

MITA No. 010/06/2008

11 March 2009

Chartered Semiconductor

Maintain

SELL

Previous Rating: SELL

S\$0.125

Fair Value: S\$0.06

Stock Code:

Reuters: CSMF.SI

ISIN Code C27

Bloomberg: CSM SP

Event: Update

General Data

Issued Capital (m)	2,544
Mkt Cap (S\$m/US\$m)	318 / 207
Major Shareholder	
Temasek Holdings	(59.39%)
Dodge & Cox, Inc	(7.86%)
Free Float (%)	40.5
NTA per share (US\$)	0.44
Daily Vol 3-mth ('000)	16,747
52Wk High (S\$)	0.980
52Wk Low (S\$)	0.115

Projects narrower loss, plans rights issue

Planning rights issue. Chartered announced that it is planning to raise ~US\$300m via a 27-for-10 rights offering to boost its financial position and fund its operations. The rights share price of S\$0.07 represents a 44.0% discount to its last traded share price of S\$0.125. Pursuant to the offering, Chartered expects to issue ~6.9b new shares, giving rise to a theoretical ex-rights price of S\$0.085. Chartered's major shareholder, Temasek Holdings, has undertaken to subscribe for its pro-rata entitlement of 59.4% and committed to purchase up to 90% of the offering. This fund raising exercise, in our view, is completely credible and expected, given the limited financing options it has and the deepening losses it is expected to sustain in 1QFY09 and possibly the upcoming quarters. In fact, we have communicated in our last report that a capital injection may be necessary as its equity base is expected to be severely depleted by mounting losses. Following the completion of the offering (expected mid-April 2009), Chartered intends to consolidate the number of its shares in issue, for every 10 existing shares into one, but note that it is subject to approval by shareholders.

Expecting narrower 1QFY09 loss. Separately, Chartered provided its 1QFY09 mid-quarter update - maintaining its revenue guidance of US\$232-244m but projecting narrower net loss of US\$122-132m (US\$142-152m previously). This, it said, was due to due to improvement in customer orders and subsequent positive impact on the per-unit cost of wafer. The latest guidance is roughly in line with our sales forecast of US\$230.4m but compares significantly to our loss of US\$155.9m. Despite additional customer orders and seemingly stabilizing business, management warned that the macroeconomic environment continues to be challenging and business visibility remains limited. We note that industry watcher Gartner has recently anticipated the global semiconductor sales to decline 24.1% in 2009 (-33% in negative scenario, close to -32.5% in 2001 recession) before returning to +7.5% growth in 2010.

Reiterate SELL. While orders appear to be recovering at Chartered (likewise, among foundry peers TSMC and UMC), we have left our FY09 revenue forecast intact in view of the limited order visibility. However, we have changed our gross margin assumptions, which effectively reduce our FY09F loss by 5.4%. As the rights issue is likely to go through (hence alleviating its financing issues), we also raise our valuation metric slightly to 0.4x FY09F NTA (0.3x previously). Accordingly, our ex-rights fair value stands at S\$0.06. Maintain **SELL** on further downside risks.

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Year to 31 Dec	Turnover (US\$m)	Gross Profit (US\$m)	Net Profit (US\$m)	EV/EBITDA (x)	EPS (US cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	1,355.5	259.7	92.0	3.1	3.6	59.3	2.3	-
FY 08	1,661.1	213.8	-102.6	3.6	-4.0	nm	nm	-
FY 09F	1,030.7	-149.1	-498.7	17.1	-5.3	nm	nm	-
FY 10F	1,245.9	43.7	-278.6	5.9	-3.0	nm	nm	-

Please refer to the important disclosures at the back of this document.

Exhibit 1: Indicative Timeline

Share Rights	2009 (Singapore time)
Shares trade ex-rights	9:00 a.m. on March 16, 2009
Books closure date for determining entitlements to Share Rights	5:00 p.m. on March 18, 2009
Trading in Share Rights on the SGX-ST commences	9:00 a.m. on March 23, 2009
Dispatch of Singapore Offer Information Statement and application forms and letters to eligible shareholders	On or about March 23, 2009
Rights Shares subscription period commences	March 23, 2009
Last date for exchanging Share Rights for ADS Rights to be traded in the U.S.	March 25, 2009
Last date for exchanging Share Rights for ADS Rights to be exercised in the U.S.	March 30, 2009
Last date and time for splitting provisional allotment letters for Entitled Scripholders	5:00 p.m. on March 31, 2009
Last date and time for trading in Share Rights on the SGX-ST	5:00 p.m. on March 31, 2009
Last date and time for Entitled Scripholders to exercise Share Rights and accept and pay for Rights Shares	5:00 p.m. (9:30 p.m. for electronic applications*) on April 6, 2009
Last date and time for renunciation of rights and payment for Rights Shares pursuant to the exercise of Share Rights by Entitled Scripholders	5:00 p.m. on April 6, 2009
Last date and time to subscribe and pay for excess Rights Shares	5:00 p.m. (9:30 p.m. for electronic applications*) on April 6, 2009
Expected date for issuance of Rights Shares and delivery of Rights Shares certificates to CDP	On or about April 15, 2009
Expected date for listing and commencement of trading in Rights Shares on the SGX-ST	On or about April 16, 2009

