



15 November 2005

MEMC Electronic Materials

Reuters: **WFR.N** Bloomberg: **WFR UN** Exchange: **NYSE** Ticker:

Polysilicon capacity - too little for 2006

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Hemlock, the largest polysilicon supplier, announces capacity ramp

Hemlock, the world's largest supplier of polysilicon, announced today that it plans to invest \$400M-\$500M over the next few years to increase its polysilicon capacity by ~50%. Phase I of a planned two phase expansion is due to be completed by January 2008, with phase II possibly being completed a year later. This announcement follows capacity expansion plans from Wacker and MEMC. However, noting polysilicon capacity ramp completion targets (i.e. long ramp lead times), we do not see a near term impact to present and expected shortages.

Hemlock – a joint venture between Dow, Shin-Etsu, and Mitsubishi Materials

We believe Hemlock (located in Hemlock, Michigan) is the largest supplier of polysilicon for both the semiconductor and solar industries. It was founded by Dow Corning, but morphed into a joint venture with Shin-Etsu (largest wafer supplier) and Mitsubishi Materials (50% joint owner of SUMCO, the second largest wafer supplier); the parent companies hold 63%, 25%, and 12% ownership respectively (per Hemlock website – www.hscpoly.com).

Too late to head off near-term anticipated shortages

Given relatively long lead times to increase polysilicon production capacity, we believe Hemlock's announced capacity ramp will do little to temper anticipated near-term (i.e. 2006) polysilicon shortages, and based upon third party data, could do little to ease anticipated shortages for at least the next couple years. Consequently, we expect wafer pricing to show relative strength in 2006, and believe that initial 2006 contract negotiations have yielded flat to up wafer pricing.

Maintaining Buy rating and \$24 price target

At \$21.04 WFR trades at 15x our C2006 EPS estimate of \$1.40, and at the low end of the 15x-21x range we use for semiconductor equipment and materials companies. As a commodity supplier offset by strong operational performance and positively converging industry fundamentals, we believe a modest discount can be justified; our price target of \$24 equates to ~17x our C2006 EPS estimate.

Forecasts and ratios

Year End Dec 31	2004A	2005E	2006E
1Q EPS (USD)	0.16	0.23	0.32
2Q EPS (USD)	0.20	0.26	0.33
3Q EPS (USD)	0.27	0.25	0.36
4Q EPS (USD)	0.25	0.34	0.39
FY EPS (USD)	0.89	1.08	1.40
P/E (x)	10.6	19.4	15.0
Revenue (USDm)	1,028.0	1,132.5	1,306.5

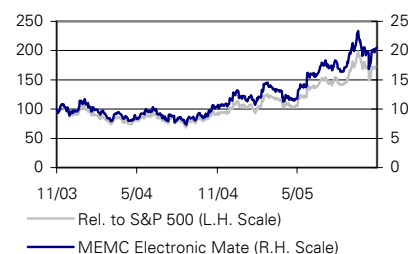
Source: Company, Deutsche Securities

Company Announcement

Buy

Price at 15 Nov 2005 (USD)	21.04
Price target	24.00
52-week range	23.39 - 10.09

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.1	12.2	99.9
S&P 500	4.0	0.3	4.2

Stock data

Market Cap (USDm)	4,433.9
Shares outstanding (m)	210.7
Volume	1,684,800
S&P 500	1,233.71

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All prices are those current at the end of the previous trading session unless otherwise indicated

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Risk factors include, but are not limited to, (1) a high degree of industry cyclicality, (2) competitive pressures and market share shifts, (3) delayed adoption of new technologies, (4) operational execution missteps, (5) rapid technology changes and product cycles, and (6) general economic risk.

Appendix 1

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Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price	Disclosure
MEMC Electronic Materials	WFR.N	20.53 (USD) 13 Nov 05	6,13

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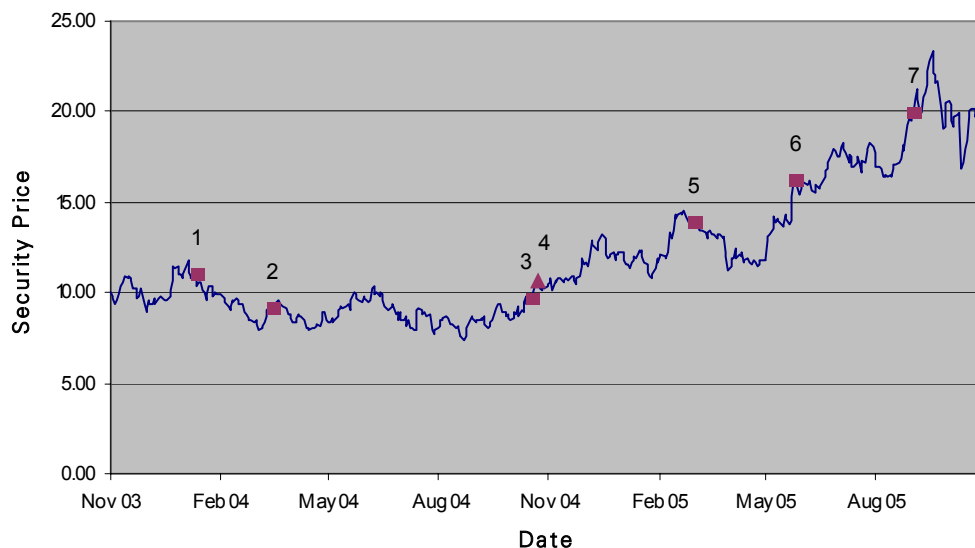
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Historical recommendations and target price: MEMC Electronic Materials (WFR.N)

(as of 11/14/2005)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

- | | |
|--|---|
| 1. 1/27/2004: Buy, Target Price Change USD14.00 | 5. 3/18/2005: Buy, Target Price Change USD16.00 |
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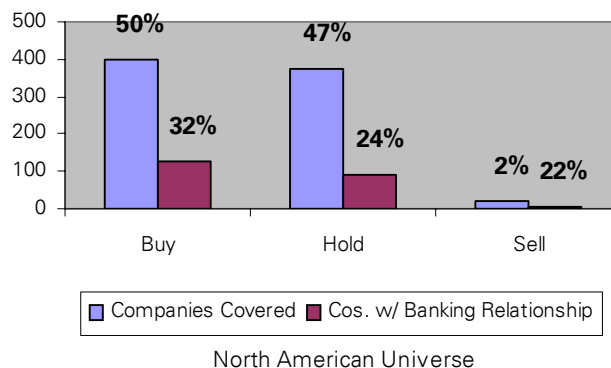
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