

Abu Dhabi to take on Taiwan's Chipmakers

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Semiconductor manufacturing, with its multibillion-dollar factories and recurring need to upgrade technology, has never been an industry for the light-pocketed.

Abu Dhabi's state-owned Advanced Technology Investment Company, the latest entrant in the \$20bn contract chipmaking industry, is proving it has the capital to back its ambition of making Abu Dhabi a chip industry heavyweight through Monday's \$1.8bn deal to buy a majority stake in Singapore's Chartered Semiconductor.

The Chartered acquisition gives Atic a shot at breaking Taiwanese chipmakers' dominance of the market.

Chartered was the third-biggest contract chipmaker until Atic invested \$1.4bn to help AMD spin off its manufacturing arm into a new company named Globalfoundries last October.

Chartered and Globalfoundries combined would have a 30 per cent market share of the contract chipmaking industry, roughly the size of number two United Microelectronics Corp of Taiwan, this year, says Tan Kay-yang, principal research analyst at Gartner.

While this is short of Taiwan Semiconductor Manufacturing Company's 50 per cent market share, Atic is expected to overtake UMC next year as Globalfoundries' capacity increases, Mr Tan says.

He says "TSMC is taking Globalfoundries very seriously. Abu Dhabi is committed and they have a deep pocket".

Buying Chartered gives Atic exposure to growth in Asia, which Globalfoundries lacked given it only had factories in Europe and the US, and "helps expand their customer network", Mr Tan adds.

Abu Dhabi's big bet, however, comes as its Taiwan rivals are busy looking to diversify after the industry recorded declining profit margins over the past few years.

Both TSMC and UMC have established new business development units to help move into sectors such as green energy.

TSMC's board has approved spending \$50m on potential investments in solar energy after Morris Chang, its chairman who is credited for establishing the contract manufacturing model for semiconductors, said the era of rapid growth for the chip industry had ended in 2000 because of intense competition and rising costs of factory upgrades.

Ibrahim Ajami, Atic chief executive, who said he "wouldn't rule out further acquisitions" after absorbing Chartered into Globalfoundries, remained positive about the industry's prospects.

He said on Monday: "It continues to be a scale game. TSMC has done very well, and we have a lot of respect for them. They continue to be the market leader, but we believe there is space for another major player".

In spite of a sharp drop in sales since the financial crisis, contract chipmakers are becoming an unlikely long-term beneficiary of the downturn, as many vertically integrated chipmakers become open to the idea of outsourcing their production and focusing on branding and chip design.

Japan's Fujitsu earlier this year outsourced production of its most advanced semiconductors to TSMC in what amounted to a gradual exit from chipmaking.

Rival Toshiba said on Monday it was also considering outsourcing some of its chipmaking business, but declined to comment on a report in Japan's Nikkei newspaper that it could choose Chartered Semiconductor or Globalfoundries.

Gartner's Mr Tan says because of this trend "there are opportunities in high-end manufacturing".

Douglas Grose, Globalfoundries' chief executive, said in an earlier interview that he was keen to focus on a handful of potential clients that demand cutting-edge technology.

Bhavtosh Vajpayee, head of technology research at CLSA, says this means Globalfoundries was unlikely to become a serious competitor to TSMC until its new factory in New York became operational in 2012.

he wrote in a research note: "Chartered meanwhile shall fill in the generic mid end capacity".

However, analysts expect Atic's acquisition to increase pressure for consolidation on other contract chipmakers, such as UMC or China's Semiconductor Manufacturing International Corporation.

The acquisition means "existing players in the second tier are left to play all by themselves," Mr Tan says.

UMC has already said it wants fully to acquire Chinese chipmaker He Jian, in which it has a 15 per cent stake, but is barred from doing so by Taiwanese law.

"Consolidation is afoot in the foundry industry," Mr Vajpayee says.