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AMD spinoff starts building \$4.2 billion NY plant

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By [Clare Baldwin](#)

SAN FRANCISCO (Reuters) - Advanced Micro Devices Inc (AMD.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) spinoff Globalfoundries began building a \$4.2 billion chip manufacturing facility in upstate New York on Friday, as it gears up to take on the likes of TSMC (2330.TW: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

The company spun off a foundry arm this year to compete with Taiwan Semiconductor Manufacturing Co Ltd, which currently works with AMD arch-foe Intel Corp (INTC.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) to make Atom chips for netbooks, and United Microelectronics Corp (2303.TW: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

AMD argues that demand for outsourcing will increase as semiconductor manufacturing remains expensive. But analysts said it will be difficult for the New York fab to compete with the Taiwanese industry leaders.

They said chip designers will be hesitant -- at least initially -- to burn their bridges with the Taiwanese giants, while the fab's technology will lag cash-rich Intel's (INTC.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

"My two cents is that it's going to be a white elephant. I don't think this is a project that they're equipped to take on and complete successfully," Collins Steward LLC analyst Ashok Kumar said.

"If you look at foundries, the only company that has sustainably returned profits is TSMC. If you look at the other foundry companies like UMC and Chartered CSMF.SI, and a whole host of state-sponsored companies in China, all of them are bleeding red."

Chip manufacturers have posted significant losses in recent quarters because they have been unable to run at capacity.

"The math is very simple. It's a very capital-intensive industry, the R&D investments are very high. You need to have a high level of utilization to break even and return profit," Kumar said.

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Incentives may help. New York offered Globalfoundries up to \$1.2 billion in incentives to locate the fab in the state, in what AMD said is the largest private-public investment in the state's history.

AMD in March launched Globalfoundries as a joint venture with Abu Dhabi-backed Advanced Technology Investment Company as it sought a way to reduce its debt and capital expenses.

The U.S. company holds a 34.2 percent stake in the venture and ATIC holds the remaining 65.8 percent. Their New York foundry is scheduled to begin production in 2012 and will create more than 1,400 jobs at the plant and an additional 5,000 related jobs, the company said.

But Real World Technologies analyst David Kanter said the New York fab will need to see 85 percent to 90 percent utilization and annual revenues of between \$2 billion and \$3 billion to break even.

He said much of the initial equipment costs could be defrayed by business from AMD itself, but the key will be subsequent business from customers like Qualcomm Inc (QCOM.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Nvidia Corp (NVDA.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), which may be less focused on the newest technology.

Kanter pointed out that TSMC has had problems successfully manufacturing the newest chips, which may mean customers are willing to look elsewhere. He said Globalfoundries' collaboration with IBM (IBM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) would be attractive, since the company is known for its strong R&D.

Charter Equity Research analyst Edward Snyder agreed that volume would determine the New York fab's success, but was less convinced of its ability to attract business.

"Volume is going to be a big issue," he said. "This is a very expensive business."

"You need customers and you need throughput through the factory . . . Given that they're still a full generation behind Intel, it's kind of difficult to do," he said.

(Reporting by [Clare Baldwin](#); Editing by [Gary Hill](#))

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