OCBC Investment Research

MITA No. 010/06/2008

27 April 2009

Chartered Semiconductor

1Q09 results above expectations, guides better 2Q09

Maintain
SELL

Previous Rating: SELL

S$0.16

Fair Value: S$0.08

Stock Code:
Reuters: CSMF.SI
ISIN Code C27
Bloomberg: CSM SP

Event: Results

General Data	
Issued Capital (m)	9,414
Mkt Cap (Sm/USm)	1,506 / 1,010
Major Shareholder	
Temasek Holdings	(62.33%)
Free Float (%)	37.6
NTA per share (US$)	0.55
Daily Vol 3-mth ('000)	51,166
52Wk High (S$)	0.650
52Wk Low (S$)	0.066

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Above expectations. Chartered Semiconductor reported a set of 1Q09 results that were above consensus and our expectations. Revenue of US$243.9m came in at high end of its mid-quarter guidance of US$232-244m, while its net loss of US$98.8m was significantly lower than its projected US$122-132m. The 37.2% YoY decline (-30.6% QoQ) in revenue was primarily due to significant fall in semiconductor demand across all markets, with largest fall coming from computer sector (-46.2% QoQ). Included in the results was a positive impact of US$29.8m (US$18.1m in 4Q08) resulting from a change in depreciation policy and an improvement in ASP per wafer to US$928 (US$909 in 4Q08) due to favourable product mix. Together with the adoption of FAS160 effective from start 2009, which allocates a US$15.5m loss to the non-controlling interest in CSP (Fab 6), net loss of US$98.8m was thus lower than expected. Results form 23.7% of our FY09F sales and 20.3% of our projected earnings (after preference share accretion).

Guides better 2Q09, maintains capex expectation. As Chartered progresses into 2Q09, it is seeing a significant increase in orders, mainly from its leading-edge 65nm technology node followed by 0.11 and 0.18-micron nodes. This, it said, may be driven by the introduction of new products and, to a lesser extent, inventory re-stocking. As such, the group is guiding revenue to improve ~32-37% QoQ to US$321-333m, while its net loss to narrow to US$54-64m for 2Q09. In line with strength seen at leading-edge technologies, Chartered is also expecting revenue from its 65nm-and-below technologies to increase ~72% QoQ and represent ~30% of its total 2Q09 sales. However, due to the challenging macroeconomic conditions, the group notes that it has limited visibility beyond 2Q09. On the operational front, the group is maintaining its FY09 capex expectation of US$375m and also its breakdown point of 75% utilization rate by 4Q09.

Reiterate SELL. In view of the better-than-expected results and recent ramp-up seen among the foundry players, we have readjusted our FY09 forecasts to reflect an 11.9% improvement in revenue and a narrower loss of US$299.8m from our previous projections. Our fair value estimate is in turn raised to S$0.08 (S$0.06 previously, still based on 4x FY09F NTA) for the same reasons. Despite this, we note that Chartered may not be able to return to sustainable profitability in FY10 and that its re-financing issues continue to be a concern. Seeing a sharp rebound in the share price lately, we believe significant downside risk lurks. Maintain **SELL.**

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	4.7	3.6	59.3	3.0	-
FY 08	1,661.1	213.8	-102.6	5.3	-4.0	nm	nm	-
FY 09F	1,153.6	-8.8	-299.8	10.7	-3.2	nm	nm	-
FY 10F	1,257.5	84.0	-193.0	7.6	-2.0	nm	nm	-

CSM's Key Financial Data

CSM Results **Year Ended 31 Dec (US$ m)**	**1Q08 (US$m)**	**1Q09 (US$m)**	**% Chg (YoY)**	**4Q08 (US$m)**	**% Chg (QoQ)**
Revenue	388.2	243.9	-37.2%	351.7	-30.6%
Cost of sales	-323.6	-271.4	-16.1%	-337.9	-19.7%
Gross profit	64.6	-27.5	nm	13.8	nm
Other revenue	5.6	1.8	-67.6%	2.4	-24.1%
Research and development	-45.4	-48.0	5.6%	-45.4	5.8%
Sales and marketing	-17.6	-12.8	-27.0%	-14.5	-11.7%
General and administrative	-10.8	-10.6	-1.8%	-9.9	7.1%
Other operating expenses	-2.5	-3.0	18.8%	-5.0	-41.2%
Profit from operations	-6.1	-100.1	nm	-58.7	70.5%
Equity in income of associated companies, net	9.8	-1.6	nm	-2.2	-25.7%
Other income, net	10.5	0.2	-98.1%	-5.9	nm
Interest expense, net	-10.6	-13.9	31.4%	-14.2	-2.2%
Profit before tax	3.6	-115.4	nm	-81.0	42.5%
Income tax expense	-1.2	1.2	nm	-33.0	nm
Net profit for the year	2.4	-114.2	nm	-114.0	0.2%
Less: Net loss attributable to noncontrolling interest in CSP	0.0	15.5	nm	0.0	nm
Net profit attributable to Chartered	2.4	-98.8	nm	-114.0	-13.4%
Less: Accretion to redemption value of convertible redeemable preference shares	-2.5	-2.6	3.9%	-2.5	1.0%
Net profit attributable to shareholders	-0.1	-101.3	nm	-116.6	-13.1%

