

ISS: Modest Growth, Potential Upside Surprises for 2006

By Jeff Chappell -- 1/10/2006

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While they may differ in the details – how much or when, and so forth – market researchers at this year's SEMI Industry Strategy Symposium (ISS) held in Half Moon Bay, Calif. agree that the next several years should be good ones for the chip equipment industry.

Trade group Semiconductor Equipment and Materials International (SEMI) holds ISS this time every year on the Northern California Coast. At a panel discussion Monday, it gathered analysts from Gartner Dataquest, Semico, iSuppli, IC Insights, VLSI Research, as well as SEMI.

As several panelists noted there is strong price pressures in end electronic markets, and that could hurt revenue growth for electronics suppliers this year. However unit demand is still steadily growing, and this bodes well for the supply chain, from chipmakers on down, in 2006 and into 2007 and 2008.

In fact, panelists suggested that the chip industry should enjoy healthy growth this year, with some, like Semico Research Inc., forecasting chip revenue in the double digits – Semico President Jim Feldhan said Semico's forecast called for 17 percent growth in 2006. But panelists agreed that a more muted cycle will mean modest capital spending overall in 2006, and it may not be until 2007 that wafer fab equipment suppliers see a return to double digit growth.

And the panelists agreed that the industry was healthy right now in terms of chip inventories, and that capacity utilization was high – in the mid 80 percent range for older technology nodes and well into the 90s for advanced nodes. That also bodes well for equipment suppliers, as capacity additions will likely get underway this year to meet the growing end demand for things like notebook PCs and flash memory for consumer devices.

"Everyone is on pins and needles waiting to see what Intel and Samsung will spend in '06," noted Bill McClean, IC Insights president. His market research firm is forecasting capital spending to increase by 5 percent, but that number could be larger – a lot of depends on the spending of the two aforementioned chip companies, the two largest capital spenders in the market.

Market research firm Gartner Dataquest forecast that while overall capital spending will be flat this year, rising in the next, spending on chip equipment will rise 8.4 percent this year. Most of that will be driven by backend equipment, suggested Klaus-Dieter Rinnen, Gartner Dataquest's managing VP.

While front-end wafer fab equipment spending will rise a modest 3.3 percent this year, after declining 8.8 percent in 2005, package and assembly equipment spending will grow 22.1 percent this year, and ATE spending will grow 29 percent, according to Dataquest's forecast. Several analysts noted that as 2005 drew to a close, backend equipment suppliers had already seen a couple quarters of improving business.

VLSI Research Inc., meanwhile, forecast that chip equipment overall will grow about 6 percent this year, and that semiconductor revenues will grow 8.2 percent. But Risto Puhakka, VLSI president, acknowledged that there could very well be some upside surprises, particularly when it comes to chip market growth this year.

Materials Enjoying Unprecedented Growth

As for materials suppliers to the chip industry, because their business derives from the actual day-to-day production of chips, this market tends to be a little less volatile. In fact, while fab equipment and overall equipment spending dropped in 2005, the materials market enjoyed a record year, hitting \$17.95 billion in revenues after 6.6 percent growth.

SEMI is forecasting that for 2006 that trend will continue as chip unit volumes continue to rise, seeing 7.2 percent growth this year and reaching \$19.24 billion. SEMI's forecast calls for 6 percent growth and 9.1 percent growth respectively in 2007 and 2008, said Dan Tracy, senior director of industry research and statistics at SEMI.

There are a number of drivers behind this growth, such as the continued ramp of chip production on 300mm wafers, and the development of advanced processes, such as copper interconnects, chip scale packaging and those that utilize advanced substrates. "We're seeing very strong growth in the polysilicon market," Tracy observed, adding that capacity for polysilicon will be tight for the next couple years, as demand is heavy for both semiconductor and solar power applications involving polysilicon substrates.

iSuppli Corp. President and CEO Derek Lidow said his company is forecasting that silicon substrates, in terms of millions of square inches, would grow 6.9 percent this year, to between 6 billion and 7 billion square inches. In fact, iSuppli has predicted that the chip industry will only grow 6.7 percent this year, as unit prices on average fall faster than die shrinks, and the revenue per square inch of silicon falls slightly.

"If our industry is going to rely on the absolute leading edge for all its growth, those nodes become exponentially more and more expensive to develop," Lidow noted, as there are fewer and fewer players that can cost effectively invest in the advanced technology. "We could see a looming demand gap that could be a continuing challenge to Moore's law more so than any technology gap."

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