

Ask The Analyst

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Question 4:

What is the significance of ST's deal with Global Foundries?

Ans:

It is clearly a win-win situation for both, but it also needs to be put into perspective. In ST Global Foundries has landed a top Tier 1 account and for ST, Global Foundries represents a technological strong supplier, on a par with market leader TSMC. But that is as far as it goes. In the grand scheme of things it is not enough for either, the real question being "Will Global Foundries truly represent a counterweight to TSMC's dominance in the leading-edge foundry business?" The answer to that question is "Unequivocally no, not as currently structured". Undisputedly, from a technology perspective, TSMC and Global Foundries are, for now, favourably matched but the chip business is less about technology, more about horsepower and in this regard Global Foundries is seriously disadvantaged. It is in exactly the same position with TSMC as AMD was with Intel - an order of magnitude out-gunned in size. Size really does matter in the chip production business and one new fab in Malta simply does not cut the mustard. Granted it is a demonstration of intent but to be a serious (TSMC) competitor they need to be building at least another five more like that in parallel. Now that would make Mr (Stalingrad) Chang sit up and flinch.