

Analyst: Kevin Tam

Main Board H-share Listing – Research

上海先進半導體製造股份有限公司

Advanced Semiconductor Manufacturing Corporation Limited [Stock Code: 3355]

Joint Global Coordinators, Joint Bookrunners, : Goldman Sachs (Asia) L.L.C.
Joint Sponsors and Joint Lead Managers : BOCI Asia Limited

Sector : Semiconductor & Semiconductor Equipment
Business : Manufacturer of analog semiconductors

<p>Total share offer: <u>406,662,000</u> H shares (27.5% of the enlarged share capital)</p> <p>Public Offer: 40,668,000 H shares (10%)</p> <p>Placing: 365,994,000 H shares (90%)</p> <p>Greenshoe: 60,998,000 H shares (15%)</p> <hr/> <p>Price: HK\$1.36 – HK\$1.85 per H share</p> <p>Market Cap of the H shares: HK\$1.46 billion – HK\$1.98 billion</p> <p>Pro Forma FY2006E P/E: N/A</p> <p>Adjusted NTA per share: HK\$1.06 – HK\$1.18</p> <p>Group Staffing: 1,492</p> <hr/> <p>HK Public Offer period: 27th March 2006 – 30th March 2006</p> <p>Receiving bank: Bank of China (Hong Kong)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited</p> <p>Listing date: 7th April 2006</p>	<p><u>Business of ASMC</u></p> <p>ASMC is a leading dedicated analog foundry focusing primarily on the manufacturing of analog semiconductors and higher bipolar content-based mixed signal semiconductors. According to IC Insights, ASMC is one of the world's top ten foundries (digital and analog) in 2004 in terms of sales. Products of ASMC include both standard and application-specific semiconductors, designed by customers for use in various end-market applications, including computing, communications and consumer electronics.</p> <p>ASMC's client portfolio includes some of the world's leading integrated device manufacturers (IDMs) and fabless semiconductor companies, such as Semtech, the Philips Group, Datang Microelectronics, Texas Instruments, Fairchild Semiconductor, National Semiconductor, AOS, California Micro Devices, and Monolithic Power Systems.</p> <p>ASMC now operates two wafer fabrication facilities in Shanghai, one of which manufactures 5-inch & 6-inch wafers and the other 8-inch wafers.</p>
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Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Philips Electronics China	27.65%
Shanghai Chemical Industrial Park Investment Enterprise	24.74%
China Orient Asset Management Corporation	12.05%
Shanghai Belling	5.81%
ASMC Compensation Trust [interest via Lanmax International]	2.25%
	70.25%

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$519.6 million.

(Assuming the over-allotment option is not exercised, and at an Offer Price of HK\$1.61 per Share, being the midpoint of the Offer Price Range)

	HK\$ million
To repay debt maturing from August 2006 to January 2007	271.5
For the acquisition and/or upgrade of certain production equipment to increase 8-inch production flexibility and yield and reduce production time	54.2
To increase overall 8-inch monthly production capacity from approximately 12,000 wafers as at December 31, 2005 to approximately 14,000 wafers as at December 31, 2007	193.9

Financial Highlights

	Year ended 31 st December		
	2003 RMB'000	2004 RMB'000	2005 RMB'000
Sales	784,428	1,147,367	931,583
Gross profit	258,284	320,120	70,957
Operating profit	137,885	178,787	(88,991)
Net profit	133,105	182,650	(75,030)
Shareholders' Equity	1,107,798	1,255,339	1,180,309

Strengths/Opportunities

- ✓ ASMC is one of the world's leading foundries focused on analog IC. ASMC is now the only foundry that can provide 8-inch analog fabrication of sizeable capacity, i.e. over 10,000 wafers per month (wpm) and line-width of 0.25 micron. Competition in Analog IC foundry business is less intense given its high level of entry barrier, which is mainly attributed to the lack of skilful design staffs and higher customisation requirements.
- ✓ China overtook US and Japan as the largest IC market in 2005. Moreover, it is expected the global analog IC market to expand at a CAGR of 13.8% during 2006-08, mainly driven by the communications segment, higher than the expected 10.6% CAGR for the overall semiconductor market during the same period.
- ✓ Fabless customers accounted for 64.4% of revenue in FY05. Revenue from fabless customers has been more stable than that from IDMs, because IDMs could turn to internal production during market downturn but fabless customers have to rely on external suppliers.
- ✓ Philips holds 27.65% stake (after listing) in ASMC through Philips China. The strong tie with Philips not only provides ASMC technology transfer, but also contributed 16.3% of revenue in FY05.
- ✓ It seems ASMC is eventually turning around. Fab 3 (8-inch) is currently at an utilisation rate of 48%, up from 44% in 2005. Wafer shipments as of 28 February 2006 amounted to 27,494, compared to the 37,625 for the whole of 2005.
- ✓ The IPO price range implies an 1.28X to 1.57X FY05E price to book ratio. Valuation is fair compared to industry leader TSMC (2330.TW), trading at approximately 3X FY06E book value.

Weaknesses/Threats

- × ASMC does not develop technology on its own. Instead, the company relies on (1) technology transfer from Philips, (2) technology agreements with customers and (3) joint developments with customers to provide technology.
- × ASMC's sales revenue dropped 18.8% in 2005, as sales of 5-inch and 6-inch wafers fell due to a worldwide cyclical slowdown. Gross profit also reported a 77.8% plunge in 2005, mainly owing to a sales slowdown and a drop in average selling price of 6-inch wafers. As a result, gross profit margin contracted substantially from 32.9% in 2003 to 7.6% in 2005. Despite growing sales in 8-inch wafers, we expect margin pressure to remain in near term before any sharp pick-up in sales transforming into margin enhancement, as other business segments stayed sluggish.
- × ASMC is highly geared with a pre-IPO debt to equity ratio of 100% in FY05 and total debt amounted to RMB 1,186 million, of which all are due within a year. The estimated pro-forma post-IPO debt to equity ratio is still a high 63%.
- × Semiconductor is a highly cyclical industry.

Recommendation: Unattractive

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