Sector View

Semiconductors

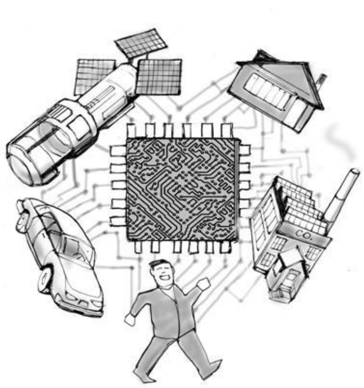
January sales above seasonal average, the environment remains soft but we see no further deterioration

	1 M	3 M	6 M	31/12/15
Semiconductors	4.6%	-8.4%	2.6%	-3.2%
DJ Stoxx 600	4.0%	-7.8%	-3.2%	-6.6%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS		**BUY**	**1310p**
Last Price	1017p	*Market Cap.*	GBP14,324m
ASML		**BUY**	**EUR85**
Last Price	EUR86.57	*Market Cap.*	*EUR37,514m*
DIALOG		**NEUTRAL**	**EUR38**
Last Price	EUR33.147	*Market Cap.*	*EUR2,581m*
INFINEON		**BUY**	**EUR15**
Last Price	EUR11.43	*Market Cap.*	*EUR12,928m*
SOITEC		**NEUTRAL**	**EUR0.65**
Last Price	EUR0.66	*Market Cap.*	*EUR153m*
STMICROELECTRONICS		**NEUTRAL**	**EUR7**
Last Price	EUR5.366	*Market Cap.*	*EUR4,888m*



2016 has started on a good trend compared to the end of 2015. According to SIA, reporting WSTS data, global semiconductor sales stood at USD25.9, down 4.7% on a sequential basis and down 5.0% on a yearly basis. However, the decline was softer than our 5-y historical benchmark pointing to a sequential decline of 9.6%. While December was below the seasonal average, we expected to see better momentum in January and the actual data was even better than anticipated. Overall, the chip market remains soft but the deterioration period might be over. We continue to expect soft growth for FY16 with a stronger H2 than H1 thanks to better comparison.

ANALYSIS

- **Global semiconductor sales continued to decrease on a yoy basis with January sales down 4.7% yoy to USD25.9bn.** On a sequential basis, global sales were down 5.0% in January compared to December sales. This was well below our benchmark based on 5-y historical data showing an historical seasonal increase of -9.6% in January vs. December. Based on the visibility we now have, we continue to anticipate a tough environment in smartphones while signs of a recovery in the automotive sector become tangible. We also note that macro-economical indices are stabilising but remain at very low levels (US and Chinese January. PMI index <50). Overall, the chip market remains soft but the deterioration period might be over. We continue to expect soft growth for FY16 of 2-3% with H2 stronger than H1 thanks to better comparison.

- **Once again, all regions, including Asia, showed a yoy decrease in sales.** Indeed, January sales in Asia, which represent about 60% of semiconductor billings (of which ~50% are made in China), were down by 0.7% yoy. This was the fourth time since January 2015 that Asian sales were down (July, November and December 2015 before). As for December, US momentum was particularly weak with a yoy decrease of 16.4% in January 2016. European and Japanese sales were down by 7.1% and 2.1% respectively (a soft decrease compared to -11% in 2015).

- **February and beyond: February sales expected to be in line.** Two very different trends are noticeable at the very beginning of 2016: 1/ a strong slowdown in the smartphone market and particularly in the iPhone value chain and 2/ an improving environment in the automotive sector while the PC and industrial sector remained stable. Inventory adjustments impacting the automotive sector came to an end and global production of light vehicles showed a strong rebound in certain regions such as Asia. The PC segment still looks to be at rock bottom with no signs of improvement. Nevertheless, we believe the overall environment will remain soft during H1 2016 but should benefit from positive comparison in H2 2016. February ISM data improved strongly with the US PMI Manufacturing index up to 49.5 from 48.2. Although it was still below the 50 level indicating that economic conditions remain fragile, the improvement was notable. February's production index continued to improve to 52.8 from 50.2 in January. The Inventories Index also rebounded from the very low level of 43.5 in January to 45.0 in February. Chinese data remained poor with Markit PMI Manufacturing at 48.0 (vs. 48.4 in January and 51.3 in April 2015).

