

3 July 2020

Technology | Technology

Technology

Overweight (Maintained)

Still Bullish On Semiconductors; Still O/W

- **Maintain sector OVERWEIGHT, semiconductor industry recovery expected.** Sustained capital equipment spending and the global memory rebound can be expected for 2H20, too. Inventories are stabilising, and dynamic random-access memory (DRAM) pricing is likely to rise. SEMI also expects equipment sales to grow 5.5% YoY to USD60.8bn in 2020, on advance logic and foundry spending and new projects in China. Chip sales have bottomed out, and should improve, but the industry is unlikely to see a V-shaped recovery, as moderated growth is more plausible.
- **Semiconductor demand should mainly come from cloud and PCs,** where demand has risen due to work-from-home measures taken against a backdrop of global lockdowns. Other segments like smartphones and Internet of Things (IoT) continue to enjoy strong demand globally. The drive towards 5G has also increased the demand for communications infrastructure. Other segments include artificial intelligence, the automotive sector, as well as the high-performance computing segments.
- **Avi-Tech Electronics (Avi-Tech) reported a strong 2Q20,** with PATMI surging 46.7% YoY to SGD1.4m. The semiconductor sector's slowdown has likely bottomed out for the company, and its quarterly numbers should improve ahead. FY20 should be a much better year, with earnings having likely bottomed in FY19.
- **Frencken's share price has exceeded our TP.** We are now waiting for an update on their key customer, before reviewing our estimates and TP. Management remains bullish in its outlook, as the company stands to benefit from its key customer's new product in the industrial automation segment for FY20F, despite expecting a drop for just 1Q20. We remain bullish on its semiconductor segment, which should grow looking forward.
- **Fu Yu – stable and resilient.** With more new projects in the medical and consumer and automotive fronts ahead, we expect this company's positive growth momentum to continue from FY21F onwards. Despite a blip in FY20 caused by the COVID-19 pandemic, we expect Fu Yu to weather the storm, thanks to its robust net cash balance sheet. Also, it should still be able to reward its investors with attractive dividends, despite a temporary drop in profits this year. Fu Yu is also an attractive target for privatisation or acquisition.
- **Top Picks are Avi-Tech, Frencken and Fu Yu.** We like Avi-Tech and Frencken due to their exposure to the semiconductor sector, and expect their upcoming results to be positive – as these companies are positioned to benefit from the uptrend in semiconductor demand.

Stocks Covered 6
Rating (Buy/Neutral/Sell): 3 / 2 / 1
Last 12m Earnings Revision Trend: Positive

Top Picks

	Target Price
Avi-Tech	SGD0.50
Frencken	SGD0.90
Fu Yu Corp	SGD0.28

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Company Name	Rating	Target Price(SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Avi-Tech Electronics	BUY	SGD0.50	22.0	12.0	1.3	6.1
Frencken Group	BUY	SGD0.90	(1.1)	9.6	1.2	3.1
Fu Yu Corp	BUY	SGD0.28	19.1	10.7	1.1	6.8
Silverlake Axis	NEUTRAL	SGD0.24	-	12.1	2.9	2.8
Venture Corp	NEUTRAL	SGD15.10	(8.4)	16.3	1.8	4.2
Valuetronics	SELL	SGD0.50	(10.7)	9.2	1.1	6.2

Source: Company data, RHB

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