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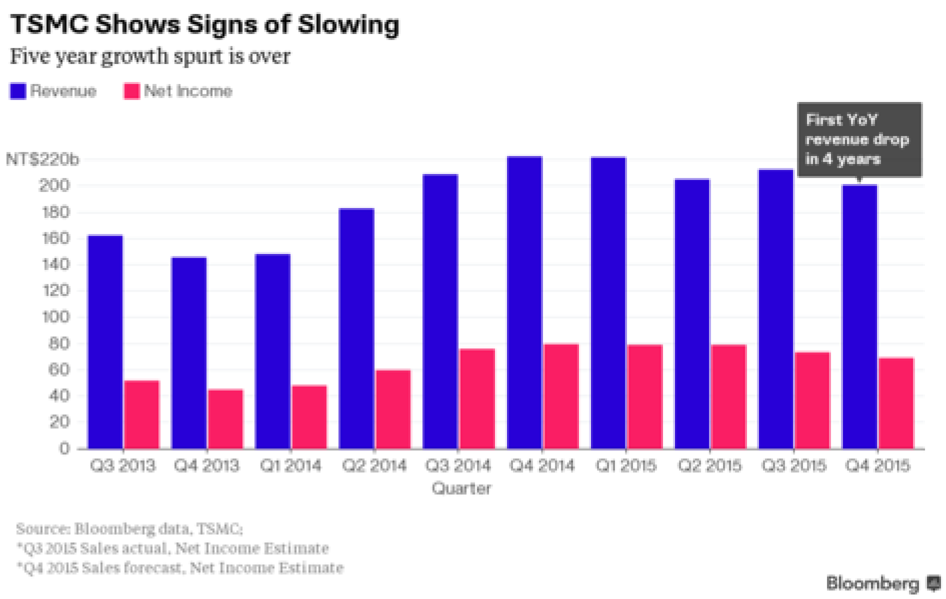
TSMC Drops After Cutting Full-Year Capital Spending Forecast

- Company cut its global chip-industry growth forecast to zero
- Slowdown in China economy affecting smartphone demand



Taiwan Semiconductor Manufacturing Co. fell the most in almost a month after cutting its equipment budget as much as 27 percent amid slowing demand for chips and its first profit decline in three years.

Shares dropped 1.8 percent to NT$137.50 in Taipei, the most since Sept. 23. It's New York-listed depositary receipts lost 2.5 percent. Capital expenditure this year will be $8 billion, from a previous forecast for as much as $11 billion, Chief Financial Officer Lora Ho said Thursday. Third-quarter net income fell 1.3 percent to NT$75.3 billion ($2.3 billion).

TSMC's second cut in spending for plants and machinery this year comes after Intel Corp. this week lowered its own outlook for capital expenditure and said a slowdown in server demand could threaten sales of its semiconductors. While TSMC gets some chip orders to supply Apple Inc.'s latest iPhone, those for other smartphones and personal computers are tepid.

“The surprise huge 2015 capex guidance cut also raises doubts about the 2016 order outlook: the cut affects 2016 installed capacity,” BNP Paribas SA Hong Kong-based analyst Szeho Ng wrote in a report after Thursday’s announcement.

TSMC sees zero growth in the global semiconductor industry this year after previously expecting a 3 percent increase, co-Chief Executive Officer Mark Liu said Thursday. Global market revenue for smartphones will climb 10 percent this year while that for PCs will drop 6 percent, he said. TSMC’s full-year revenue growth will reach 10 percent, he said.

“Due to a weaker global economy, a stronger U.S. dollar environment and a volatile financial market, the electronic device market has been negatively impacted, resulting in a lack of growth,” Liu said. “We see the unexpected slowdown of the economy in China since Q1, resulting in a continued sluggish smartphone demand economy.”

In July, TSMC estimated its annual capital spending at $10.5 billion to $11 billion, saying the figure may be adjusted in the future. Spending for the year through September was $5.5 billion, it said Thursday.

Ho cited efficiency gains, adjustments in capital deployment and changes to foreign-exchange rates for lowering the spending plan.

TSMC on Thursday narrowed its sales forecast for this quarter, predicting revenue of NT$201 billion to NT$204 billion. Analysts had expected NT$206.7 billion.

TSMC seeing brisk demand for 16nm chips from China

Almost 10 China-based IC design houses have already entered design-in process using TSMC's 16nm FinFET technology, which is ready for rapid demand growth in China, according to Roger Luo, VP of TSMC's China business development.

In China, 16nm chip demand for a broad range of applications including mobile computing, network communications, Bitcoin mining and FPGA has emerged, said Luo. Demand for advanced 16nm node manufacturing indicates a flourishing IC design industry, Luo indicated.

TSMC has seen robust demand for 28nm chips from China's IC design sector, with many customers already offering their complete 28nm product portfolios, Luo noted.

China-based IC design houses have been expanding their worldwide market presence. First-tier players including HiSilicon and Spreadtrum have already emerged to play in the global marketplace, said Luo, adding that China has been catching up fast in terms of design capabilities.

According to IC Insights, there were nine China-based companies among the top-50 fabless companies in 2014 as compared to only one in 2009.

Mobile devices will remain the biggest driving force behind China's IC design industry growth, Luo believes. The rise of China-based handset brands and the country's transition to 4G will make a positive contribution to the growth of China's IC design sector, Luo said.

For TSMC, sales generated from the China market continue to grow at a gradual pace. China accounted for 7% of TSMC's overall revenues in 2014, compared with 6% in 2013, 5% in 2012 and 4% in 2011, Luo disclosed.

TSMC's revenues generated from the China market jumped to NT$53.4 billion in 2014 from NT$17.1 billion in 2011, representing a CAGR of 46%, Luo noted.

In China, TSMC currently has an 8-inch wafer fab located in Songjiang (Shanghai) with monthly production capacity exceeding 100,000 units, Luo said. The fab has production lines for the manufacture of chips for use in handsets, tablets, consumer electronics, TVs and IoT applications.