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## Chartered Semiconductor Stake May Be Thrust on Merrill Lynch

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SINGAPORE -- **Merrill Lynch & Co.** seems set to acquire a substantial stake in Singapore chip maker **Chartered Semiconductor Manufacturing Ltd.** -- and therein lies a tale.

Why is the New York-based brokerage firm about to own such an interest in making computer chips? It all results from what is expected to be a massively undersubscribed "rights" offering that many of Merrill's rivals said should never have gone ahead.

Together with its subunderwriters for the deal, Merrill could end up owning a stake equivalent to about 18% of Chartered's enlarged share capital, after Chartered's stock price closed well below its rights-issue price Monday. As the underwriter, Merrill agreed to take up any unsubscribed shares up to an amount of US\$250 million.

Merrill and Chartered declined to comment on the deal, saying details would be announced Wednesday.

"It's very likely they [Merrill] are going to own a lot of the stock," said a banker at a rival investment bank in Hong Kong. "It's a sign of how competitive the business is and how desperate the banks are to secure business."

Chartered's rights issue isn't the only deal that has run into trouble recently. Last week, Hong Kong conglomerate **Hutchison Whampoa Ltd.** scrapped a huge bond offering citing difficult market conditions. Weak global markets, fears of a war in Iraq and concerns over the U.S. economic outlook make this a difficult environment for raising money.

### COMPANIES

Dow Jones, Reuters

#### Merrill Lynch & Co. Inc. (MER)

PRICE	28.43
CHANGE	-1.74
U.S. dollars	10/7

#### Chartered Semiconductor Manufacturing Lt (CHRT)

PRICE	4.90
CHANGE	-0.64
U.S. dollars	10/7

#### China Mobile (Hong Kong) Ltd. ADS (CHL)

PRICE	11.75
CHANGE	-0.16
U.S. dollars	10/7

\* At Market Close

"When times get tough, [investment banks] increasingly put their balance sheets at risk to earn income," said Anna Borzi, head of regional financial institutions research at HSBC in Hong Kong. "If [Merrill] ends up taking it [Chartered shares] on their books, I can't imagine this is something they'd want to do."

At this stage, share offerings for **China Telecom** Corp. and **Standard Chartered** PLC, which are due in the next few weeks, are still expected to go ahead unless global market conditions deteriorate further, bankers said. An initial public offering for Singapore mobile-telecommunications company MobileOne (Asia) Pte. Ltd. could prove more difficult, given the weak state of the Singapore market and likely overhang of Chartered shares.

Merrill's deal for Chartered came at a time when the firm was trying to claw its way back up the so-called league tables in Asia -- or the standings showing which brokerage firms are doing the most business. However, it was widely seen as a difficult deal. "Chartered is the No. 3 player in an intensely competitive, capital-intensive industry," said Kes Visuvalingam, director of equities at CMG First State Investments.

Unprofitable Chartered's share price closed at 93 Singapore cents (52 U.S. cents) on Monday, down 6.1%, and below the rights-issue price of S\$1. Shareholders owning more than 5% of the company will have to disclose their stakes within a couple of days, brokers said.

The deal was subunderwritten by three Singapore banks, which means that Merrill likely won't end up with the entire 18% stake. Even so, it will be under pressure to quickly get rid of the stock it holds, as this will act as an overhang on Chartered's stock price and help keep the share price depressed.

At Monday's closing price, investment bankers estimate that Merrill and the other subunderwriters (depending on their involvement) would have incurred losses of around US\$17 million. The banks would then have to sell that stock, and typically in a bloc trade, there is a further 10% discount. That could take the total loss to around US\$40 million, offset by fees that rival bankers put at around US\$6 million. However, it is very likely that Merrill and the subunderwriters would have hedged their position, thereby reducing the losses, investment bankers say.

Last year, Merrill's Asian-Pacific (ex-Japan) operations recorded net revenue of US\$874 million and a pretax loss of US\$40 million.

Several global banks have laid off staff in Asia over the past year, but as market conditions remain tough, further layoffs are expected in the U.S. and Europe, and possibly in Asia.

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