



November 13, 2002 4:51 a.m. EST

## Merrill Lynch Holds 11% Stake In Chartered Semiconductor

By SAI MAN  
DOW JONES NEWSWIRES

SINGAPORE -- **Merrill Lynch & Co.** said it owns 11% of **Chartered Semiconductor Manufacturing Ltd.**, making the U.S. investment bank the second-biggest shareholder of the Singapore contract chip maker, after the Singapore government's investment arm.

The disclosure to the U.S. Securities and Exchange Commission, which comes just over a month after new shares issued from a disastrous rights offering were publicly traded, confirms what investors have long feared -- that a company plagued with a prolonged industry downturn and continued losses has to contend with a major share overhang.

Chartered's shares have plunged more than 60% since speculation spread about an impending cash-raising exercise in August, and have lost about 80% of their value since the start of the year.

Merrill was left holding the unwanted stake in the chip maker after it underwrote a 1.1 billion 8-for-10 rights issue last month, which was hugely undersubscribed. The only other major taker was government-linked Singapore Technologies group, which had promised to take an amount equivalent to its existing shareholding of 60.5%.

"It simply means that the overhang is still there, and that it will take a while to clear. I see the stock as having limited upside," said Dharmo Soejanto, analyst at Kim Eng Ong Securities, who has a sell rating on the stock.

According to the SEC filing, as of Oct. 31, Merrill Lynch owned 275.2 million Chartered ordinary shares, plus bonds convertible into 352,437 ordinary shares.

### Will Potential Investors Be Discouraged?

Merrill's stake isn't as big as originally thought, which in early October was estimated to be around 15.8% when combined with subunderwriters that had been brought into the deal, but is consistent with filings made to Chartered's share registrar, M&C Services Pte Ltd., last Friday.

Merrill was obliged under SEC rules to make a filing because it holds more than 10% of Chartered.

Since the new shares have traded, Chartered has only managed to close once at the rights-offer price of 1.00 Singapore dollar (US\$0.57) suggesting a severe overhang on the stock that will discourage potential investors for fear that Merrill could sell anytime upward momentum builds, analysts say.

• [Chartered Semiconductor Stake May Be Thrust on Merrill Lynch](#)<sup>1</sup>  
10/08/02

• [Chartered's Rights Issue May Be Undersubscribed](#)<sup>2</sup>  
10/06/02

### COMPANIES

Dow Jones, Reuters

[Merrill Lynch & Co. Inc. \(MER\)](#)

PRICE 37.06

CHANGE 0.47

U.S. dollars 11/12

\* At Market Close

While Chartered is unlikely to need cash anytime soon, having raised US\$620 million in gross proceeds from the exercise, it could hamper any future fundraising plans it may need for new wafer-fabrication plants, analysts say.

That's bad news for a company that needs to continue to make huge capital investments to catch up with industry leaders **Taiwan Semiconductor Manufacturing Ltd.** and **United Microelectronics Corp.** in terms of the latest technologies for which there is uncertain demand, they say.

Indeed, Chartered is caught between the high and low roads, as aggressive new entrants from Malaysia and China undercut Chartered by winning wafer orders made with older technological processes, they say.

The company, which hasn't made money since the last quarter of 2001, could probably see its loss-making streak extend to a total of three years, given low demand for its made-to-order chips that are used for products ranging from personal computers to wireless devices, they add.

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*Updated November 13, 2002 4:51 a.m. EST*

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