VALUATION

- **2016e P/E valuation improved in February.** Our semiconductor valuation table shows that valuation differences between the six sub-sectors of the industry improved in February. On average, IP & EDA vendors, and Fabless have the highest valuation metrics with an average 2016e P/E ratio of 19.1x and 16.1x respectively (up sharply from 16.9x and 15.1x a month ago). Conversely, Memory makers have the lowest valuation with an average 2016e P/E ratio of 9.6x (up from 9.1x a month ago).

BG semiconductor sub-sectors valuation table

	YTD stocks perf.		2016e			
Subsector (# of comp.)	Avg. / Median	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (15)	-1.1% / -2.5%	21.8% / -23.0%	2.3x	8.5x	10.9x	16.1x
Logic & Analog IDM (19)	-7.6% / -5.6%	2.7% / -31.5%	2.4x	7.6x	10.6x	15.1x
Memory IDM (4)	-15.3% / -14.2%	-2.4% / -30.5%	0.8x	2.6x	6.5x	9.6x
Foundry (5)	-3.2% / -6.5%	10.7% / -16.5%	1.4x	3.8x	11.8x	11.9x
Semi Equipmt & Materials (11)	-1.1% / -0.5%	9.4% / -17.7%	1.9x	9.9x	-12.3x	15.0x
Intellectual Property & EDA (10)	5.5% / 5.2%	27.2% / -14.4%	4.1x	13.0x	17.3x	19.1x

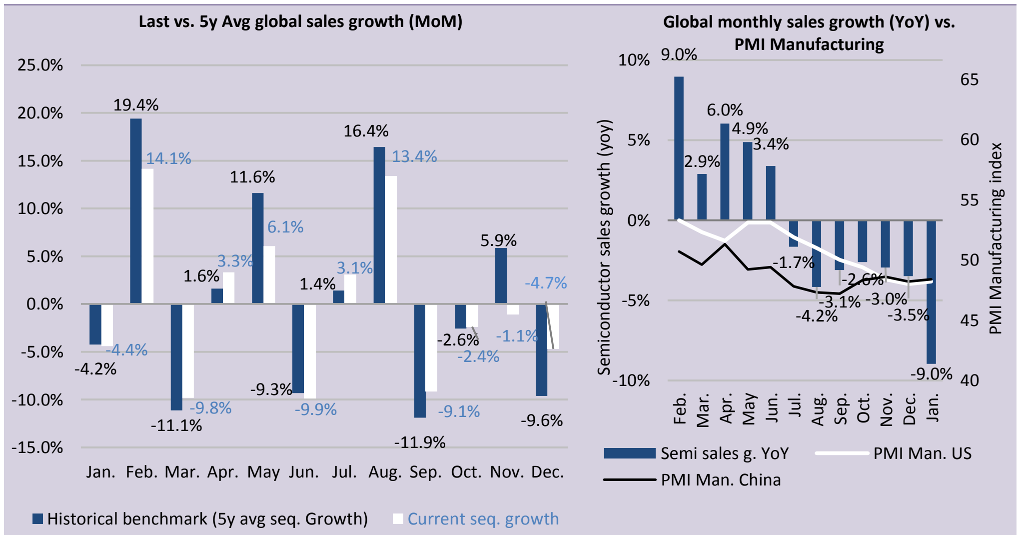
Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co.

NEXT CATALYSTS

- February 2015 SIA global billing reports, expected for early April.

January sales are above seasonal, February is expected to be in line



Sources: WSTS; Bryan Garnier & Co.

Click here to download document

Analyst :
Dorian Terral
33(0) 1.56.68.75.92
dterral@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Gregory Ramirez

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 63.4% NEUTRAL ratings 29.1% SELL ratings 7.5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London	Paris	New York	Geneva	New Delhi
Beaufort House 15 St. Botolph Street London EC3A 7BB Tel: +44 (0) 207 332 2500 Fax: +44 (0) 207 332 2559 Authorised and regulated by the Financial Conduct Authority (FCA)	26 Avenue des Champs Elysées 75008 Paris Tel: +33 (0) 1 56 68 75 00 Fax: +33 (0) 1 56 68 75 01 Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)	750 Lexington Avenue New York, NY 10022 Tel: +1 (0) 212 337 7000 Fax: +1 (0) 212 337 7002 FINRA and SIPC member	rue de Grenus 7 CP 2113 Genève 1, CH 1211 Tel +4122 731 3263 Fax+4122731 3243 Regulated by the FINMA	The Imperial Hotel Janpath New Delhi 110 001 Tel +91 11 4132 6062 +91 98 1111 5119 Fax +91 11 2621 9062