

Semiconductor sector to pick up in H2 of 2016

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KUALA LUMPUR: Investor sentiment for semiconductor and equipment players is expected to improve in the second half of this year (H2, 2016) with demand picking up from May or June onwards in anticipation of major smartphone launches in August/September, according to Maybank Investment Bank Research.

The research house said on Monday with US dollar/ringgit forex reversing to the 4.03-level at end-June from 3.90 at end-March, it expect some reversal of the unrealised forex losses in the second quarter earnings as semiconductor players took a hit in the quarter ended-March 2016.

Notwithstanding further overnight policy rate cuts potential going forward, volatility in the ringgit should provide trading opportunities for the export-orientated semiconductor stocks, the research outfit noted.

First quarter semiconductor earnings were hit by several factors, which include weak demand due to channel inventory rationalisation by a major smartphone player and unrealised forex losses from mark-to-market of cash and receivables at US dollar/RM3.90 as at end in the first quarter (-9% quarter-on-quarter).

Furthermore, it expect on 2016 smartphone shipment growth to taper to low single-digit (in the first quarter shipment: +0.2% year-on-year (YoY) to 334.9 million units) followed by a 6% YoY decline in the five months of this year global semiconductor sales to US\$131bil also spooked investors' sentiment.

Amid softer global semiconductor sales, only China stood out with sales surging 70% YoY in the five months on better demand for Chinese smartphones (Huawei, OPPO, vivo: unit shipments jumped +58%-153% YoY).

The research house remains positive on the sector with its top pick ViTrox for its near-term earnings prospects.

Over the longer term, its business model is changing for the better with a wider customer base, and an enlarged addressable market from its new forays (new ventures into wafer-level and non-tech inspection) which should smoothen its business volatility and improve earnings visibility going forward, it added.

Maybank Research said it also liked Inari for its earnings visibility, riding on increasing RF content in smart devices (from higher adoption of 3G/LTE globally) and Broadcom's continuous outsourcing of its manufacturing processes.

Both Inari and ViTrox are beneficiaries of a weaker ringgit against US dollar, in good net cash position and syariah compliant. Globetronics remains a hold for uncertainty in orders for its sensor division, it said.