



23 September 2005

MEMC Electronic Materials

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

Concerns ahead of Rita

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Hurricane Rita could affect polysilicon production in Texas

MEMC's Pasadena production facility near Houston, TX could potentially see production disruption from Hurricane Rita. We note that the Pasadena facility represents about two-thirds of MEMC's internal production capacity. We also note that MEMC also has polysilicon supply contracts with several outside vendors that can serve as a hedge. A prolonged shutdown could have an adverse near-term impact on costs and polysilicon supply, and we highlight what we believe is a near-term risk.

CEO Mr. Nabeel Gareeb's stock transactions

We note CEO Mr. Nabeel Gareeb's stock sales since August totaling ~1 million shares at preset prices under the Rule 10b5-1 stock trading plan total ~25% of his MEMC stock holdings. Although these sales attract investor attention, we do not see this as a meaningful cause for concern as the sales were at preset prices without any trading control and are largely for financial asset diversification.

Valuation discount should close

At \$19.93 WFR trades at 14.2x our 2006 EPS estimate of \$1.40, a ~24% discount to peers. With the turnaround complete and noting strong operational performance, offset somewhat by being a commodity supplier, we believe a 5%-10% valuation discount to the peer group's ~19x EPS multiple is more appropriate. Accordingly, we value WFR at \$24 or ~17x our C2006 EPS estimate.

Risks

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.

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	0.29	0.36
4Q EPS (USD)	0.25	0.31	0.39
FY EPS (USD)	0.89	1.09	1.40
P/E (x)	10.6	18.5	14.4
Revenue (USDm)	1,028.0	1,126.6	1,286.9

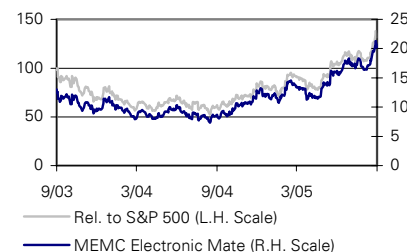
Source: Company, Deutsche Securities

Catalyst Event

Buy

Price at 23 Sep 2005 (USD)	20.18
Price target	24.00
52-week range	21.26 - 8.05

Price/price relative



Performance (%)	1m	3m	12m
Absolute	19.8	25.5	137.1
S&P 500	-0.6	0.1	9.1

Stock data

Market Cap (USDm)	4,228.0
Shares outstanding (m)	209.5
Volume	2,671,800
S&P 500	1,214.62

Key indicators

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Appendix 1

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Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price	Disclosure
MEMC Electronic Materials	WFR.N	19.89 (USD) 15 Sep 05	13

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

(as of 9/22/2005)



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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Equity rating key

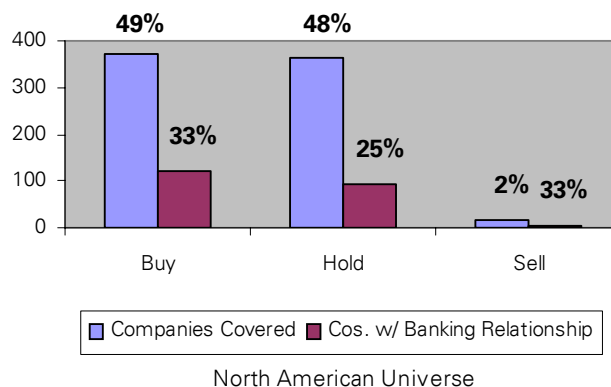
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Equity rating dispersion and banking relationships



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