EARNINGS FORECAST **Year Ended 31 Dec (US$ m)**	**FY07**	**FY08**	**FY09F**	**FY10F**
Revenue	1,355.5	1,661.1	1,153.6	1,257.5
Cost of sales	-1,095.8	-1,447.3	-1,162.3	-1,173.5
Gross profit	259.7	213.8	-8.8	84.0
Other revenue	22.9	13.4	8.4	9.2
Research and development	-159.8	-177.9	-183.7	-178.8
Sales and marketing	-58.0	-69.5	-49.9	-51.3
General and administrative	-39.6	-43.1	-40.7	-38.9
Other operating expenses	-13.0	-10.1	-6.6	-5.1
Profit from operations	12.1	-73.3	-281.2	-181.0
Equity in income of associated companies, net	33.8	26.0	-4.6	17.0
Other income, net	-2.4	2.9	-1.3	-2.0
Interest expense, net	-33.3	-52.6	-56.5	-55.9
Profit before tax	10.3	-97.0	-343.7	-221.9
Income tax expense	91.4	4.5	-2.3	-5.3
Net profit for the year	101.7	-92.6	-345.9	-227.2
Less: Net loss attributable to noncontrolling interest in CSP	0.0	0.0	56.5	44.5
Net profit attributable to Chartered	101.7	-92.6	-289.5	-182.7
Less: Accretion to redemption value of convertible redeemable preference shares	-9.7	-10.0	-10.3	-10.3
Net profit attributable to shareholders	92.0	-102.6	-299.8	-193.0

BALANCE SHEET As at 31 Dec (US$ m)	FY07	FY08	FY09F	FY10F
Cash	743.2	524.5	553.9	306.3
Other current assets	610.6	523.9	393.8	419.8
Fixed assets	2,463.8	2,845.7	2,758.9	2,727.1
Other long term assets	208.0	131.1	117.1	103.1
Total assets	4,025.6	4,025.2	3,823.7	3,556.3
Current liabilities less debt	327.2	418.3	313.0	332.8
Debt	1,848.6	1,840.5	1,769.6	1,709.6
Other liabilities	52.7	57.1	57.1	57.1
Total liabilities	2,228.6	2,315.9	2,139.8	2,099.6
Convertible redeemable preference shares	255.8	265.9	276.2	286.5
Shareholders equity	1,541.1	1,443.4	1,464.2	1,271.2
Minority interests	0.0	0.0	0.0	0.0
Noncontrolling interest in CSP	0.0	0.0	-56.5	-101.0
Total equity and liabilities	4,025.6	4,025.2	3,823.7	3,556.3
NTA per share (cents)	58.2	54.9	15.2	13.3

CASH FLOW Year Ended 31 Dec (US$ m)	FY07	FY08	FY09F	FY10F
Operating cash flow before working capital changes	613.1	512.1	169.2	310.1
Working capital changes	-134.2	74.2	20.3	-6.2
Net cash from operations	478.9	586.4	189.5	303.9
Capex	-758.4	-576.0	-375.0	-450.0
Other investing flows	-87.2	-180.9	-39.4	-41.5
Investing cash flow	-845.6	-756.9	-414.4	-491.5
Change in equity	2.6	1.0	320.6	0.0
Net change in debt	419.2	-14.0	-70.8	-60.0
Others	-35.3	-35.3	4.6	0.0
Financing cash flow	386.5	-48.4	254.3	-60.0
Effect of exchange rate changes	4.3	0.2	0.0	0.0
Net cash flow	24.2	-218.7	29.4	-247.7
Cash at beginning of year	719.0	743.2	524.5	553.9
Cash at end of year	743.2	524.5	553.9	306.3
Key Ratios				
PER (x)	3.0	nm	nm	nm
Price/NTA (x)	0.2	0.2	0.7	0.8
EV/EBITDA (x)	4.7	5.3	10.7	7.6
Dividend yield (%)	0.0	0.0	0.0	0.0
ROIC (%)	3.1	-2.7	-10.3	-7.2
ROE (%)	5.9	-5.3	-20.4	-14.5
Net gearing (%)	71.7	91.2	83.0	110.4
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.

Co.Reg.no.: 198301152E

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Published by OCBC Investment Research Pte Ltd