

Ask The Analyst

Date: July 31 2009

Question 5:

What is the outlook for the Cap Ex market?

Ans:

Q3-09 will be dire ... the current absolute spend rate is circa \$800 million per month i.e. at spares and maintenance levels, no expansion at all. The front-end book to bill is still less than 1 so billings will get worse before they get better. As per our earlier comment, TSMCs recently announced cap ex 'binge' barely represents one modest fab module ... too little to make any real difference and with the summer 'recess' now in full swing, it will be mid to late September before anyone looks at this again seriously. This means it will be Q4-09 at the earliest before any meaningful new front end equipment orders will be placed by which time we should have an '8%-12%' Q3-09 semiconductor quarterly growth number under our belts, good, but not good enough to set off the fireworks. Q4-09 will then come in seasonally slow, adding more caution to an already over-cautious mix. This will then be followed by a further seasonally slow Q1-10 before Q2-10 kicks in to build Q3-10's seasonal spurt. By that time all of the spare capacity will have gone and suddenly everyone will wake up the fact that the cupboard is bare. Better get ready for the book to bill to hit '10:1' in Q3-10! The best the Capital equipment industry grew was +87 % in 2000, from \$25.5b to \$47.7b. With Cap Ex on track to shrink a further 40-60 percent in 2009 to circa US\$12 billion, if you applied this growth rate to 2010, the total spend would still only limp in at \$20 billion