

## Sector View

## Semiconductors

## Looking for lost growth (report released today)

	1 M	3 M	6 M	31/12/15
Semiconductors	20.8%	24.0%	31.8%	17.9%
DJ Stoxx 600	0.9%	-2.8%	5.7%	-6.8%

\*Stoxx Sector Indices

## Companies covered

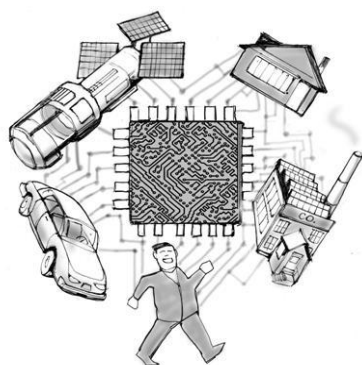
Company	Tender offer	to the	1410p vs. 1340p
<b>ARM HOLDINGS</b>			
Last Price	1672p	Market Cap.	GBP23,531m
<b>ASML</b>	SELL		EUR81
Last Price	EUR97.31	Market Cap.	EUR42,168m
<b>DIALOG</b>	BUY		EUR37 vs.35
Last Price	EUR29.742	Market Cap.	EUR2,316m
<b>INFINEON</b>	BUY		EUR16 vs.15
Last Price	EUR14.155	Market Cap.	EUR16,025m
<b>MELEXIS</b>	SELL		EUR48
Last Price	EUR60.17	Market Cap.	EUR2,431m
<b>SOITEC</b>	NEUTRAL		EUR0.50 vs. 0.45
Last Price	EUR0.72	Market Cap.	EUR436m
<b>STMICROELECTRONICS</b>	NEUTRAL		EUR6.5 vs. 6.3
Last Price	EUR5.664	Market Cap.	EUR5,160m
<b>u-blox</b>	BUY		CHF265
Last Price	CHF234	Market Cap.	CHF1,592m

For the semiconductors industry, 2015 and the first half of 2016 probably marked the start of a sluggish cycle. This market context has led to a radical change in the industry. A number of players are focusing on M&A while others are refocusing on their core business. The result is that yesterday's leaders are not necessarily tomorrow's leaders. In this backdrop, we recommend that investors favour specialists (or ultra-specialists) irrespective of their size.

## ANALYSIS

- **Average growth of 0.6% for the next three years.** Whereas the industry has been growing by more than 9% on average over the past 30 years, coming years are set to be sluggish. Growth has evaporated given the lack of momentum in the PC market and with a smartphone market no longer playing the role of catalyst in a sluggish economic backdrop.
- **The search for critical mass leading nowhere.** While many observers consider that the record number of M&A operations seen in 2015 reflect a search for critical mass (and hence operating leverage), we are convinced that in the majority of cases, acquisitions are above all motivated by an aim to deliver short-term growth forecasts. We believe that, for the semiconductors industry, the preconceived idea that size is a success factor is no longer true. In contrast, we are convinced that in today's market focusing on unique expertise and a strong positioning in a small number of verticals is preferable.
- **In this changing environment, we believe that stock-picking is more essential than ever.** We continue to favour players with strong positions in the automotive and industrial sectors. The two segments remain among the most dynamic with average 2015-18e growth rates of 6.8% and 7.5% respectively.
- **As such, we are initiating coverage of two medium-sized companies that are highly specialised: Melexis (Sell, FV EUR48) specialised in car components and u-blox (Buy, FV CHF265) specialised in positioning chips and connectivity for the automotive and industrial sectors.**
- **In addition, we have also updated our models, especially for forex, and consequently increased our FV from 1,340p to 1,410p on ARM Holdings, from EUR35 to EUR37 on Dialog, from EUR15 to EUR16 on Infineon, from EUR0.45 to EUR0.50 on Soitec and from EUR6.3 to EUR6.5 on STMicroelectronics.**

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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