AMD taps debt market again, sells $1.5 billion note

By Matt Andrejczak, MarketWatch
Last Update: 12:59 PM ET Aug 9, 2007

SAN FRANCISCO (MarketWatch) -- Advanced Micro Devices Inc. on Thursday tapped the debt markets for the third time in the past year, selling $1.5 billion of senior notes in a deal aimed at improving the computer chipmaker's financial position.

The net proceeds, together with available cash, will fully repay the loan AMD entered into with Morgan Stanley Senior Funding in October 2006. The loan, originally worth $2.5 billion, was used to help fund AMD's $5.4 billion acquisition of ATI, a graphics chipmaker.

AMD said that it will pay an interest rate of 5.75% on the notes due 2012. Interest payments will be due each year on Feb. 15 and Aug. 15. Despite recent turmoil in the credit markets due to bad U.S. home loans, AMD secured the best rate it's had to pay in recent debt deals.

The company sold $2.2 billion in debt at a rate of 6% this past April to help fund its operations. The Morgan Stanley Loan, now paid, carried a rate of 7.36%, as of June 30.

Liquidity concerns have been one of the factors hurting AMD's stock, which is down 36% so far this year. In midday trading Thursday, the stock fell 2.5% to $13.09.

John Dryden, analyst at Charter Equity Research, said that AMD should have enough cash to get through the remainder of the year. But he said that the chipmaker likely will have to tap the credit markets again by the spring of 2008 to shore up its balance sheet, due to its high cash-burn rate.

AMD has been running through about $500 million of cash per quarter.

"We expect liquidity and cash consumption to become problematic for the stock early in 2008," Dryden wrote in a research note. He reiterated his market-perform rating on AMD.

By paying off the Morgan Stanley loan, AMD will reduce its interest expenses that ran around $125 million per year, but it won't do much to improve the company's ability to generate free cash flow from operations.

However, AMD won't be bound by certain restrictions that forced it to use the proceeds from asset or stock sales to pay down the Morgan Stanley loan, according to Doug Freedman, analyst at American Technology Research.

This will help AMD in its publicly stated pursuit to sell land, older manufacturing equipment and shares of its former memory-chip unit, Spansion Inc. The company has projected it will reap proceeds of $1 billion from such moves.

"We continue to believe [the] shares will rally as management considers several alternatives, including selling the consumer segment, the possible sale of its GPU business or even a fab [factory] sale to improve liquidity," wrote Freedman, who maintained his buy rating on AMD.

In late July, AMD sold 12.5 million shares of Spansion worth $144 million, according to a recent regulatory filing. AMD now owns a 10.4% stake in the memory chipmaker.

Taking on Intel

After gaining momentum in 2005 and much of 2006, AMD has run into problems due to a broad counterattack from its much-larger rival, Intel Corp. which has a huge war chest to spend on chip development.

AMD is fighting to sustain market-share gains it made on Intel in the past three years.
The company has been forced to cut prices on its microprocessors used in PCs and corporate servers, leading to huge losses. Through the six months ended June 30, AMD has lost $1.2 billion on revenue of $2.6 billion.

To conserve cash, AMD has cut its original 2007 spending budget by $700 million this year. The budget now stands at $1.8 billion.

AMD wants to regain its momentum with several new products and expanded relationships with major PC makers, such as Toshiba Corp. and Dell Inc.

Later this month, AMD will start shipping its long-awaited, quad-core Barcelona server processor, followed by its quad-core Phenom desktop chip at a later date. Another chip platform for laptops, code-named "Puma," will follow those launches. The company is hoping the new products will blunt Intel's counterattack launched last year. ■

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