

Global Semiconductors

Disty. call takeaways: inventory accumulation leading to challenging 1H24E

Industry Overview

2H23 weakness extending to 1H24E on inventory build

Today we hosted a call reviewing semis demand/supply outlook with Mr. Zhenmin Kevin Wang, MD Asia-Pacific region at Sourceability LLC – an approved independent chip distributor supporting analog, MCU, and discrete chips. Overall, Mr. Wang communicated a weak environment, beginning in 2H23 and expected to extend through 1H24E (Q3 -25% QoQ, Q4 -20% QoQ). Weakness is widespread, owing to inventory accumulation across the supply chain as lead times have normalized (18-22 weeks), as well as general demand weakness leading to project push-outs. Autos (prior bright spot) has turned, with a large decline in demand visible starting Q3, tied to lower lead times. Mr. Wang's disty business has historically benefited from shortages, so business lows tend to correspond with periods of supply/demand balance (as seen currently with normalizing lead times constraining business). This has yet to bottom, with Mr. Wang expecting Q1 sales down single-digits QoQ, weakness pronounced in China. Signs of improvement surfaced in Nov'23, yet are difficult to extrapolate on seasonal Q1 weakness (Chinese New Year). Current distributor weakness could signal softness at semis producers likely to continue into CY24E. We expect Q4 earnings to report similar dynamics, with more pronounced autos weakness most impactful for TXN, ADI, ON, MCHP, and NXPI (although less drivetrain-reliant). However, we remain more optimistic on AI infrastructure (AI accelerators/custom ASICs and networking) benefitting NVDA, MRVL, AMD, AVGO.

Auto market: weakness worsened in Q4, continuing n-t

Mr. Wang reported a vastly different auto dynamic: 1) Large auto demand fall-off in Q4 a function of better supply (lead times improved) rather than lower automaker/Tier-1 forecasts; 2) Shift in supply chain dynamic, with automakers directly involved in sourcing and willing to wait for lower prices/lead times; 3) Key variable is potential lifespan of many new EV OEMs, esp. in China where competition is particularly stiff.

China substitution effect heightens low-end competition

Chinese market is especially weak (Industrial project push-outs, low demand), yet substitution effect continues to accelerate for lower-end products. Domestic Chinese suppliers now replacing Western products in low/mid-tier consumer, smartphone, appliance, auto, wearables, medical device markets where driven by price over quality (negative for TXN/ON). Separately, Samsung/Apple are losing market share of Chinese high-end smartphone market.

1H24E likely bottom, demand reacceleration 2H24E

Mr. Wang sees Q1 outlook likely down single-digits % QoQ on weaker demand and customers now able to wait for prices to come down. DRAM/memory market appears healthier, with some slight demand increases and no current shortages/deliver issues. Elevated channel inventory likely to pressure timing of recovery, with declines expected to extend through 1H24E.

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DRAM: Dynamic Random Access
Memory

EV: Electric Vehicle

ON: onsemi

ADI: Analog Devices

NVDA: Nvidia

MRVL: Marvell

AMD: Advanced Micro Devices

MCU: Microcontroller unit

Disty: Distribution

MCHP: Microchip

NXPI: NXP Semiconductor

TXN – Texas Instruments

AVGO – Broadcom

OEMs – Original Equipment

Manufacturers

MD – Managing Director

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