



16 August 2005

# MEMC Electronic Materials

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

## TPG offers 18.25M shares in secondary offering

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### TPG selling 9% stake, still retains 25% ownership

Late yesterday, MEMC announced that Texas Pacific Group (TPG), its largest shareholder, is offering 18.25M shares in a secondary offering, including 10M shares to be acquired by TPG upon the exercise of warrants issued in 2001. The offering is for the remaining shares left in the shelf registration filed in February this year, and is expected to close on Aug 22, 2005. Following the completion of the sale, TPG's ownership in MEMC will reduce from 34% to 25%.

### TPG sale – part of on-going reduction in stake

We see the latest sale by TPG of its 9% stake in MEMC as part of its on-going strategy to reduce its ownership in the company after its operational turnaround. TPG had earlier reduced its stake by nearly 60M shares or by 29% in a secondary offering earlier in Feb 2005. The latest offering is ~30% the size of the earlier secondary offering, and given stable and improving fundamentals at MEMC, we do not believe it will create any long-term overhang on the stock.

### Fundamentals plus operational performance

MEMC quarterly revenues have outperformed wafer starts for two years now, reflecting the company's steady operational turnaround. We expect the company to maintain that consistency with an on-going favorable mix shift compounded by a polysilicon supply shortage that could manifest in wafer shortages in late-2005/early-2006 to drive pricing power and present MEMC with a comparative cost and operating advantage.

### Valuation: maintain Buy rating, \$19 price target

At \$17.71 WFR trades at 13.6x our 2006 EPS estimate of \$1.30, a discount to peers. As a commodity supplier offset by strong operational performance and positively converging company and industry fundamentals, we believe a modest discount could be justified, and maintain our price target of \$19 or ~15x our C2006 EPS estimate. We believe that an industry leading margin structure and operating profitability should help lift what has been a persistent valuation discount.

#### Forecasts and ratios

Year End Dec 31	2004A	2005E	2006E
1Q EPS (USD)	0.16	<b>0.23</b>	0.30
2Q EPS (USD)	0.20	<b>0.26</b>	0.31
3Q EPS (USD)	0.27	<b>0.29</b>	0.34
4Q EPS (USD)	0.25	<b>0.31</b>	0.36
FY EPS (USD)	0.89	<b>1.09</b>	1.30
P/E (x)	10.6	<b>16.3</b>	13.6
Revenue (USDm)	1,028.0	<b>1,126.6</b>	1,286.9

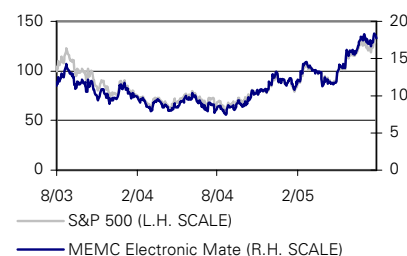
Source: Deutsche Bank

## Secondary Offering

### Buy

Price at 16 Aug 2005 (USD)	<b>17.71</b>
Price target	<b>19.00</b>
52-week range	<b>18.33-7.39</b>

### Price/price relative



Performance(%)	1m	3m	12m
Absolute	1.2	50.2	120.0
S&P 500	0.5	5.8	14.3

### Stock data

Market Cap (USDm)	<b>3,710.5</b>
Shares outstanding (m)	<b>209.5</b>
Volume	<b>1,465,900</b>
S&P 500	<b>1,233.87</b>

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# Appendix 1

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Additional information available upon request

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Company	Ticker	Recent price	Disclosure
MEMC Electronic Materials	WFR.N	18.30 (USD) 11 Aug 05	7,13

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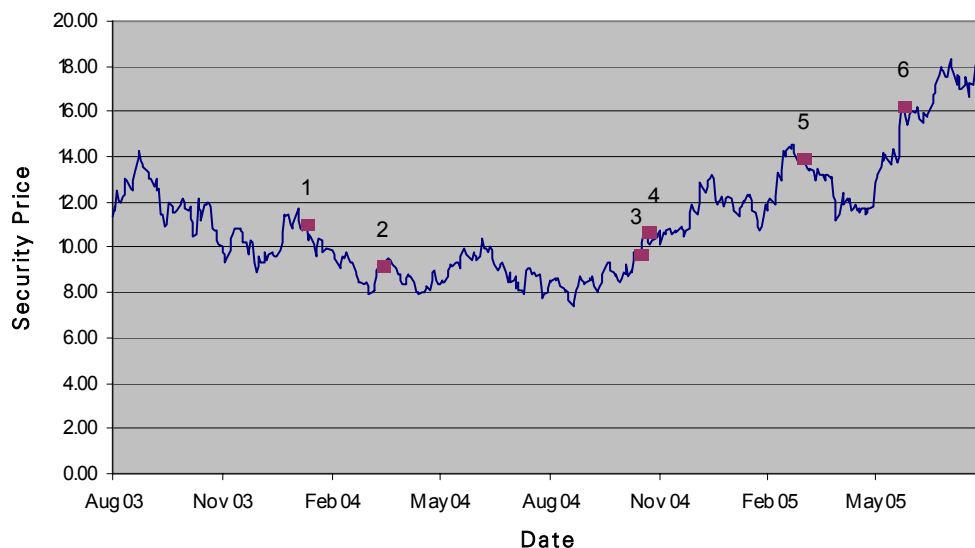
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**Historical recommendations and target price: MEMC Electronic Materials (WFR.N)**

(as of 8/16/2005)

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  | 4. 11/8/2004: Buy, Target Price Change USD14.00 |
| 2. 3/31/2004: No Recommendation, USD14.00        | 5. 3/18/2005: Buy, Target Price Change USD16.00 |
| 3. 11/2/2004: Hold, Target Price Change USD10.00 | 6. 6/10/2005: Buy, Target Price Change USD19.00 |

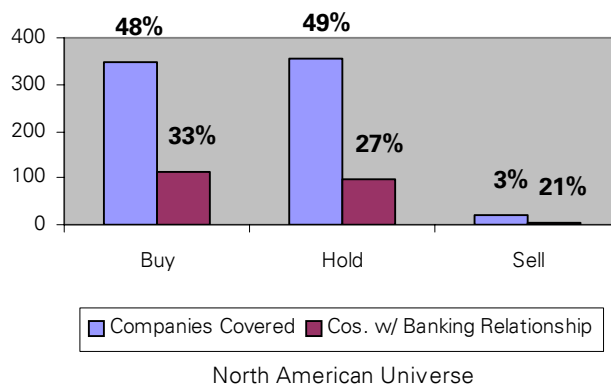
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