

Wafer Demand Follow-Up; Pricing Flat in 4Q

Summary and Recommendation

As a follow-up to our industry note from yesterday, we made further checks with wafer distributors in Taiwan and discovered that although 300mm wafer prices increased by 15% (QOQ) in 3Q05, they will most likely remain flat (QOQ) in 4Q05, compared to our prior expectations of up 5%. Additionally, we were anticipating 200mm wafer prices to increase by approximately 5% in 4Q05, following flattish ASP in 3Q05, but our checks indicate that such an increase for 200mm has yet to take place. The data point is consistent with what we heard from the foundries regarding 200mm wafer start softness in 4Q. On the 300mm front, we do not believe all wafer suppliers raised prices in 3Q05, as a way to increase market share, though the quality of wafer (near perfect crystal, NPC) is a significant factor in customers' decision-making process, thus limiting pricing power for certain wafer suppliers. We note that Shin Etsu (SEH) has about 80% of the NPC market share. Our checks also suggest that solar poly long-term contract pricing is around \$30/kg and the spot price is about \$60/kg. Contract prices for semi-grade wafers are in the \$90/kg to \$100/kg range. We note that such data points should not be interpreted as overly negative, and in our opinion, they are more a reflection of a cautious strategy by certain semiconductor companies going into the Christmas holiday season. If the sell-through is actually better than expectations, we believe that foundry customers will increase 200mm wafer starts for 1Q06, thus helping with pricing power for wafer suppliers. To that extent, we continue to encourage investors to switch from WFR to ATMI, given MEMC's exposure to 200mm wafer starts versus ATMI's exposure to 300mm, copper-based wafer starts.

Key Points

- **300mm wafer pricing in 3Q up 15% QOQ, 200mm flat (QOQ).** It has been widely expected that 200mm and 300mm pricing will go up again in 4Q, although it now appears flat (QOQ). This is consistent with what we heard from foundries regarding 200mm wafer start softness in 4Q.
- **Customers are cautious; data points should not be viewed as overly negative.** The downtick in 200mm wafer starts is a defensive strategy, helping semi companies to reduce the risk of excess inventory in 1H06 in case Christmas season sell-through is not that great. If the sell-through is actually good or better than expectations, we believe that foundry customers will increase 200mm wafer starts in 1Q06, thus helping with pricing power for wafer suppliers.
- **We view strong demand for leading-edge, 300mm copper-related wafer starts as a positive for ATMI,** although declining 200mm wafer starts is a negative for WFR.

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