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SEMICON REPORT: Infineon Unit IPO May Get Tepid Response

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HONG KONG (Dow Jones)--An initial public offering by Infineon Technologies AG's (IFX) computer memory chip unit that will be spun off next month will likely get a lukewarm response from investors due its lack of competitiveness amid an uncertain industry outlook, regardless of when the German chip maker goes to the market, analysts said.

"If they offer the shares at a dirt cheap price, yes, there could be some demand, but I don't think there will be too much interest as the company isn't cost competitive and it isn't making a profit," said Chang-Eyun Yu, an analyst at BNP Paribas Peregrine. "The situation isn't likely to change any time soon."

Infineon plans to transfer its dynamic random access memory, or DRAM, chip business to a separate legal entity on May 1. Qimonda, which will be headquartered in Munich, would rank as the world's fourth-largest producer of DRAM chips widely used in personal computers after Korea's Samsung Electronics Co. (005930.SE), Hynix Semiconductor Inc. (000660.SE) and Micron Technology Inc. (MU) of the U.S. In the three-months ended Dec. 31, Infineon posted a net loss of EUR183 million on revenue of EUR1.67 billion. The company releases fiscal second quarter results later this month.

Infineon executives have said that the preferred plan following the May spin off is a separate flotation of the unit that could take place this year, although the company hasn't provided further details as to where and exactly when Qimonda may list shares.

Some investment bankers have said that the Infineon unit may seek an IPO in the U.S., although Infineon has declined to comment.

Regardless of where and when it lists, many analysts say Qimonda faces a battle ahead in order to become a stronger memory-chip player in an industry where competition is cutthroat and companies must invest billions of dollars in new factories to stay ahead. The company's focus on commodity DRAM chips, high manufacturing costs and slower transition than rivals to advanced process technology, will likely mean that it will be a less appealing investment than its DRAM peers in Asia.

An Infineon spokeswoman declined to comment on prospects for Qimonda's upcoming IPO.

"Qimonda has the worst product mix of all" DRAM manufacturers, said Rob Sanders, an analyst at Dresdner Kleinwort Wasserstein in London. "It should be merited in the IPO."

While Samsung, Hynix, and Micron are diversifying into NAND flash memory chip production, Infineon has been a laggard in this area where profit margins currently are still higher than DRAM, and demand is greater because of their popularity in music players such as Apple Computer Inc.'s iPods. Moving into NAND flash production also gives chip makers greater flexibility during cyclical downturns in the memory-chip industry.

NAND flash memory chips differ from DRAM chips in that they can retain data even when power is switched off, making them ideal for use in MP3 players and digital cameras. With minimal investment, DRAM manufacturers can switch their production capacity to produce NAND flash.

"As one of the memory companies with access to a considerable amount of capacity, the challenge for Qimonda is whether their product strategy is correctly matched to the manufacturing environment," said Bob Merritt, a vice president at U.S.-based research company Semico Research Corp.

Daniel Wong, who has been named Asia-Pacific president of Qimonda effective May 1, said the new company plans to focus on boosting the output of NAND flash memory chips in its bid to diversify its product offering.

"Definitely, we want to increase the percentage of NAND flash products," he told Dow Jones Newswires in a recent interview. "You will see more of an aggressive push in the (NAND) market."

The company also plans to diversify within its DRAM product offering, Wong said, in order to move away from commodity chips into graphics and mobile memory chips, which typically command higher selling prices.

But Nam Hyung Kim, an analyst at El Segundo, Calif.-based research firm iSuppli Corp. said he isn't so sure how successful Qimonda may be in its diversification quest.

"Infineon should stay focused on lowering cost, rather than diversification. To have cost leadership, the company needs capital spending, technology leadership, fast decision making process and tight control of inventory," he said.

Best IPO Timing This Yr Could Be Second Half

If Qimonda does decide to tap the equity markets this year, some analysts say the best timing for an IPO could be sometime in the third quarter or early fourth quarter when demand for DRAM chips is expected to pick up in the seasonally strong selling period spanning the Thanksgiving holiday and Christmas shopping season. During that time, DRAM makers typically see an increase in sales and better profit margins.

Already, DRAM prices have begun to correct following a rise in the first quarter. iSuppli, in a recent report, downgraded DRAM market conditions to "negative" from "neutral" saying the second quarter will be the most challenging period of the year for DRAM vendors.

"The best IPO timing is when the market situation is improving," said Chang-won Chung, an analyst at Daewoo Securities in Seoul. "The best time for DRAM makers this year will probably be the end of the third quarter as investors will buy on expectations of improvements in earnings in the fourth quarter."

Chung also said that because Microsoft Corp. (MSFT) has delayed the launch of the consumer version of its new operating system, Windows Vista, until January, strong demand for DRAM chips will likely emerge late in the third quarter.

Yu of BNP Paribas said: "If they (Qimonda) want to do the IPO this year, it may be better in the fourth quarter when we begin to see real demand emerging ahead of the launch of Windows Vista."

Still, Sanders at Dresdner said that with Taiwanese DRAM companies ramping out capacity of DRAM chips from new factories, there is the threat of oversupply in the second half of this year, which could put a damper on demand.

"It could be better to do it sooner than later because there are a lot of Taiwanese companies bringing capacity on line so these guys are adding capacity in the second half," he said.

Sanders also said given that NAND flash memory prices have been weak, DRAM companies may not be as willing to shift capacity to flash memory, leading to more supply of DRAM chips in the market.

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