Source: Company

* Subject to confirmation of the participation of the banks which Chartered intends to invite to provide electronic acceptance and/or application services for the Rights Offering.

CSM's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Revenue	1,355.5	1,661.1	1,030.7	1,245.9
Cost of sales	-1,095.8	-1,447.3	-1,179.8	-1,202.3
Gross profit	259.7	213.8	-149.1	43.7
Other revenue	22.9	13.4	8.6	9.2
Research and development	-159.8	-177.9	-174.4	-174.4
Fab start-up costs	0.0	0.0	0.0	0.0
Sales and marketing	-58.0	-69.5	-56.3	-55.5
General and administrative	-39.6	-43.1	-33.3	-35.3
Other operating expenses	-13.0	-10.1	-8.9	-5.9
Profit from operations	12.1	-73.3	-413.3	-218.3
Equity in income of associated companies, net	33.8	26.0	-6.0	17.5
Other income, net	-2.4	2.9	-3.6	-2.8
Interest expense, net	-33.3	-52.6	-57.3	-56.4
Profit before tax	10.3	-97.0	-480.2	-260.0
Income tax expense	91.4	4.5	-8.2	-8.4
Net profit for the year	101.7	-92.6	-488.5	-268.4
Less: Accretion to redemption value of convertible redeemable preference shares	-9.7	-10.0	-10.2	-10.2
Net profit attributable to shareholders	92.0	-102.6	-498.7	-278.6

BALANCE SHEET

As at 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Cash	743.2	524.5	446.5	206.9
Other current assets	610.6	523.9	343.1	396.9
Fixed assets	2,463.8	2,845.7	2,771.1	2,684.1
Other long term assets	208.0	131.1	116.5	101.9
Total assets	4,025.6	4,025.2	3,677.2	3,389.7
Current liabilities	675.9	581.5	795.1	836.0
Debt	1,848.6	1,840.5	1,780.5	1,720.5
Other liabilities	52.7	57.1	57.1	57.1
Total liabilities	2,228.6	2,315.9	2,135.8	2,116.7
Convertible redeemable preference shares	255.8	265.9	276.1	286.3
Shareholders equity	1,541.1	1,443.4	1,265.3	986.8
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	4,025.6	4,025.2	3,677.2	3,389.7
NTA per share (cents)	48.2	44.4	10.2	7.2

CASH FLOW

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Operating cash flow before working capital changes	613.1	512.1	31.2	288.8
Working capital changes	-134.2	74.2	36.2	-12.9
Net cash from operations	478.9	586.4	67.4	275.9
Capex	-758.4	-576.0	-375.0	-400.0
Other investing flows	-87.2	-180.9	-55.6	-55.6
Investing cash flow	-845.6	-756.9	-430.6	-455.6
Change in equity	2.6	1.0	320.6	0.0
Net change in debt	419.2	-14.0	-60.0	-60.0
Others	-35.3	-35.3	24.6	0.0
Financing cash flow	386.5	-48.4	285.2	-60.0
Effect of exchange rate changes	4.3	0.2	0.0	0.0
Net cash flow	24.2	-218.7	-78.0	-239.6
Cash at beginning of year	719.0	743.2	524.5	446.5
Cash at end of year	743.2	524.5	446.5	206.9

Key Ratios

PER (x)	2.3	nm	nm	nm
Price/NTA (x)	0.2	0.2	0.8	1.2
EV/EBITDA (x)	3.1	3.6	17.1	5.9
Dividend yield (%)	0.0	0.0	0.0	0.0
ROIC (%)	3.1	-2.7	-17.3	-10.7
ROE (%)	5.9	-5.3	-30.1	-19.1
Net gearing (%)	71.7	91.2	105.4	153.4
PE to growth (x)	0.0	nm	nm	nm

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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