

## SEMICON Report: ATIC Bid for Chartered a Threat to TSMC, UMC

By Se Young Lee and Yun-Hee Kim  
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SINGAPORE (Dow Jones)--Advanced Technology Investment Co.'s acquisition of Chartered Semiconductor Manufacturing Ltd. (CHRT) would create a contract-chip manufacturer with a global footprint spanning three continents, posing a long-term threat to leading Taiwanese contract chip makers that have dominated the industry for more than a decade.

While it may take some time for Abu Dhabi's ATIC to integrate Chartered with Globalfoundries - ATIC's joint venture with Advanced Micro Devices Inc. (AMD) - and expand their customer base, many agree that the combined entity has the potential to eventually chip away at Taiwan Semiconductor Manufacturing International (TSM) and United Microelectronics Corp.'s (UMC) market share.

TSMC is the world's biggest contract chip maker by revenue, followed by UMC. Chartered currently ranks third.

"The deal makes sense and potentially meaningfully changes the foundry game," said HSBC in a report. "Prior to this announcement, we had expected Globalfoundries to not seriously disrupt the existing foundry competitive landscape for at least another 1-2 years...however, combining Globalfoundries with Chartered makes them a more formidable threat today based on broadening customer exposure from Chartered."

On Monday, Abu Dhabi-funded ATIC said it agreed to buy Chartered for US\$1.8 billion in cash. Including debt and convertible redeemable preference shares of about S\$3.1 billion, the deal is valued at about US\$3.9 billion. The transaction would still need shareholders' approval, but Singapore state-owned investment company Temasek Holdings Pte Ltd., which controls about 62% of Chartered, has pledged to vote in favor of the transaction.

According to Dealogic, the deal is the biggest global M&A transaction in the semiconductor sector since December 2006 when LSI Logic Corp. purchased Agere Systems for US\$4 billion.

ATIC and Chartered expect the transaction to close in the fourth quarter. The two companies, while remaining legally separate entities, would effectively operate as a single unit. And ATIC Chief Executive Ibrahim Ajami said at a press conference announcing the deal that he doesn't rule out combining Chartered with Globalfoundries.

Ajami said the combination of Chartered and Globalfoundries would create the world's second largest player by production capacity, potentially topping UMC.

And it would be one of a few chip foundries to have manufacturing plants in the U.S., Europe and Asia, allowing it serve customers in those regions more easily. Most of TSMC and UMC's chip plants, known in the industry as "fabs", are located in Taiwan.

Contract chip makers, centered all in Asia due to lower production costs, have all been posting tepid earnings in the past year as the global economic slowdown has hurt demand. Chartered has been no exception and it is still unclear when it might return to profitability, though the company raised its guidance on Monday. It had to tap shareholders through a US\$300 million rights issue earlier this year in order to give itself breathing space against its debt. Over the years, its production technology has fallen behind TSMC and UMC due to its weak financial position.

An investment by the deep-pocketed ATIC, combined with Globalfoundries' advanced technology know-how with the help of AMD, will help raise Chartered's profile in the chip foundry segment. And through the deal, Globalfoundries can expand its customer base beyond AMD to include the likes of Broadcom Corp. and Qualcomm Inc.

TSMC counts Intel Corp. and Texas Instruments Inc. as its major clients, while UMC's major clients include Xilinx Inc. and Mediatek Inc.

Officials at TSMC and UMC Monday declined to comment on the potential impact on their operations from the transaction.

But in late July, TSMC Chairman and Chief Executive Morris Chang said he considers Globalfoundries a "formidable competitor." He said the increased competition will be costly, but added he was confident of fending off the new rival.

Globalfoundries in July broke ground on the construction of a US\$4.2 billion plant in New York. It has a facility in Dresden, Germany, while Chartered has six fabs in Singapore.

Table Of Average Weekly Spot Prices  
Sept 7 Aug 28 Aug 13 July 24

64 Gb NAND	\$13.69	\$13.05	\$13.54	\$12.89
32 Gb NAND	\$6.99	\$6.41	\$6.65	\$6.62
16 Gb NAND	\$5.07	\$4.62	\$4.61	\$3.94
8 Gb NAND	\$4.94	\$4.70	\$4.47	\$3.69
1 Gb DDR3-1333	\$2.07	\$1.92	\$2.04	\$1.95
1 Gb DDR2-800	\$1.70	\$1.56	\$1.43	\$1.21
1 Gb DDR2-667	\$1.69	\$1.60	\$1.42	\$1.20
512 Mb DDR2-667	\$0.81	\$0.72	\$0.68	\$0.59