

## Sector View

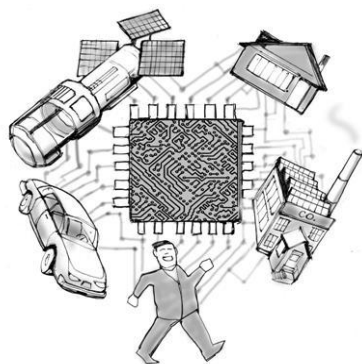
## Semiconductors

	1 M	3 M	6 M	31/12/15
Semiconductors	-0.6%	-0.3%	10.7%	-1.7%
DJ Stoxx 600	-5.0%	-1.4%	-4.1%	-10.5%

\*Stoxx Sector Indices

## Companies covered

<b>ARM HOLDINGS</b>	<b>BUY</b>	<b>1340p</b>
Last Price	1167p	Market Cap. GBP16,424m
<b>ASML</b>	<b>SELL</b>	<b>EUR81</b>
Last Price	EUR87.3	Market Cap. EUR37,830m
<b>DIALOG</b>	<b>BUY</b>	<b>EUR35</b>
Last Price	EUR26.351	Market Cap. EUR2,052m
<b>INFINEON</b>	<b>BUY</b>	<b>EUR15</b>
Last Price	EUR12.785	Market Cap. EUR14,474m
<b>SOITEC</b>	<b>NEUTRAL</b>	<b>EUR0.45</b>
Last Price	EUR0.61	Market Cap. EUR370m
<b>STMICROELECTRONICS</b>	<b>NEUTRAL</b>	<b>EUR6.3</b>
Last Price	EUR5.162	Market Cap. EUR4,702m



We are lowering our 2016 expectations although we expect June data to surprise positively

May sales came out in line with expectations and the seasonal average. According to WSTS data, unadjusted global semiconductor sales stood at USD25.2bn, up 0.1% on a sequential basis and down 9.1% on a yearly basis. This was 150bp below our 5-y historical benchmark pointing to a sequential increase of 1.6% in May. Computer processors disappointed again in May, resulting in lower overall ASPs (-2% mom) offsetting slightly higher unit shipments (+2% mom). With 5-month aggregated sales down 6.5% yoy, we now expect 2016 sales to fall slightly (vs. increase slightly before).

## ANALYSIS

- May data did not show an uptick in worldwide sales, we are lowering our 2016 expectations.** Unadjusted global semiconductor sales continued to decrease on a yoy basis to USD25.2bn (down 9.1%). On a sequential basis, unadjusted global sales were flat (+0.1%) in May compared to April. This was broadly in line with our benchmark based on 5-y historical data showing an historical seasonal increase in sales of 1.6% in May compared to April. **As a result, 2016 5-month sales came out 6.5% lower than in 2015.** Based on the visibility we now have, we continue to see a healthy environment in the Automotive and Industrial sectors, but expect Smartphone sector growth to remain bumpy until September (iPhone 7 release). Due to lacklustre sales in PC processors (MPUs), we have adjusted our 2016 expectations and now expect 2016 worldwide semiconductor sales to fall slightly (vs. increase slightly before). **We do not expect a significant impact on companies we cover due to limited exposure to the PC segment.**
- All regions were down yoy but the Americas were again the weakest point in May.** Sales in Asia (about 60% of semiconductor billings, o/w ~50% in China), were down 8% yoy in May. European sales fell 7%, Japanese sales 5% and US sales by 15%.
- June and beyond: we expect June data harbour a positive surprise.** May sales came out in line with our expectations and in view of current visibility, we expect June sales to be slightly better than historical seasonality (i.e. a sequential increase of 11.6%, +/-300bp). With 11.6% sequential growth, H1 2016 would be close to USD156.8bn, down 6.1% yoy. We expect Smartphone sales to be bumpy until September and have no signs of a rebound in PC sales. 5-month vehicle production remains healthy, with production of light vehicles up 6.2%, of which +6% yoy in China and +11% in Europe (however, the US, which accounts for a quarter of Chinese production and a third of European production, decreased by 5%). Our mid-term view has not changed and we continue to expect better momentum in H2 2016 thanks to better comparison in Automotive and Smartphones. June ISM data improved nicely with the US PMI Manufacturing index at 53.2 compared with 51.3 in May. Compared to the January PMI at 48.2, this continues to highlight a reacceleration in the industrial sector in the US. Chinese data dipped slightly with Markit PMI Manufacturing at 48.6 compared with 49.2 in May (48.0 in January) while the German Industrial production (IFO) data appears to be supportive in June (up 1.1% seq.). Finally, Taiwanese foundry sales were up 19.5% yoy in June, prompting us to be confident on June WW sales.

