

Sector View

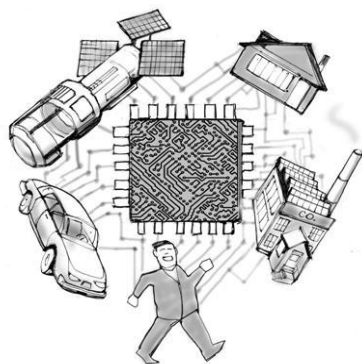
Semiconductors

	1 M	3 M	6 M	31/12/15
Semiconductors	-6.1%	0.8%	-9.9%	-8.7%
DJ Stoxx 600	1.4%	2.1%	-12.1%	-9.0%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS	BUY	1340p
Last Price	942.5p	Market Cap. GBP13,269m
ASML	SELL	EUR81
Last Price	EUR81.93	Market Cap. EUR35,503m
DIALOG	BUY	EUR35
Last Price	EUR27.377	Market Cap. EUR2,132m
INFINEON	BUY	EUR15
Last Price	EUR12.025	Market Cap. EUR13,607m
SOITEC	NEUTRAL	EUR0.5
Last Price	EUR0.6	Market Cap. EUR222m
STMICROELECTRONICS	NEUTRAL	EUR6.3
Last Price	EUR4.889	Market Cap. EUR4,454m



March data disappoints on PC weakness

In March, the environment improved for most of end-markets but was unexpectedly disappointing for PC. According to WSTS data, unadjusted global semiconductor sales stood at USD27.2bn, up 9.3% on a sequential basis and down 8.6% on a yearly basis. This increase was significantly lower than our 5-y historical benchmark pointing to a sequential increase of 19.4%. This was mainly due to disappointment in PC processor sales while the environment in the Automotive and Industry segment continues to improve. As a result, sales in the first quarter of 2016 fell by 6% compared to Q1 sales in 2015.

ANALYSIS

- Unadjusted global semiconductor sales continued to decrease on a yoy basis with March sales down 8.6% yoy to USD27.2bn.** On a sequential basis, unadjusted global sales were up 9.3% in March compared to February. This was disappointing compared to our benchmark based on 5-y historical data showing an historical seasonal sequential increase of 19.4% in March. Based on the visibility we now have, we anticipate further healthy momentum in the Automotive and Industrial segment while smartphones and PCs remains at risk. Macro-economic indices have deteriorated slightly but remain at an acceptable level (US ISM is now above 50 and Chinese ISM is still close to 50). Overall, the environment remains soft but some segments should perform better than others. We continue to expect soft growth of 2-3% over the full year with H2 stronger than H1 thanks to better comparison but another set of disappointing data could force us to change our medium term view.
- Europe was particularly weak in March.** March sales in Asia, which represents about 60% of semiconductor billings (~50% of which generated in China), were down by 7.1% yoy. European sales were down by 17.7%, US by 9.1% and Japanese by 6.9%.
- April and beyond: April sales might disappoint too.** Although the environment in the smartphone market has been stabilising recently, it appears that things could continue to deteriorate for few more months. In addition, PC end-market demand remains under pressure. However, Production of light vehicles in China rose by 7% yoy and by 9% in Europe over the three first months of 2016 (but US, which is ¼ of Chinese production and 1/3 of European production, decreased by 3%) pointing to a greener outlook while current Industry sector momentum looks also encouraging. Overall, we continue to expect better momentum in H2 2016 thanks to better comparison in Automotive and Smartphones. April ISM data decreased slightly with the US PMI Manufacturing index at 50.8 from 51.8 in March. Compared to January PMI at 48.2, this highlights a reacceleration in the industrial sector in the US that could boost demand for chips in this segment. This was also confirmed by a supportive April production index of 54.2. Finally, Chinese data also dipped slightly with Markit PMI Manufacturing at 49.4, compared with a low point of 49.7 in March.

VALUATION

- 2016e P/E valuation deteriorated slightly in April.** Our semiconductor valuation table shows that the overall valuation between the six sub-sectors of the industry deteriorated slightly in April. On average, IP & EDA vendors, and Fabless have the highest valuation metrics with average 2016e P/E ratios of 18.4x and 15.6x respectively (from 19.0x and 16.6x a month ago). Conversely, Foundries have the lowest valuation with an average 2016e P/E ratio of 11.2x (down from 12.2x a month ago) while memory makers remained stable over April at around 11.5x (vs. 11.4x).

BG semiconductor sub-sector valuation table

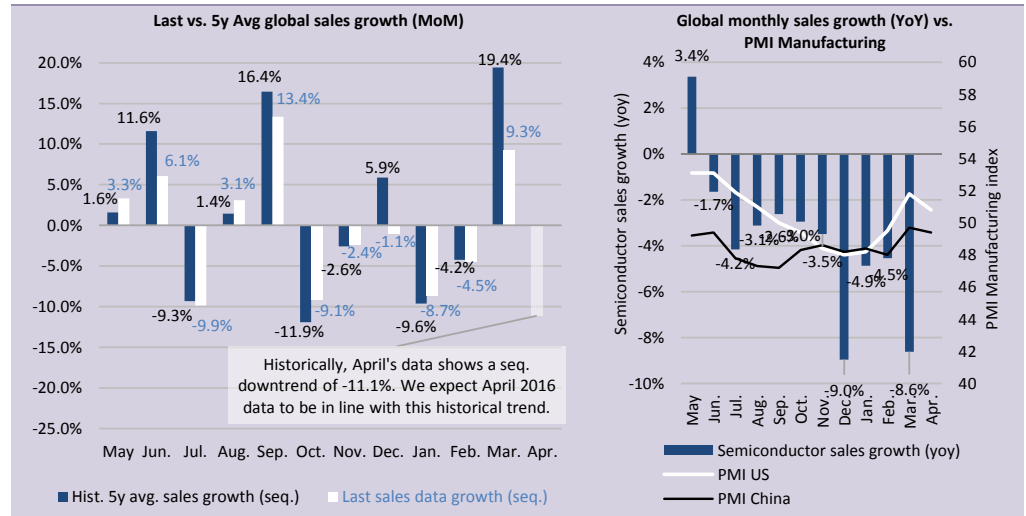
Subsector (# of comp.)	YTD stocks perf.		2016e			
	Avg. / Median	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (15)	-5.6% / -8.5%	19.6% / -28.1%	2.3x	8.5x	10.9x	15.6x
Logic & Analog IDM (19)	-7.3% / -5.4%	4.0% / -31.9%	2.5x	8.0x	11.2x	14.8x
Memory IDM (4)	-12.8% / -12.2%	2.4% / -29.4%	0.8x	4.2x	5.0x	11.5x
Foundry (5)	-6.7% / -5.4%	2.9% / -20.3%	1.4x	3.9x	12.9x	11.2x
Semi Equipmt & Materials (11)	-3.2% / -3.0%	6.3% / -10.0%	2.0x	8.0x	11.5x	14.1x
Intellectual Property & EDA (10)	11.2% / 11.3%	37.0% / -9.9%	4.2x	13.4x	17.9x	18.4x

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

- April 2016 WSTS global billing reports, expected for early June.

March sales disappoints due to PC's processors, April should harbour no surprises



Sources: WSTS; Bryan Garnier & Co.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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