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Analysis: Rocky IPO signals tough road for Qimonda

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MANHASSET, N.Y. — Executives at Qimonda AG helped usher in the opening bell at the New York Stock Exchange this morning in New York City as the company unleashed its IPO. But the near-term future of the spinoff from Infineon Technologies AG could be a bit rocky given deteriorating conditions in the semiconductor industry.

Qimonda's initial price of $13 per share was viewed as disappointing to analysts expecting an earlier price of $16 to 18 per share. What's more, company executives at a press conference earlier Wednesday in New York City left the impression that market conditions were not going to get markedly better soon, thus prompting Qimonda to accept the low IPO price.

Qimonda executives noted during the press conference that since July 1 almost half the IPOs on the marketplace have been withdrawn. That appears to signal a weakening of confidence in the semiconductor industry, which in recent months has sent mixed signals, most notably a weakening of the microprocessor market with AMD and Intel both having difficult second quarters.

Trying to put the best face on the situation, both Qimonda president and chief executive Kin Wah Loh and Infineon chief executive Wolfgang Ziebart said during the meeting that the IPO's time had come and it was time to move forward regardless of the market environment. Still, one can't help but be a bit nervous.

One recent report by Bruce Diesen, an analyst with Terra Securities ASA, noted that monthly chip sales slowed in June, which he attributed to a PC industry slump that is unlikely to immediately improve given slowing sales and lingering inventory, particularly at Intel.

Semico Research Corp. president Jim Feldhan recently predicted an industry slowdown in 2007, with lower capacity utilization rates, weaker consumer spending, and lower semiconductor prices. Feldhan sees rising energy prices, a worsening political climate, and moderating economic growth as factors limiting semiconductor industry growth to 3.4 percent next year.

The DRAM market has held its own recently. A recent iSuppli report noted that second-quarter global DRAM revenue reached $7.5 billion, exceeding expectations. And, Qimonda saw its share of the DRAM market increase from 10.4 percent in the first quarter to 16.1 percent in the second quarter, with sales increasing sequentially from $1.1 to $1.2 billion.

But given the past volatility of the DRAM market and its inevitable link to the fortunes of the PC business, the gloom-and-doom forecasts could spell bad news for memory suppliers. Though Qimonda's decision to stay out of the NAND flash market has so far not hurt the company because of severe price erosion in that sector, another slump in DRAM prices will inevitably crimp the company's growth.

In the best of times, Qimonda would have faced stiff challenges executing its strategy in an ultra-competitive memory market. A slumping semiconductor sector further adds to the hurdles the company faces.