



### ASM PACIFIC AND ASM INTERNATIONAL

In the last few weeks I have met with representatives from both ASM Pacific (ASMP) and ASM International (ASMI). These are two companies that I have followed for many years and therefore I thought it would be interesting to share some of my thoughts from those meetings.

I wrote about ASM Pacific in opinion piece 15 back in December 2006. In that opinion piece I neglected to mention that ASMP was originally founded in 1975 as the Far East marketing arm of ASMI a Dutch semiconductor equipment company. ASMP was listed on the Hong Kong stock exchange in 1989 and ASMI retained a controlling ownership stake of over 50% which they continue to own to this day. In that opinion piece I mentioned that I have owned shares in ASMP since 1995. The chart below highlights just how volatile the share price has been over the fourteen years that I have owned them and the year 2008 has continued that pattern with a high of over HK70 and a low of about HK20.

ASM Pacific share price



I have owned my shares through the Asian crisis of 1998, the dotcom boom of 2000 and now the credit crisis of 2008. I have retained my shares for the following reasons:

- They have gained market share steadily over that time and are now recognised as a market leader
- They have grown organically without making expensive acquisitions
- They have consistently spent on R&D
- They have a low cost production base in China
- They have generated good profit margins and returns on capital

- They have generated cash and have a strong balance sheet with no borrowings
- They have a decent dividend
- They have only had two managing directors over that time

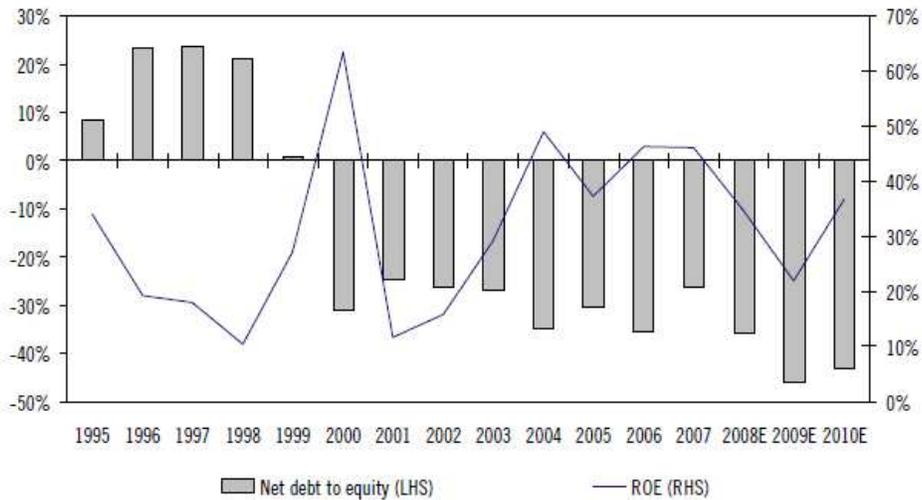
All of the above is true but of course it is backwards looking. The problem I have is to make a judgement call about the future. In order to justify continuing to own the shares I have to ask myself whether anything has changed or is about to change and that is why I enjoyed meeting Jerry Dellheim on May 7<sup>th</sup>.

Jerry Dellheim has two roles within ASMP. First of all he is involved in sales and secondly he is involved in investor relations. He has worked for ASMP for many years and I came away from the meeting with a sense that he is steeped in the culture that I felt the time Patrick Lam (the then CEO) walked me around the assembly lines in 1993.

The discussion covered many different topics from the current state of the semiconductor market to the recent merger of two of ASMPs biggest competitors, ESEC and BESI.

Overall Jerry suggested that the future will be similar to the past and I know that the cynic would suggest that he would say that but I have to say that I have never got the impression that ASMP was or is a company driven by spin. The numbers speak for themselves:

Figure 3. ASM Pacific Technology — ROE and Net Gearing, FY95-10E



In conclusion the meeting gave me no reason to believe that I should sell my shares.

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On May 26<sup>th</sup> I had the opportunity to meet Erik Kamerbeek the Director of Investor Relations at ASMI.

As I said ASMI own over 50% of ASMP and they also produce their own products in a completely different segment of the semiconductor equipment market.

In contrast to ASMP, ASMI have achieved very different results over the period I have looked at them.

- They have not consistently gained market share
- Spending on R&D has not generated clear returns
- They had a high cost production base in the Netherlands
- They have lost money most years
- Their financial health has been helped by dividends from ASMP and their decision not to pay a dividend themselves

The most interesting thing about ASMI in the past has been the tendency of the stock market to value the company at less than the value of its 53% stake in ASMP. This has attracted the attention of activist shareholders and has even resulted in a potential takeover of the company that would have involved their biggest competitor Applied Materials taking over part of the business. The credit crisis at the end of last year stopped this process and a number of the activist shareholders have now sold their shares.

The current market capitalisation of ASMI is about \$750m and yet the stake in ASMP is worth about \$1.2bn. This suggests that the market thinks ASMI will continue to destroy value. Erik Kamerbeek believes that the market is wrong. He believes that there is value in their products and customer base.

He talked to me about their new products and new customer wins. He seemed particularly pleased with their new contract with the biggest semiconductor foundry in Taiwan (they are not allowed to name the company but everyone knows the name of the biggest foundry!)

I was impressed with Erik and came away from the meeting very much as I did in 1993 when I met Patrick Lam.

I have therefore decided to switch part of my ASMP stake into ASMI. I will let you know the results of this decision. 2020 should give enough time to make a judgement!

### ASMI share price

