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Tough sledding seen for Chinese foundry growth

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HSINCHU, Taiwan — Despite double-digit growth predicted for the semiconductor industry over the next few years, it will be tough for Chinese foundries to make additional market share gains, according to Semico Research Corp.

"The Chinese players are going to have a tough time over the next three to five years, but what they'll grow on is domestic demand—companies that are in China and want to go with the local supplier," said Jim Feldhan, president of Semico.

Feldhan, speaking to a group of executives in Taiwan's Hsinchu Science Park, said Chinese foundries like Semiconductor Manufacturing International Co. and Grace Semiconductor Manufacturing Corp. are still in the very early stages of winning customer trust, something that the Taiwanese foundries have toiled at for more than a decade.

Nevertheless, Feldhan said he isn't discounting the emergence of a successful foundry in China as the local market grows and engineers deepen their process technology experience. "If you think about it, three years ago, no one thought China would have a 300-mm fab. Some people thought it would all be 0.50 micron or 0.25 micron technology," he said. "That has rapidly changed in the last few years."

In 2005, SMIC posted the largest growth rate (19 percent) in the pure-play foundry industry, earning it 7 percent of the market—a big jump from its 1 percent share in 2002, according to IC Insights. Grace, on the other hand, registered the biggest sales decline for the foundry industry in 2005, and recently postponed its IPO for the third time.

The market will only get tougher for Chinese foundries, Feldhan said, as established players maintain a brisk pace of technology development backed by the multibillion-dollar investments needed for new fabs. Plus, new players like Samsung Electronics will likely become successful foundry competitors during the next few years, he said.

Chinese foundries had about 13 percent of the market last year, up from 4 percent in 2002. But they are expected to gain only a little less than 1 percentage point annually through 2010, when they will pull in about \$7.5 billion, according to IC Insights' figures. During that same period, however, the overall foundry industry will yield a 21 percent compound annual growth rate.

Semico's Feldhan also reiterated earlier forecasts about the semiconductor industry hitting \$578 billion in 2015, based on 10 percent compound annual growth. This year, Semico is calling for 17 percent growth, about two-thirds of which will come from increased unit shipments and the rest from an increase in aggregate average prices.

Semico estimates that chip makers came into 2006 with low inventories, which will help stabilize pricing and continue to drive higher capacity utilization. Feldhan pegged current industry fab utilization at about 90 percent, with leading edge nodes at 95 to 98 percent. That should continue through the first half.

"So we're starting to see the tide turn. It's changing from a buyer's market to a seller's market," he said. Semico estimates the next downturn will be in 2009, followed by two years of growth.

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