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Q&A with Rob Sanders

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In the next in our series of concise interviews 'Q&A with...' we talk to Rob Sanders, Head of European Technology Hardware Research. Rob shares his insights into when he believes chip shortages might end and how rising input prices are affecting the semiconductor sector.

Q: Rob, when do you expect the chip shortage to end?
A: We believe the worst is behind us and conditions will have eased by year-end, despite heightened uncertainty due to Covid and the situation in Ukraine. While specific shortages persist, there is also evidence of stockpiling. Overall, risks are increasing of a phase of inventory digestion, especially as some end-markets like PCs and smartphones are slowing. Concerns around neon supply following the war in Ukraine also seem overstated.

Q: How are rising input prices likely to affect the semiconductor sector?
A: The chip shortage has led to semiconductor companies lifting prices faster than costs, creating supernormal profit. Prices have been hiked as much as 20% with barely any customers walking away. But rising utilities and raw material costs should cap gross margins. Semi companies may also limit annual cost downs in long-term contracts, given the slowing of Moore's Law and pressure to localise supply chains, as well as the uncertainty over input costs. With about 70% of electronics demand tied to consumers, the rising cost of living is another concern.

Q: How do you think efforts to localise production in the US and Europe could affect the sector?
A: The US and EU have announced legislation (US/EU Chips Acts) to expand domestic production to improve resiliency. While welcome, building fabs will take time, given long lead times and relatively scarce manufacturing talent. Financial support is necessary but no guarantee of success. Just as important is the quality of the process, yield, and time-to-market. Still, the trend to localise manufacturing should support semi equipment names in particular.

Clients of Deutsche Bank Research can access more here:

- Tech Hardware: “Q4-21 preview: Nearing the end"
- Global Semiconductors: “Inventory analysis: Don’t stop ‘til you get enough”
- Global Semicap equipment: “Neon availability not a concern to the industry in the near term”
- Global Semiconductors: “What’s priced into semi stocks following macro/ geopolitical shock?”
- TSMC: “The kingmaker”
- Intel: “Announces investments in EU”
- Intel: “Analyst Day Takeaways: Torrid pace, but still a long race”

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