Semiconductor Industry 2023 Outlook

HONG KONG, CHINA, January 11, 2023 /EINPresswire.com/ -- A year ago, the semiconductor plate was A share market hot plate. But into 2023, it is still cut single, price shrouded. After two years of rapid growth, the semiconductor industry has entered a downward cycle due to the adjustment of downstream demand.

In 2022, weak demand and excess chip inventory in the downstream industry represented by smartphones have spread from local areas to the entire chip industry. The prices of driver ICs, analog chips, and MCU chips have reduced one after another, and this phenomenon has been directly transmitted to the wafer industry.

In 2023, will the overall downward trend of the industry usher in an inflection point? Which segments will recover first? The 21st Century Capital Research Institute will try to answer these questions by combining research on the industrial chain.

Downward influence

Let's start with a summary of the semiconductor sector over the past year. Performance is the most direct observation dimension.

From the third quarter of last year, the net profit growth of the semiconductor sector, only 69 of 89 companies net profit growth slowed down or even declined. Jingfengmingyuan's net profit increased more than 18 times in the first three quarters of 2021 and fell 135% in 2022. Although there is a high base from the previous year, the downstream demand changes on the company's performance are not small. In the first three quarters of last year, the company achieved an operating income of 807 million yuan, a year-on-year decline of 55.79%; The net loss was 201 million yuan.

The 21st Century Capital Institute learned that the impact of downstream demand on performance was almost industrywide, with several companies admitting that the downturn lasted for most of last year.

Guoxingguang Electronics is mainly engaged in LED devices and component products. When talking about the current situation, the company said, "Affected by the industry demand contraction and the epidemic, the company's business performance has a certain pressure." And they will continue to focus on the LED packaging industry in the future.

Not only has the impact on performance, industry changes have also affected the business layout of related companies. The 21st Century Capital Research Institute noted that at the end of 2022, chip design company Unigroup Guowei changed its offerings.

According to JAK Electronics, the company terminated the investment in the research and development project of the vehicle controller chip, but changed to the investment project of Shenzhen Guowei and permanent replenishment of working capital.

In this regard, the company explained that the on-board control chip technology and market barriers are high. As the semiconductor industry enters a downward cycle, the relationship between supply and demand is reversed, and the product price shows a significant downward trend. Moreover, foreign competitors in the monopoly position of the industry continue to introduce competitive products with higher cost performance, bringing more pressure to the future market promotion of the company's related products. Compared with the comprehensive cost advantage of foreign competitors, China has not yet formed a complete industrial ecology, industrial chain resources are insufficient, and the conditions for product industrialization of the company are not mature. So it is risky to continue large-scale investment.

It is a microcosm of the industry adjustment. In 2020 and 2021, the new energy vehicle track is hot, causing the market to pursue the on-board control chip. But in the environment of economic downturn, the expansion of enterprises slowed down significantly.

The opportunity to grow against the trend

Slowing or even declining earnings growth has been a common phenomenon in the semiconductor industry. However, it is worth noting that some companies bucked the trend and, although growth slowed from the same period last year, still doubled.

These strong performance of enterprises are related to subdivision industry boom degree or product structure adjustment.

Another outstanding feature of these enterprises is that, in the same period last year, 80% of them were also in a state of rising net profit growth. That is to say, based on better overall prosperity in the industry last year, these enterprises still achieved multiple increasements.

One of the more obvious is the strong trend of semiconductor equipment. Naura, the equipment leader, achieved a revenue of 10.012 billion yuan in the first three quarters of 2022, a year-on-year growth of 62.19%; The net profit of returning mothers was 1.686 billion yuan, up 156.13% year on year. Xilai Ying Material, a maker of semiconductor equipment parts, reported operating revenue of 1.99 billion yuan, up 34.64% year on year, and a net profit of 275 million yuan, up 128.12% year on year.

In addition, the net profit growth rate of the enterprises involved in materials, design, closed

tests and other links. The main logic behind this is the distribution characteristics of the industry pattern.

