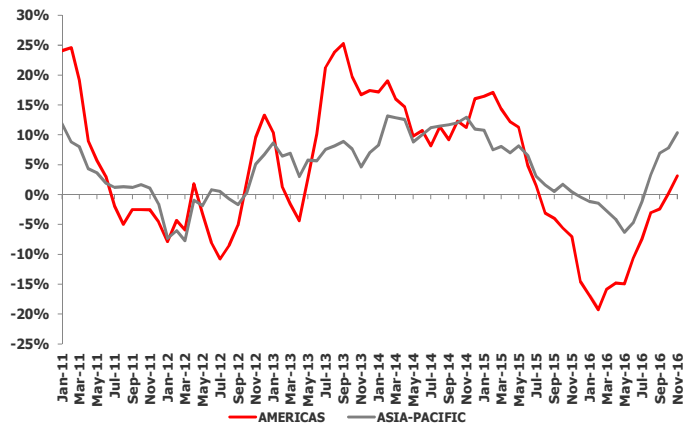
**Chart 2: Monthly Global semiconductor sales (%yoy)**



Sources: SIA, MIDFR

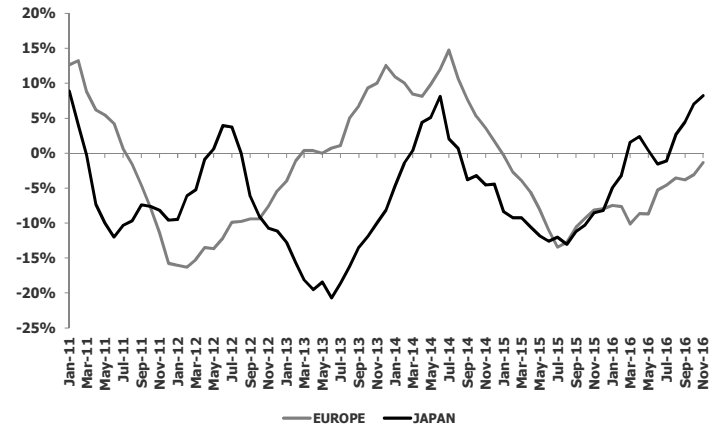
**China accounts for one-third of monthly sales.** Higher semiconductor sales were seen in November 2016 with the exception of Europe. For the month in review, China recorded an impressive sales growth of +15.8%yoy to USD10.0b, surpassing all the other regions. This constitutes 32.3% of monthly sales. On the other hand, sales from the Europe region recorded a drop of -1.4%yoy, albeit a sequentially smaller decline. Recall that in October 2016, sale from the Europe region recorded a decline of -3.1%yoy.

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



Sources: SIA, MIDFR  
\*Includes China

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



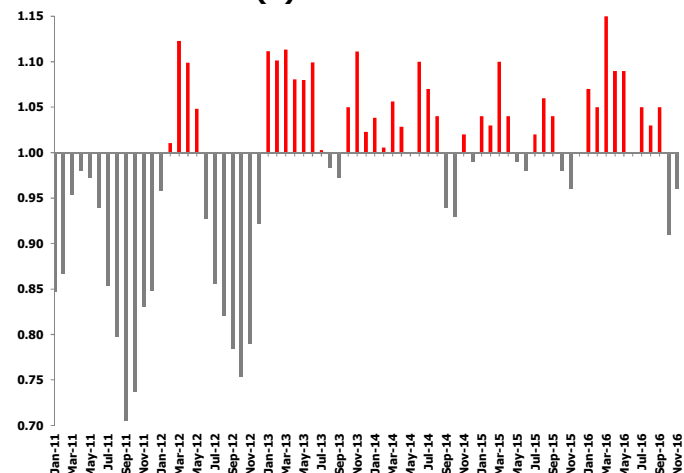
Sources: SIA, MIDFR

## ii. Capital spending: Book-To-Bill (BTB) ratio (NOVEMBER 2016)

**BTB ratio below parity.** The North America-based manufacturers of semiconductor equipment posted a BTB ratio of 0.96x for the month of November 2016. This represents the second drop in BTB ratio after remaining above parity for the past eleven months since December 2015. A BTB ratio of 0.96x indicates that USD96 worth of orders was received for every USD100 of products billed for the month. We attributed the drop in BTB ratio to an accelerated billings progress. According to the Semiconductor Equipment and Materials International (SEMI), equipment spending came in stronger than initially expected. Spending has been driven by 3D NAND, leading-edge foundry and advanced packaging investment. This is expected to continue in 2017.

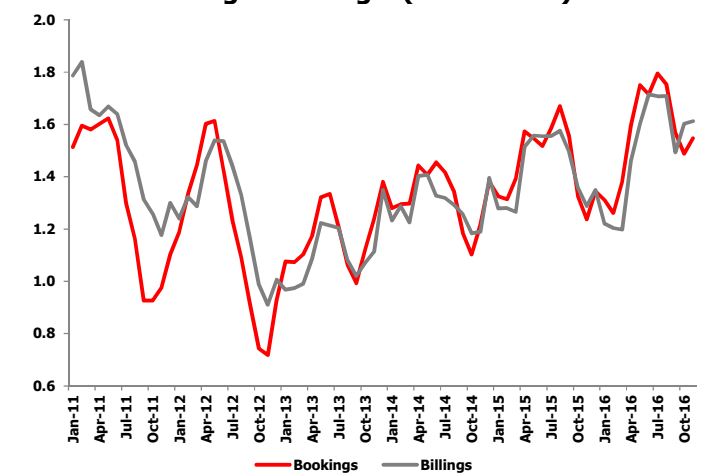
**Higher bookings and billings.** Both bookings and billings remain at elevated levels in comparison to the previous year corresponding period. Bookings for the month of November 2016 posted an increase of +25.1%yoy to USD1,547.2m in comparison to November 2015 order level of USD1,236.6m. Bookings have been growing for eight consecutive months since April 2016. We attributed this to the strong purchasing activity in China. Meanwhile, billings for the month of November 2016 improved at a faster rate of +25.2%yoy to USD1,613.2m.

**Chart 5: BTB ratio (x)**



Sources: SEMI, MIDFR

**Chart 6: Bookings & billings (USD billion)**




Sources: SEMI, MIDFR

**B. INDUSTRY UPDATE**

**Nokia making a comeback.** Nokia has confirmed that it will release two Android phones in early 2017. One of which is a premium model that is expected to compete with the likes of Apple's iPhone and Samsung's Galaxy S phones. However, according to newswires, it is unlikely that it will become a "game changer" as there is limited room for new entrants to gain traction given the level of maturity of iOS and Android.

**Apple to cut iPhone production.** According to The Nikkei, Apple is expected to trim the production of its iPhone family by approximately 10% in the first quarter of 2017. This is in view of possible sluggish sales which could potentially led to built-up in inventory. The move is expected to reduce the production volume order of semiconductor companies which fall within Apple's value chain.

**Maintain NEUTRAL.** China has been spearheading the growth in semiconductor sales, registering double digit growth in recent months. As a result, sales from China currently constitutes approximately one third of the monthly semiconductor sales. On the other hand, sales from Europe continue to decline, albeit at slower pace. In the near term, we expect the possible cut in production of iPhone to negatively impact the earnings of semiconductor companies who fall within Apple's value chain. Nonetheless, recovery in volume could be seen towards the end of 2Q17 in anticipation of the announcement of Apple's next generation iPhone in 3Q17. Coupled with the expectation of a modest semiconductor sales growth of +3.3%yoy for 2017, we reiterate our **NEUTRAL** stance on the 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.