

## Semiconductors See Gains

### *Business Getting Better—At Least Incrementally*

Several data points have recently emerged specifying incremental improvements to business conditions in the semiconductor industry including February sales gains in Taiwan, positive 1Q preannouncements, and a couple of respectable earnings announcements. I continue to believe the chip sector is poised to outperform from both a fundamental business perspective as well as equity market prices when the ultimate recovery finally begins, and that we will continue to enjoy bear market rallies until the profile of such a recovery becomes apparent. National Semiconductor will kick-off the 1QCY earnings season with its February-ending quarter earnings announcement tomorrow, Wednesday March 11.

**Taiwanese Gains:** Public companies listed on the Taiwanese exchange are required to report revenues every month (not earnings or anything else, just sales), and a number of electronics companies have reported sequential monthly gains during February in the last few days. Sequential monthly revenue gainers include: Acer +41%, Compal +38%, Holtek +29%, Inventec +23%, Macronix +49%, MediaTek +28%, Quanta +15%, Richtek +58%, Sonix +60%, Sunplus +22%, Vanguard +16%, and Winbond +8%. End-market attributions centered on China and include notebook PCs, netbooks, white-box handsets, digital cameras, networking, consumer electronics to East Asia, specialty RAM and NOR flash. **Bear Caveat:** 1Q revenue continues to track to sequential double-digit declines despite these big sequential February gains. Also, TSMC (-8%) and UMC (0%) have not shared in the February spoils, but have clearly indicated recent business and utilization gains. Finally, I am sure that February benefited significantly from the hole in January sales due to Chinese New Year occurring during the last week of the month.

**Mid-Quarter Up-Ticks:** A number of companies have already offered positive mid-quarter updates, including: Altera, Macronix, MediaTek, Standard Microsystems, TSMC, Texas Instruments and Xilinx. Possibly more telling is the lack of any negative preannouncements for the quarter as of this writing.

*Standard Microsystems* preannounced revenue expected at the high-end of its previous range of \$45-51M on February 9 for its February-ending fiscal quarter on February 9. It also continues to expect growth during the subsequent period. **Bear Caveat:** Quarter revenues are still expected to decline by over 40% sequentially.

*Altera* raised 1Q guidance on March 2 for sales to -20-15% from -25-15% due to Chinese 3G networking markets. **Bear Caveat:** Sales still down at least 15%.

*Xilinx* raised 1Q guidance on March 3 for sales to -18-13% from -25-15% due to wireless communications markets. **Bear Caveat:** Sales still down double-digits.

*MediaTek* in Taiwan raised 1Q guidance on March 4 for sales to +8+13% from -16-8% due to cell phone handset sales to emerging markets (China). **Bear Caveat:** Can't think of one . . .

*Texas Instruments* raised the mid-point of expected 1Q revenues by \$50M to a range of \$1.79-2.05B from \$1.62-2.12B primarily due to embedded processors and analog products to Chinese 3G markets on March 9. **Bear Caveat:** Pretty small sales increase—more of a 'narrowing of the range' kind of announcement—and sequential sales still expected to drop by -23% sequentially. Also, management specifically did NOT attribute improvements in any broad based market capacity. Most damning, though, was a very clear statement that end-demand continues to deteriorate and that a bottom has definitively NOT been achieved—despite an improvement in bookings in both January and February that could well result in book-to-bill parity this quarter up from 0.75 last quarter, and expectations that current shipments appear to be only slightly behind consumption. Unfortunately, management did not specify the reasons for such an opinion during the call.

*TSMC* raised 1Q revenue expectations to NT\$36-38B from NT\$32-35B on March 10 due to Chinese demand. **Bear Caveat:** Sales still down by over 40% for the quarter.

*Macronix* in Taiwan raised 1Q revenue expectations to -5+5% from -25-20% on March 10 due to consumer electronics markets in East Asia. **Bear Caveat:** Macronix may well be benefiting from NOR flash business upside related to competitor Spansion's bankruptcy.

**Sigma Designs Earnings:** SIGM announced January-ending fiscal earnings on March 4, after the close. The company exceeded the high-end of the published range of estimates for revenue, earnings and subsequent period guidance, and the shares rallied by nearly 6% the following day. Quarterly sales grew by 1% sequentially and guidance called for a flat upcoming period. The company took a 20% hit in sales two quarters ago, but has significantly outperformed a two-quarter industry decline approximating -40% and many companies getting cut in half. **Bear Caveat:** SIGM is not a bell-weather for the industry, with its \$47M in quarterly sales and dominance in

the highly fragmented, 12M unit annual market for IPTV set-top box controller chips used by telephone companies to offer television services. Broadcom, STMicro and Intel struggle to justify a serious competitive effort for this niche market, in my opinion.

**Marvell Earnings:** MRVL announced January-ending fiscal earnings after the close on March 5. The company modestly exceeded the average of published revenue estimates, exceeded the high-end of the range of published earnings estimates, and modestly beat expected revenue for the subsequent period guidance. The shares rallied by 7% the following day. Two quarters ago sales declined by -6%, last quarter sales fell by -35%, and guidance calls for a range of -18+3%. The company paid off its debt last quarter and it plans a 15% layoff. **Bear Caveat:** Performance was good relative to expectations, but I consider it to be more a triumph of expectation accuracy that has been sorely lacking from published analyst estimates over the last couple of quarters. In addition, management clearly stated the reason for the 15% layoff was due to its belief that 'the current economic climate will not substantially improve over the short term.'

**1Q Earnings Kick-Off:** National Semiconductor is scheduled to announce February-ending quarter earnings tomorrow, Wednesday March 11, before the equity markets open. NSM has the privilege of initiating quarterly earnings for the chip sector with its May-ending fiscal year. In general, I expect 1Q earnings to be sequentially down, although better than expected as consistent with the data cited above. In addition, I expect 2Q revenue guidance to be approximately flat. I expect this would be viewed positively by the equity market for two reasons: First, it would clearly specify a chip-sector revenue bottom amid the current economic malaise; and second, flat-ness would reflect favorably against this seasonally weak quarter. **Bear Caveat:** A recovery timing and profile remains to be seen . . .

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