

Chartered: It's Time to Let Go

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Abu Dhabi's Advanced Technology Investment Company's (ATIC) bid for Chartered Semiconductor yesterday puts an end to months of speculation about the future of the state-owned foundry. Reading beyond the immediate financial merits for stakeholders, Temasek Holding's support for this bid could serve as silent acknowledgement that government ownership is no longer strategic in the mature semiconductor space.

Temasek currently owns a 62 per cent stake in the homegrown chipmaker through Singapore Technologies. Unlike its other local investments such as CapitaLand and DBS, Chartered has a chequered history since listing nearly a decade ago.

Viewed by industry watchers as a technology laggard in its earlier years, the homegrown foundry struggled to achieve profitability and played second fiddle to Taiwanese rivals TSMC (Taiwan Semiconductor Manufacturing Co) and UMC (United Microelectronics Corporation).

Temasek kept faith with its chip unit despite the spotty track record, subscribing for the bulk of its rights issue this year and the earlier cash call in 2002. Patience, however, was wearing thin among analysts and minority investors.

While a few losing bets could be overlooked in boom times, the onset of the global financial meltdown put Temasek's investments, particularly the loss-making ones, under much greater scrutiny. It came under fierce fire for sustaining heavy losses with some questionable bets, such as the stake it bought in Merrill Lynch in late 2007.

An uncertain recovery, coupled with Chartered's mounting debt burden and a timely offer from ATIC combined to present Temasek with a compelling exit strategy.

However, Temasek's 'irrevocable' support for ATIC can also be interpreted as a sign that government interest is no longer needed in the semiconductor sector.

When Chartered was formed in 1987, authorities needed to give the nascent industry a nudge in an attempt to lure wafer product investments away from the United States, the destination of choice at that time.

Authorities in the China and Taiwan governments employed the same tack, giving birth to chip giants TSMC and UMC, as well as mainland-based Semiconductor Manufacturing International Corp.

Two decades on, Singapore's semiconductor industry has taken on a life of its own. It booked revenues of some \$37.3 billion in 2008 and accounted for 15.4 per cent of the country's manufacturing output.

Providing facilities from wafer production to integrated circuit design to assembly and testing, the Republic has attracted heavyweights across the entire semiconductor spectrum.

And despite its rising labour costs, Singapore will continue to appeal to chip players for some time to come. With technology advancements, chip-making processes are becoming less labour-intensive. Furthermore, the Republic's efficient logistical network and reliable industrial water supply are factors that other countries are finding hard to replicate.

French investments such as Applied Materials' US\$70 million chip equipment production plant, and the massive US\$1 billion chip facility opened by Samsung Electronics and Germany's Siltronic last year bear testament to the country's semiconductor edge.

Sustained tax incentives, training assistance, along with research and development grants, should be enough to keep companies rooted here in the future.

As such, sovereign wealth funds such as Temasek could be better served by investing in new high-growth ventures such as media and animation companies, or other promising Internet upstarts.

Considering its sustained losses, the divestment of Chartered can be easily viewed as a way for Temasek to stop the bleeding. But from a glass-half full perspective, one can also say it's a sign that the government has done its job in the semiconductor sector – and it's now time to move on.