According to JAK Electronics, the global semiconductor equipment parts market in 2021 is about $51.3 billion; According to SEMI's forecast of the worldwide semiconductor equipment market size, the global semiconductor equipment components market will reach $54.27 billion, $45.56 billion, and $53.58 billion, respectively, in 2022-2024. Semiconductor component companies located in the U.S., Japan, Europe, and China's self-supply rate of semiconductor components is less than 10 percent, which means there is ample room for domestic development.

Semiconductor materials divide into wafer manufacturing materials and packaging materials. According to SEMI, the global volume of semiconductor materials in 2021 is $64.3 billion; It may reach $69.8 billion in 2022; More than $70 billion in 2023. Semiconductor material manufacturers are mainly in Japan, the United States, South Korea, and Germany. China's domestic self-sufficiency rate is still low, less than 15%.

Therefore, the 21st Century Capital Research Institute believes that domestic development will remain the main line in 2023, and the localization of the semiconductor supply chain will continue to advance, among which, semiconductor equipment and components, materials, key chips, and other growth are relatively stable.

When will the recovery turn?

In addition to the analytical dimension of industrial chain development, from the perspective of downstream demand changes, we can also infer the growth opportunities in the New Year.

At present, several hot downstream industries, respectively in the consumer electronics, communications, industrial, automotive, and other fields, for example, the weakness of consumer electronics is the main reason for this wave of decline, and its large proportion, also means that the industry recovery depends on the recovery of consumer electronics.

The 21st Century Capital Research Institute previously reported that in the consumer electronics industry, represented by smartphones, related inventories began to recover to healthy levels from the third quarter of 2022.

Wang Xiang, president of Xiaomi Group, said earlier on the earnings call, "The company's Q3 performance improved quarter-on-quarter, and global smartphone shipments also increased quarter-on-quarter for two consecutive quarters. These two improvements are very positive signs for Xiaomi." At the same time, "the third quarter of the company's overall inventory water level declined steadily, down 9% quarter-on-quarter, showing a good trend. In terms of overseas markets, the company will focus on the upcoming fourth quarter, will take full advantage of major shopping festivals at home and abroad, and is also expected to see a significant improvement in overall inventory."

At present, the industry consensus is that the consumer electronics recovery turning point will come in the second half of 2023. Xu Qi, president of real China, said in an interview that the realm's inventory pressure problem no longer exists and that he expects the entire mobile phone industry to recover in the second half of next year.

Institutions are also targeting the recovery turning point in the second half of next year. IDC had forecast a recovery next year. While the forecast has not changed, given the market trends in the third quarter, IDC has pushed back the period and believes the recovery will start to show in the second half of 2023.

The verdict from the chip industry is similar. Mr. Katuzan, a senior vice president at Qualcomm, said the slow growth of most electronics markets is largely due to external factors such as inflation, and recovery won't be seen until at least the second half of 2023 amid a backlog of inventory.

SMIC agrees that "this cycle correction will last at least until the first half of 2023. According to the judgment of the downstream mobile phone market on the recovery of the industry, it will not recover until at least the second half of the year, even considering the demand for the advance stock, the recovery of the upstream industry chain will indeed not see hope until at least the first half of 2023."

In addition, the demand for industrial controls is relatively robust. The 21st Century Capital Research Institute learned from the industrial chain survey that, in terms of FPGA chips, which are mainly for industry, communication, and other long-cycle demands, related companies all said that the sales in 2022 are relatively stable and not affected by the consumer electronics market.

In the automotive sector, compared with the previous situation of a large shortage of automotive electronics, 2022 has been significantly improved, from the perspective of many chip companies, this is the most growth in the past year. The reality is that growth has yet to offset the decline in consumer electronics.

In 2023, the growth contribution of this segment will increase as the penetration rate of automobile electrification and intelligence increases.

Specifically, the 21st Century Capital Research Institute believes that on the one hand, the growth of automotive electronics demand such as IGBT, SiC and vehicle sensors will drive the further volume of upstream automotive chip manufacturers. On the other hand, the electrification of new energy vehicles accelerates penetration, and the trend of large-screen and multi-screen vehicle displays is obvious. Meanwhile, new display technologies such as OLED, MiniLED, and HUD are applied in the onboard field, and the growth of the semiconductor display industry is also predictable.

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