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## Micron and the No-Limit Poker Game

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**Carl Johnson submits:** The semiconductor memory business -- it's a giant No-Limit Poker game. You have to play every hand. The stakes go up every single round. If you leave the table, you are out of the game. That's the analogy we have used to describe the memory business during the past 13 years.

Micron ([MU](#)) reported earnings after the bell Thursday night. Investors were not impressed -- Micron shares were down over 13% on Friday.

We do not have a position in the stock at this time. We have been watching from the sidelines.

Micron shares have rallied from the \$14 level this year because Wall Street and many semiconductor industry watchers have grown increasingly bullish on the memory business. One might also add that they have been playing Micron because they have been restructuring their business model. We've been watching the evolution of their relationship with Intel ([INTC](#)). We've been watching the company integrate Lexar into their business model. We've been watching Micron grow their exposure in the image sensor business - which seems to be quite healthy right now (some are questioning this - which is not that surprising - but overall we see it as a positive move).

But there are still a few flies in the ointment:

In our notes at the [Infrastructure](#) site, we recently mentioned the amount of capacity that is going to be put on line by memory companies over the next 15 months. The capacity additions are estimated to increase the number of wafers used to produce memory 298k in '06 and then follow up in '07 with another 422k increase. This is what the street is focused on. It's not so much what is happening this quarter, or even the next. The street is focused on what will happen in the middle of next year when all this capacity comes on line.

Here's a table detailing the number of pending memory projects for the next year (click to enlarge):

### Pending Memory Projects

Chipmaker	Fab Name	Wafer Size (mm)	Geometry (nm)	Planned Capacity	Date Construction	Date Equip	Date In Production
Flash Partners	Fab 3	300	70	40,000	NA	NA	Apr-06
Toshiba	Bldg 103	300	150	8,750	Aug-05	Oct-05	Jul-06
Hynix-ST	Fab 1	200	90	20,000	NA	NA	Nov-06
IMFT	300mm Production Line	300	72	21,900	Nov-05	Apr-06	Dec-06
Samsung	NRD Line	300	45	5,000	Jul-05	May-06	Feb-07
Elpida	E300-Fab 3	300	70	30,000	Sep-05	Apr-06	Apr-07
Hynix-ST	Fab 2	300	70	18,000	NA	NA	Apr-07
Inotera	Fab 2	300	65	60,000	NA	NA	Jun-07
Winbond	Fab 6 (Module 2)	300	65	24,000	Jan-06	Jul-06	Jul-07
Spansion LLC	SP1	300	65	15,000	Jul-06	Oct-06	Aug-07
IMFT	Lehi	300	72	21,800	Nov-05	Oct-06	Oct-07
Samsung	Line 15	300	65	42,000	Dec-05	Nov-06	Oct-07
Powerchip	Fab 12 C	300	65	45,000	Feb-06	Jan-07	Dec-07
ProMOS Tech., Inc.	Fab 4	300	65	40,000	Mar-06	Feb-07	Dec-07
Samsung	new 300mm	300	45	60,000	Apr-06	Mar-07	Dec-07
Nanya	Fab 3	300	70	60,000	Mar-06	Mar-07	Jan-08
Samsung	Line 16	300	50	42,000	Oct-06	May-07	Apr-08
TECH	Fab 2	300	110	30,000	Oct-06	Apr-07	Apr-08
Powerchip	Fab 12 D	300	65	45,000	Apr-07	Jun-07	Apr-08
Powerchip	China Fab	200	180	40,000	Jul-06	Jul-07	Jul-08
ProMOS Tech., Inc.	China Fab	200	180	60,000	Jul-06	Jul-07	Jul-08
ProMOS Tech., Inc.	Fab 1	300	110	18,000	Apr-07	Apr-08	Apr-09

Source: Strategic Marketing Associates, World Fab Watch

In Thursday night's earnings release, Micron stated that they will now be spending \$4 billion in '07. To say there's a torrent of action on the memory spending front is an understatement. The table above shows that Micron is not alone. Others are chasing this market and they know that the rules of No-Limit Poker have to be obeyed.

A few weeks ago I was at Spansion's (SPSN) headquarters in Austin, Texas to present a semiconductor industry outlook. There were other analysts present at this meeting. Sherry Garber from Semico Research noted her forecast for the memory business: According to Semico Research, the Flash memory is expected to grow at a 32% CAGR until '10, surpassing the 10% CAGR in DRAM during the same period.

32% is nothing to sneeze at -- it's a forecast like this that drives memory capital spending. And there are a lot of drivers in place to absorb these devices. Too many to list in one note.

Micron's efficiencies and cost structure will improve as they bring capacity on-line. It makes perfect sense. Management mentioned on the conference call that they expect to see improvement in the operational efficiency and gross margins as production volumes in their Lehigh and Manassas facilities ramp. The big question is, "Will these efficiencies be large enough to compete (make money) effectively with all the other capacity coming on line."

Outside of the rather negative reaction in Micron, there was some good news in the release. It does appear that memory demand is going to be strong for the next few quarters. It does not appear as though there is a lot of inventory in the channel. Obviously it's early in the quarter and there are many more datapoints to take into consideration. Going into this quarter, our biggest concern has been end demand and the level of inventories.

Anecdotally, there is more good news for those that supply equipment to Micron and other memory producers. We can tie the bullishness enveloping Lam Research ([LRCX](#)), Applied Materials ([AMAT](#)), Mattson Technologies ([MTSN](#)) and, one we mentioned the other day, Electro Scientific Industries ([ESIO](#)) to the increased level of capital spending. Right now we would suggest that investors look at Electro Scientific, Mattson and Applied Materials - all three are part of our Model Portfolio.

*Disclosure: Author holds no personal position in stocks mentioned*