## VALUATION

- The 2016e P/E valuation improved slightly in June.** Our semiconductor valuation table shows that the overall valuation between the six sub-sectors of the industry continued to improve slightly in June. On average, IP & EDA vendors, and Fabless maintained the highest valuation metrics with average 2016e P/E ratios of 20.3x and 19.1x respectively (from 20.0x and 19.4x a month ago). Conversely, Foundry makers have the lowest valuation with an average 2016e P/E ratio of 11.9x (stable from 12.0x a month ago). IDMs valuation lowered to 15.5x respectively (vs. 16.4x a month ago).

### 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
Fables (14)	-0.6% / 0.1%	44.6% / -43.2%	2.3x	9.2x	11.7x	19.1x
Logic & Analog IDM (17)	-6.1% / -4.3%	11.4% / -33.8%	2.7x	8.2x	11.2x	15.5x
Memory IDM (4)	1.5% / 5.2%	12.8% / -17.2%	0.8x	3.6x	5.9x	12.9x
Foundry (5)	0.8% / 2.1%	14.9% / -21.5%	1.5x	4.0x	12.6x	11.9x
Semi Equipmt & Materials (11)	4.1% / 3.2%	28.5% / -15.8%	2.0x	8.1x	9.0x	14.4x
Intellectual Property & EDA (10)	17.4% / 14.7%	39.8% / -1.5%	4.4x	13.8x	18.4x	20.3x

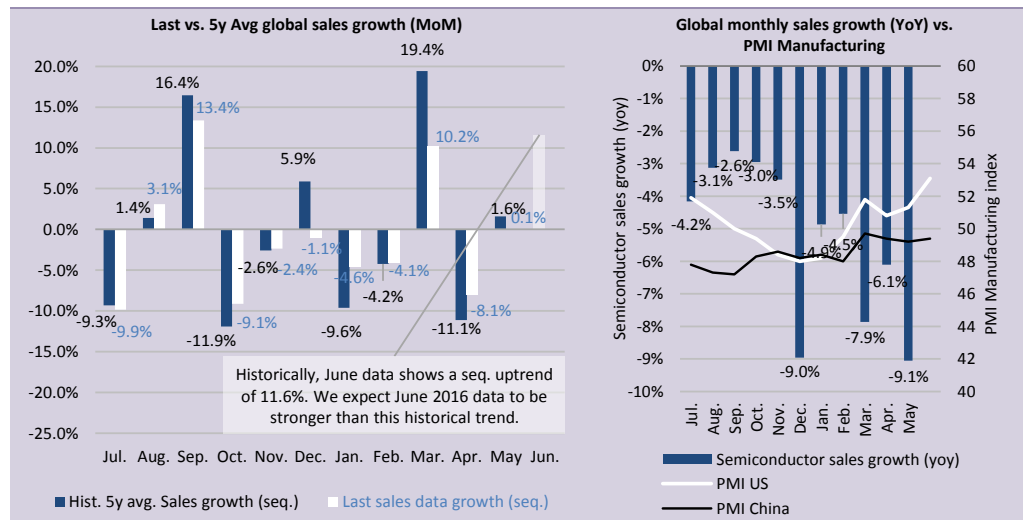
Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.

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

### NEXT CATALYSTS

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

### June data could surprise positively



Sources: WSTS; Bryan Garnier & Co.

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