

07 September 2017 | Sector Update

Technology Sector

Maintain **POSITIVE**

One year of uninterrupted sales growth

- July 2017 global semiconductor sales surpassed USD33b
- All markets and semiconductor product category recorded higher sales
- The semiconductor industry experienced one year of uninterrupted sales growth on a year-over-year basis since August 2016
- Spending on semiconductor equipment to hit new high in 2017
- Maintain **POSITIVE** stance on the sector

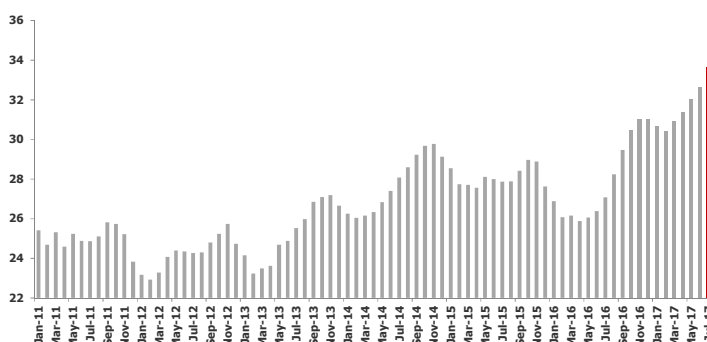
A. STATE OF GLOBAL SEMICONDUCTOR INDUSTRY

Global Semiconductor Sales (July 2017)

Sustained sales growth. Worldwide sales of semiconductors for the month of July 2017 surged by +24.0%yoy to USD33.6b from USD27.1b. Such pace of sales growth was last seen in September 2010 when sales increase by +25.0%yoy. This also marks the highest-ever sales recorded for the month of July. Inclusive of this, the global semiconductor sales (GSS) have been growing on a year-over-year basis for the past one year since August 2016. Notably, the GSS has been growing at a faster pace of more than +20%yoy for the past four consecutive months since April 2017. Higher sales was recorded across every major regional market and semiconductor product category. Sales from the Americas market were particularly robust at +36.1%yoy, leading the other markets. The Semiconductor Industry Association (SIA) commented that this reflects “*impressive and sustained growth for the global semiconductor market*”.

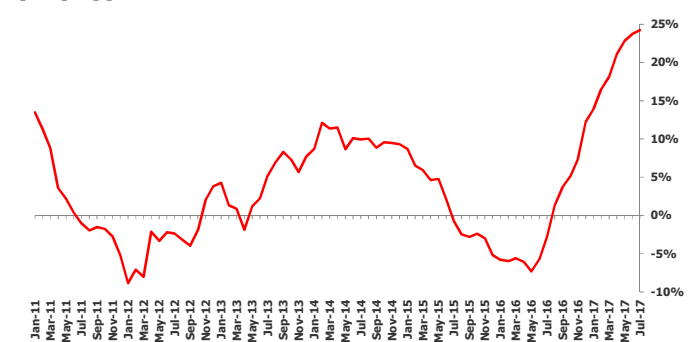
On-track to meet full year sales estimates. Cumulatively, 7M2017 GSS amounted to USD221.6b, an increase of +20.1%yoy. This is within the World Semiconductor Trade Statistics’ (WSTS) expectation, accounting for 55.9% of full year 2017 latest sales forecast of USD396.6b (previously USD377.8b). Premised on this, the monthly semiconductor sales for the next five months should average around USD35b. The SIA also commented that “*the industry is on track for another record sales total in 2017*”. To recall, in our previous report dated 7th August 2017, we mentioned that we are expecting that the monthly semiconductor sales should increase steadily throughout 3Q2017 before tapering off towards the end of the year.

