

Maybank still positive on semiconductor stocks

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PETALING JAYA: A strengthening ringgit, a weak first quarter, and past strong gains in 2014 and 2015 make semiconductor stocks easy unwinding targets for investors, said Maybank Investment Research.

It has warned of further volatility for semiconductor and technology stocks, as they are perceived to be net US dollar exporters.

"We remain positive on this sector on the back of demand recovery ahead of new smart device launches in the second half of 2016. Valuations remain compelling," said Maybank, which made no change to its US\$1/RM4.10 exchange rate average for 2016.

Maybank said that on an ex-cash position, Inari Amertron Bhd, Globetronics Technology Bhd and Vitrox Corp Bhd now traded at 12 times (x), 11x and 12x price earnings (PE) 2017 earnings.

Maybank is still positive on Inari and it remains a top pick although some earnings adjustments have been made.

After taking a conservative view on its shipment to Broadcom (renamed from Avago), Maybank has trimmed its 2016 net profit forecast by 7%.

"We now expect Inari's third quarter earnings for its financial year (FY) ended June 30, 2016 to fall by 25% to 30% (about RM30mil) on a quarterly basis, versus our earlier expectation of a 15% to 20% (RM35mil) fall. We expect the fourth quarter net profit to rebound to RM55mil to meet our revised FY16 forecast of RM173mil," said Maybank.

Maybank also shaves its FY17 and FY18 earnings estimates by 5% each and lower its target price by 10% to RM3.85. This is pegged to a lower PE target of 16x for calendar year (CY)17, taking into account near-term volatility in Ringgit.

Maybank said that it remains excited on Inari's busy schedule.

"There are potential job wins from Broadcom and Osram in Penang would be earnings accretive from FY17 onwards.

"Conservatively, we have factored in RM150mil and RM300mil of job wins for FY17 and FY18," said the research house.

Inari also has a joint venture with PCL Technologies to expand its addressable market in China for industrial fiber-optics products which has yet to be imputed in Maybank's forecasts.

Meanwhile, Maybank is not making any earnings changes to Globetronics and ViTrox

"We keep our earnings forecasts and buy calls on Globetronics and ViTrox unchanged but favour ViTrox over the near term for relatively better earnings visibility, riding on a strong order backlog which more than offset the impact of the ringgit's strength," said Maybank. "We now value Vitrox at RM4.00, pegging it at 14x CY17 earnings, versus 13.5x previously." Globetronics also remains a "buy" for the potential adoption of the 3D-imaging sensor in the next generation smartphone but at a lower target price of RM6.90 (-6%) as it lowers its PER peg to 16x from 17x CY17 earnings.

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