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SEMICON REPORT: Micron's NAND Push To Aid Taiwan DRAM Cos

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Of DOW JONES NEWSWIRES

HONG KONG (Dow Jones)--Micron Technology Inc.'s (MU) planned acquisition of flash-card-producer Lexar Media Inc. (LEXR) is yet another sign that the U.S. chip maker is becoming more aggressive in its diversification strategy to strengthen its operations in the fast-growing flash memory chip market.

Some analysts say the move also signifies the chip maker's continuous move away from the production of computer memory chips called dynamic random access memory, or DRAM. As a result, Micron's share of the DRAM market will inevitably shrink, analysts say, in turn benefitting others in the commodity DRAM business.

"I think the market is missing out on the fact that Micron is losing its global competitiveness in the DRAM area to focus more on NAND flash. That will be a positive swing factor for the Taiwanese DRAM players," said Simon Woo, a semiconductor analyst at Merrill Lynch.

Micron's announcement that it plans to acquire Lexar Media comes after the company announced late last year that it will set up a NAND flash memory chip joint venture with Intel Corp. (INTC). The two moves, analysts say, should help solidify Micron as a much stronger memory-chip company.

"Micron will gain access to a vast patent portfolio, a leading flash card and USB flash drive business, entry into the retail channel and strong brand recognition," Gartner senior analyst Joseph Unsworth wrote in a recent report. "Micron will quickly gain access to an established retail presence for its NAND flash components, which would have been costly to establish."

Many DRAM manufacturers have been moving into the production of NAND flash memory chips widely used in MP3 players and digital cameras to take advantage of booming demand and high profit margins. Because it is relatively easy for DRAM makers to convert their existing production capacity to produce NAND chips, companies like Samsung Electronics Co. (005930.SE), Hynix Semiconductor Inc. (000660.SE) and Micron have been shifting capacity depending on market conditions. As these players shift capacity to NAND, the overall capacity for DRAM declines, helping to alleviate an oversupply in the global market and stabilize chip prices.

Micron's share of the DRAM market has been steadily shrinking in the past few years as it has been focusing more on NAND flash and CMOS image sensors used in digital cameras, according to U.S. market research firm iSuppli Corp. In 2003, the Boise, Idaho, chip maker's share of the DRAM market stood at 19%, but in 2004, it dipped to 15.9% and in 2005 fell to 15.5%.

"Micron believes that it's a better idea to focus on NAND flash than DRAM, so they are actually pouring major resources to NAND flash. That means they are retreating from the DRAM market," said Chang-won Chung, an analyst at Daewoo Securities in Seoul.

Brian Shirley, Micron's vice president of memory, said that the company has focused in the past few years on "diversifying its product portfolio to higher margin products."

But he added: "We are not exiting the DRAM business. We see significant synergies between developing leading-edge DRAM and flash memory research and development."

Shirley said NAND chip production represents about 5% to 10% of Micron's production currently, but by the end of the company's fiscal year in August, it expects that portion to rise to about 15% to 20%.

Challenges Major NAND Flash Players

Jim Handy, a director at U.S. market research firm Semico Research Corp., said companies in Taiwan such as Powerchip Semiconductor Corp. (5346.OT), Nanya Technology Corp. (2408.TW), ProMOS Technologies Inc. (5387.OT) and Japan's Elpida Memory Inc. (6665.TO) stand to benefit from Micron's and others' continued push into NAND flash.

"Any increase in NAND capacity will decrease DRAM capacity to the point where it should stabilize DRAM prices," said Handy. "There isn't as much of (DRAM) overcapacity as there has been in the past."

Despite the recent weakness in NAND flash prices due to tepid demand in the seasonally weak selling first quarter, Handy said he doesn't expect Samsung, Hynix and Micron to convert capacity for NAND chips back into DRAM any time soon.

"DRAM pricing, although it is firm, isn't enough to push companies from NAND back to DRAM," said Handy.

Many analysts say longer term, Micron's acquisition of Lexar will inevitably hurt existing NAND flash producers.

"Micron's move will not be an immediate threat to its competitors as Micron's NAND volume is still relatively small," said iSuppli analyst Nam Hyung Kim. But "Micron's acquisition represents a significant challenge to its NAND competitors, which are trying to expand their flash card/USB drive businesses."

Chang-Eyun Yu, an analyst at BNP Paribas Peregrine in Seoul said longer term, the news is negative for Samsung, Toshiba Corp. (6502.TO) and Hynix, the world's top three NAND flash producers by revenue.

"Lexar will become Micron's captive account and Samsung and Hynix will lose that account," he said.

Both Samsung and Hynix currently supply NAND flash to Lexar.

Woosik Chu, Samsung Electronics' senior vice president of investor relations dismissed concerns of any significant impact on the company.

"Lexar will be getting their product from a supplier that could offer the best price. We are quite confident of being able to deliver," Chu said, noting that its business with Lexar currently represents a "small portion" of revenue.

Makoto Yasuda, a spokesman at Toshiba, said: "We cannot predict the impact at this moment."

James Kim, Hynix's director of investor relations, declined to comment.