Chart 1: Monthly global semiconductor sales (USD billion)



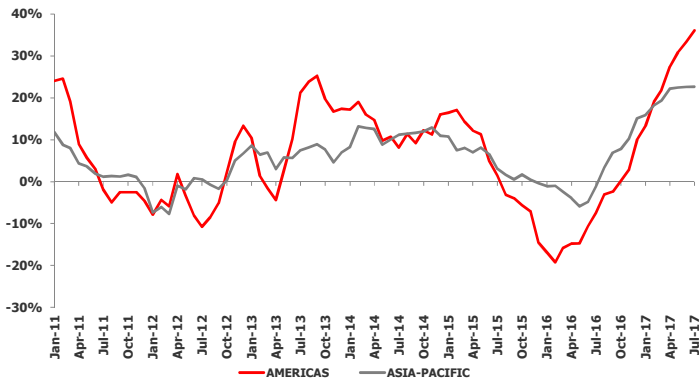
Sources: SIA, MIDFR

Chart 2: Monthly Global semiconductor sales (%yoy)



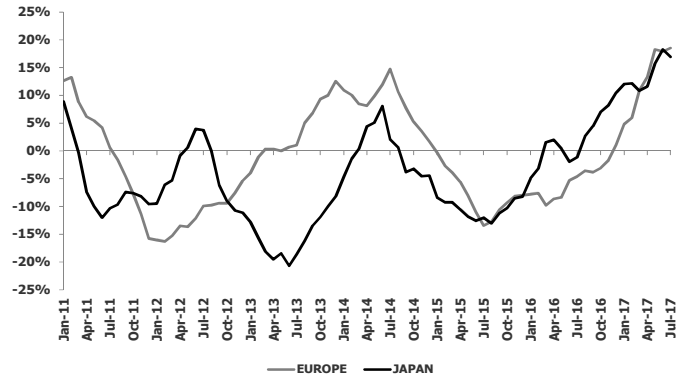
Sources: SIA, MIDFR

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



Sources: SIA, MIDFR
*Includes China

Chart 4: Europe and Japan sales (%yoy)

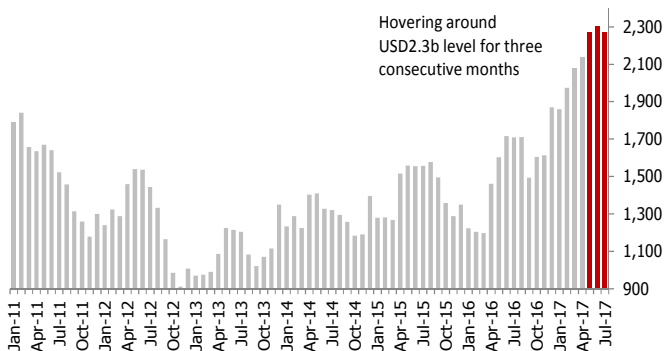


Sources: SIA, MIDFR

B. CAPITAL SPENDING (July 2017)

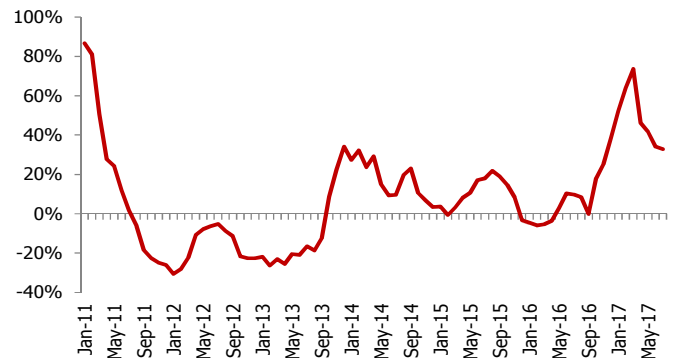
Robust capital spending. The North America-based manufacturers of semiconductor equipment recorded July 2017 billings of USD2.3b. This represents an increase of +34.1%yoy as compared to June 2016 billings of USD1.7b. Inclusive of this, billings has been growing on a year-over-year basis for the past fifteen months since May 2016, with the exception of September 2016 where a slight contraction of -0.1%yoy is recorded. Cumulatively, 7M2017 billings has surged by +47.3yoy to USD14.9b (7M2016: USD10.1b).

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 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 July 2017 sales figure which remained encouraging.

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.