TECHNOLOGY

***Maintain* POSITIVE**

Re-routing of supply chain

KEY INVESTMENT HIGHLIGHTS

- **Global semiconductor sales up +0.1%yoy to USD47.4b**
- **Trade war would impact Malaysia's semiconductor industry**
- **US to announce new limits on chip technology exports to China**
- **Maintain POSITIVE recommendation on Technology Sector**

SIA Report. Global semiconductor industry sales ticked up +0.1%yoy to USD47.4b in August 2022 from USD47.3b in the previous year. Regionally, month-to-month sales grew in Europe (+1.5%) but fell in Japan (-1.4%), the Americas (-2.8%), Asia-Pacific/All Other (-4.3%) and China (-4.9%). Meanwhile, yearly sales in Europe (+14.9%), the Americas (+11.5%) and Japan (+7.8%) climbed, while sales in Asia-Pacific/All Other (-2.9%) and China (-10.0%) fell.

Figure 1: Global sales of semiconductors in August 2022

MOM Sales (USD'b)			
Region	**Last Month**	**Current Month**	**% Change**
Americas	11.85	11.52	-2.8%
Europe	4.46	4.53	1.5%
Japan	4.11	4.05	-1.4%
China	15.67	14.90	-4.9%
Asia Pacific/All Other	12.91	12.35	-4.3%
Total	**49.01**	**47.36**	**-3.4%**

YOY Sales (USD'b)			
Region	**Last Year**	**Current Month**	**% Change**
Americas	10.33	11.52	11.5%
Europe	3.95	4.53	14.9%
Japan	3.76	4.05	7.8%
China	16.57	14.90	-10.0%
Asia Pacific/All Other	12.72	12.35	-2.9%
Total	**47.32**	**47.36**	**0.1%**

Source: SIA, MIDF Research

COMPANY IN FOCUS

Inari Amertron Berhad

Maintain **BUY** | Target price: RM3.53

Price @ 4th October 2022: RM2.50

- Continue to benefit from trade tension and re-routing of supply chain
- Strategic 5G positioning and active effort to expand its war chest.

Share price chart



D&O Green Technologies Berhad

Maintain **BUY** | Target price: RM4.58

Price @ 4th October 2022: RM4.05

- Strategic positioning within the automotive industry to capture the growing adoption of LED in future automotive design
- Shorter design in or design win process for EV cars amongst others bode well for their automotive LED segment.

Share price chart



MIDF Research

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China-Taiwan conflict. Nancy Pelosi's visit to Taiwan in early August prompted China to respond by launching series of military drills surrounding the island. Although Beijing stated military drills concluded on 10 August 2022, preparations and training will continue as China have not ruled out armed action if diplomatic approach efforts "by peaceful means" fail. If the tension escalates, it will create a significant threat to the semiconductor industry given Taiwan Semiconductor Manufacturing Company (TSMC) prominence as the world's top foundry, with more than half of the global chip manufacturing market share. This will jeopardise the semiconductor supply chain. As per mentioned in our "Poking the Dragon -Quantifying Taiwan Potential Dispute Effects" report, the probability of China invading Taiwan would be minimal since Taiwan has a 'silicon shield' that would probably hinder the island to be the next Ukraine. If no military action is taken against Taiwan but sanctions are placed on China, Malaysian semiconductor companies are in a position to benefit from supply chain disruption that arises from this conflict as Multinational Corporations (MNCs) may shift its operations out of the tense countries. Thus, we believe that companies such as Inari Amerton Bhd, Unisem (M) Bhd and Globetronics Technology Bhd might get positive spillover effects due to re-reouting of the supply chain.

New restrictions by the US on China. The US is anticipated to announce a new measure restricting Chinese firms' access to high-performance computing technologies. The CHIPS legislation was launched in July 2022, primarily to enhance local semiconductor research and manufacture in the United States. The new restrictions, however, may be the most far-reaching move taken by the Biden administration to prevent China from gaining access to American technology that drives data centres and supercomputers. The new rules aim to restrict China's access to sophisticated semiconductor technology, as the US intends to restrict the sale of US-made microchips to Chinese AI and supercomputing firms. The measures to be announced will include formalising technical constraints for producing 14-nanometer or better semiconductors (more advanced chips). Current restrictions enable US-based chip equipment producers, such as Applied Materials Inc., to sell machinery for use in China under certain conditions, or to supply machinery to selected Chinese companies to produce less-advanced semiconductors. The new restrictions will undoubtedly impede China's capacity to produce a slew of inventions in a broad range of industries. This might result in the establishment of a distinct technological centre and associated ecosystems between the US and China. However, we believe that this will have little impact on Malaysian semiconductors.

Maintain POSITIVE. Although the technology industry is still under pressure from rate hikes and other macroeconomic challenges, we remain **POSITIVE** on the sector since the demand for 5G, AI, and EV-related products and services remain strong, and these are the essential enablers to ignite the digital economy globally. The semiconductor industry is significantly reliant on developing technologies for computational power. As a result, we maintained our positive stance on this sector due to its sturdy mid-long term outlook in combination with the expanding acceptance and integration of smart technologies, which encompass a wide range of industries and applications. Our top pick for the technology sector is **Inari Amerton Berhad (BUY, TP: RM 3.53)** given the Group's future as Malaysia's largest outsourced semiconductor assembly and test (OSAT) remains intact. We also like **DOGT (BUY, TP: RM4.58)**, one of the top 5 LED producers globally as the company is ideally positioned to benefit from the EV market's accelerating expansion. Due to its great product innovation, large client base, and increased LED consumption per car.

Figure 3: Peer comparison table

Stock	FYE	Rec.	Price @ 4-October-2022	Target Price (RM)	Core EPS (sen)		Core PE (x)		DPS (sen)		Dvd Yield (%)	
					FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Inari	Jun	BUY	2.50	3.53	10.0	14.6	25.0	17.1	10.0	13.9	4.0	5.6
Unisem	Dec	BUY	2.61	4.07	15.8	17.7	16.5	14.7	10.0	10.0	3.8	3.8
Gtronics	Dec	BUY	1.18	1.94	7.7	9.0	15.3	13.1	8.5	9.5	7.2	8.1
MYEG	Dec	BUY	0.86	1.23	5.5	5.9	15.6	14.6	1.6	1.8	1.9	2.1
DOGT	Dec	BUY	4.05	4.58	12.8	14.3	31.6	28.3	2.5	3.5	0.6	0.9
Dsonic	Mar	BUY	0.47	0.57	0.36	2.94	133.3	16.3	0.6	1.8	1.3	3.8

Source: MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology