Advanced Semiconductor Engineering, Inc.
3rd Quarter 2015 Earnings Conference & Conference Call
October 29, 2015
3:00p.m. Taiwan Time

Kenneth Hsiang, Head of IR of ASE Group: Welcome to the ASE group third-quarter earning's release. All participants consent to having their voice and questions broadcast via participation of this event.

Please refer to Page 1 of our presentation which contains the Safe Harbor notice. I would like to remind everyone on this call that the presentation that follows may contain forward-looking statements.

These forward-looking statements are subject to a high degree of risk and our actual results may differ materially from these forward-looking statements. Our CFO, Mr. Joseph Tung, will be going over the financial results, followed by a Q&A session. Following the event, our VP in charge of public relations, Eddie Chang, will be addressing the media in Chinese after the release. Joseph.

Joseph Tung, CFO of ASE Group: Thank you very much, everybody. Thank you for coming to our conference earnings release. And before I start with the presentation third-quarter results, let me give you a little bit of a backdrop on the SPIL tender offer.

This is just the timeline of events that we've gone through. I think as everybody knows, on August 21, we announced the tender offer of a minimum 5% and maximum 24.99% of SPIL. And on September 28 - I think the tender) offer was officially launched on August 24.

And up to September 18, we successfully reached the minimum 5% and on the 22, the offer was completed. We had all together roughly, 36.83% of the SPIL shares tendered in, but we only can get 24.99%; therefore, the participation was prorated.

And October 1, we completed the exchange of the containment of the full shares and we've become - officially becoming the 24.99% of SPIL's shareholders. Such investment will be treated with the equity method.

It will be booked under our long-term investments and we will be entitled for the prorated share of the earnings of the company. And also we will be entitled for the dividend going forward.

Okay, with that, let me start with the financial results of our third quarter. I think in quarter three, we had actually pretty good quarter. I think in terms of overall consolidated revenue, we had about 4% growth, and of which, at ICATM-wise, packaging, we had about 3% growth here on a consolidated basis.

But we include the SiP assembly work that we do, which was eliminated in the consolidation, the actual growth of packaging is actually 6% in the quarter to reach - and also, in testing, we had about 3% growth, whereas the direct material we had a 9% decline in terms of sales.

It's also worth noting that the 9% is also with the elimination of some of the substrates that we made for USI Shanghai for their Wi-Fi modules. And that part of the business was also eliminated in the consolidation.

So if you look at the materials standalone operation, that number is actually a 7% growth in the quarter. EMS, with the ramp up of some of the (new) product, the SiP products, we noticed some seasonal pickup in the SiP products that we have been doing.

The growth in EMS was about 5% in the quarter. So all in, we had about 4% growth. And with the increased revenue, the gross profit margin also improved, as we can see, here, 16.5% to 17.8% in this quarter.

And operating expenses increased slightly from an 8.8% to 9.1%, and therefore, the operating margin improvement was about 1.1% from 7.7% to 8.8%. In the quarter, netting of the income tax and all the non-controlling interest, the net income that we achieved was $6.3 billion, with an 8.7% net margin.

In terms of non-op in the quarter, we have about $1.4 billion non-operating gain compared to about $10 million loss in previous quarter. The $1.4 billion gain, came from, first of all, the ECB valuation gain of around $1.4 billion, and also in the quarter, on a consolidated basis, we have foreign-exchange gains around $600 million.

Netting out the interest expense of $500 million, we had a net of about $1.4 billion gain on the non-operating level. EPS for the quarter, basic EPS, is $.83 comparing to $.48 in the previous quarter.

In terms of EBITDA, the EBITDA margins have some improvement from 19% in the previous quarter to 21.8%, and the total amount was $15.9 billion NT.

Comparing to same period last year, revenue grew 9% and I think almost all the growth came from EMS because of the new SiP product that we have been shipping.

But in terms of IC ATM, packaging actually had about 8 percent decline. Again, without the elimination to consolidation, the actual drop is about 5%. Test, we have about 6% drop, and direct materials sales is about 26% below previous, same quarter in the previous year.

The reasons being that we have - experienced softer demands particularly in the DRAM, substance used in DRAM packaging. Consequently, gross profit margins declined slightly from 21.3% to 17.8%.

Operating margins declined from 12.2% to 8.8%, and OPEX from - OPEX operating expense is - as a percentage of sales, also came down slightly from 9.1% to 9% in the quarter.

Looking at the IC ATM business, all in all we have about 6% growth in the quarter which is a bit higher than what we guided last quarter, the reason being that we were seeing some pull in the third quarter, particularly in some of the SiP products that we're building.

The - because of the increase of revenue, gross profit margin also improved from 25.2% to 26.7% this quarter. Operating expenses in the quarter increased slightly from 11.7% to 12.5% this quarter because of the increase of mostly the employee's bonus as well as some of the professional fees that we paid for the transaction that I mentioned earlier on.

Operating margins improved from 13.5% to 14.2% in the quarter. I think in terms of gross profit margin, the favorable F/X movement also helped. For IT ATM the FX, NTD depreciation actually helped the gross profit margin by 0.94% in the quarter.

Comparing to the same period last year, the total revenue actually came down about 6%. As you can see, packaging came down 5, test 6%) and the direct material sales came down about 10%, again, because of the lower DRAM substrate sales.

This is the past seven quarter's performance. You can see that from quarter two this year to quarter three, packaging revenue went up about 6%, but the comparing to the same period last year, it came down about 6% as well.

In the quarter, margin - gross margin improved from 22.7% to 24.8% in the current quarter. In terms of our revenue breakdown, you can see that advanced packaging actually came up from 31% in the previous quarter to 34% in the quarter.

In terms of SiP packaging business, it's about 9% of the overall packaging revenue. Therefore, the flip-chip, wafer bumping and wafer level CSP represent about the other 25%. Wire bond, although it still has some growth in the third quarter of about 4%.

The - in terms of the overall percentage, it came down from 57% to 56% this quarter and we experienced some decline in the discrete and module business. Therefore, the percentage came down from 12% to 10% in the quarter.

Looking at test operations, it had a mild 3% growth sequentially. And gross profit margin consequently - also improved from 35.2% to 36.1%. In the quarter, the test operation, we had a total capex of around $25 million and in terms of our tester account, in the quarter we added 72 testers and we retired 25 of them.

So the final count of testers is 3417 units. Utilization was maintained at about a high 70% with ASP being stable. I have to come back to our packaging in a little bit. I forgot to mention in terms of packaging capex, we had about $83 million spending in the quarter of which $40 million for advanced, flip chip and wafer bumping .

And the rest, $43 million is for the - for common equipment for the other packaging activities. Utilization in terms of packaging for advanced packaging capacity was 80%, and for the rest it's about 75% in the quarter.

In terms of our bonder accounts, in the quarter we only added one bonder and retired 46 of them, so the total bonder account at the end of the quarter was 15,617, and of which 13,403 are copper available.

Material operations in the quarter, in the performance, was a bit disappointing. In terms of overall revenue, it actually came down 12%. The direct sales actually went up but in terms of internal supply, actually came down.

Right now it only supplies roughly 23% of our internal use, and because of the lower revenue, the overall margin also came down, and because of the, you know, not as a good product mix - unfavorable product mix change, the profit margin came down from 16.2% to 11.1% in the quarter.

We're expecting the substrate for DRAM business will start to pick up in the fourth quarter and we will see some improvement in our material operation in the fourth quarter.

In terms of our IC ATM revenue by application, let's see in communications stayed flat at the 55%. PC actually came up about 1%. Because the - in the substrate, the DRAM demand was soft, but in terms of packging, actually DRAM packaging actually came up in the quarter and also we have increased some of the - in the storage area and also graphics, so the PC related business actually, and percentagewise came up from 10% to 11% at the expense of consumer and industrial.

Looking at our EMS operations, the revenue has some growth to 36-point - close to $36.2 billion, and with the margin of the improved from 6.4% to 8.3%, I think the gross profit margin at 8.3% is above our guidance and the reason being that the FX really helped with the margin by about 1.3%, and also because of the more favorable product mix change, there was another .7% improvement in the, .6% improvement in the margin.

We're expecting actually with the SiP product, ramping up further in the fourth quarter, the margins - EMS margins were actually - came back down to the previous quarter's level which I will give you a reference when I give you some guidance.

In terms of revenue breakdown, because of the product ramp up, we're seeing a communication that actually came up to 56% while the others came down. Okay, in terms of balance sheet, the cash and cash equivalent in the quarter was at $45.6 billion, down from $58.9 billion a quarter ago.

Whereas, our overall interest-bearing debt also increased from $91.9 billion in previous quarters, to this quarter $124.5 billion. Now, if we look at the breakdown in more detail, I think the - what happened is, in the quarter, we have - adding to the cash and cash equivalents balance of $58.9 billion in the quarter, we added roughly $10.5 billion NT of our operating cash flow.

That balance was used to pay the - pay for the tender offer. And after that payment, we have a net of $34.4 billion in NT cash. And in the quarter, the increase of interest-bearing debt, which includes roughly $6 billion NT for - from the ECB issuance, and another $26.6 billion borrowing from the bank.

A combined $32.6 billion was used to pay off - to pay for cash dividend as well as our capex with a net of 11.2%, so adding 34.4, was the 11.2% - $11.2 billion. We have a total balance of $45.6 billion in the quarter.

Our current ratio is maintained at 1.31 and net debt to equity increased to .48 from .22 in the previous quarter, okay. In the quarter, our EBITDA was about $500 million, whereas, the capex was about $140 million in the quarter.

Of that $140 million, as I mentioned earlier on, packaging was about $83 million and $25 million for test. We spent about $24 million for EMS and then the rest for the materials.

I think the full year capex will be adjusted down from previously $700 million to $800 million to $600 million to $650 million this year. Now, with that I'll give you a little color about how things will look in the fourth quarter.

I think given the current business outlook in the exchange rate assumptions, we are expecting the fourth quarter to be as follows - IC ATM capacity should stay flat and blended utilization should be down 4% to 6% sequentially.

Whereas, gross profit margin in IC ATM should resemble first quarter 2015's level. EMS capacity should stay flat and blended loading should be up mid teen percentages sequentially. And EMS gross margin should approach second quarter 2015 levels. Now, with that I will open the floor for questions.

Bill Lu of Morgan Stanley: Hi there.

Joseph Tung: Hi.

Bill Lu of Morgan Stanley: Can I just start with the guidance. I'm not really clear on the EMS gross margin. If you look at 2Q to 3Q, we've got more SiP, currency help and therefore the margin went up.
Three-Q to 4Q, you're going to have even more SiP. Currency should still help and margin is going to go down to 2Q levels. Can you just help me understand that?

Joseph Tung: Yes, I think third quarter is a bit unique. I think third quarter, we have two things happening at the same time. One is, of course, F/X does help the margins and the other factor of that is, we actually have some push out in some of the SiP products.

Because of - such product is going through transition and the real volume - actually the volume in the third quarter was actually less than second quarter.

Because of these - for one particular project, it's really - EMS is providing logistics support, therefore, the margin on that is actually lower than the average. So with that increase in the fourth quarter, that will actually put the margins down a bit in the quarter.

Bill Lu of Morgan Stanley: So that product is coming back in the fourth quarter. Is that the same generation or is it the next generation?

Joseph Tung: The next generation.

Bill Lu of Morgan Stanley: Okay, the margin is still not as good as the...

Joseph Tung: That's because, for that particular product, EMS is only providing logistics support.

Bill Lu of Morgan Stanley: Okay, got it. And then maybe if we just look at SIP more broadly, can you talk about the outlook for - in 2016 in terms of, you know, broadening out the customer base of new projects and also it seems like when I talk to EMS companies now, more and more people are talking about getting into SIP. You guys are very early, so what is the competitor's landscape looking out a year from now?

Joseph Tung: I think it's only natural that the customer will eventually look for second or even third source. And that is bound to happen. And - but we will continue to be the primary supplier of these products.

Coordinator: We will now begin the question-and-answer session. If you'd like to ask a question, please press Star 1. Thank you. If you would like to cancel, press Star 2.

Joseph Tung: Okay, although I'm not - we don't know how much growth there will be because we're still in the budgeting cycle. And also SiP products are mostly a system by itself.

So the market perspective of that is very different from just being components. So we will have to, you know, see how things will shape up. Maybe we will have a clear picture in the coming quarter.

In terms of diversifying or extending, you know, our customer base, you will see some meaningful numbers coming in next year. We have been engaging with quite a bit of customers in different product categories and we're seeing this - this year, we're already seeing some volumes (ship out) for some of the products and we're expecting the numbers to start to grow next year.

Bill Lu of Morgan Stanley: I guess one last question. It's been a few weeks since the tender offer was completed. Can you give us a sense for what kind of conversations you've had with SPIL and also what has been the feedback from the customer?

Joseph Tung: I really don't have anything to report at this point. We will continue to seek for, you know, dialogue, hoping to form a, any form of cooperation, but so far, I don't have anything to report.

Kenneth Hsiang: (Randy). When you get the mic, announce your name and...

Randy Abrams of Credit Suisse: Thank you. It's Randy Abrams from Credit Suisse.

Joseph Tung: Hi, Randy.

Randy Abrams of Credit Suisse: The first question on the 4% to 6% decline in utilization, normally fourth-quarter you have the flagship launch, you get contributions. So could you talk about where the weakness is coming from? And is there any SiP that would book? Like, utilization is down 4 to 6 but will you have some incremental products flowing through that may not affect utilization that could help sales? Normally you're going to have some of the bookings coming in.

Joseph Tung: Well, I think the overall softness in the fourth quarter really came from two directions actually. One is on the traditional IC ATM. We did see some pull in the third quarter and also the - well, this is kind of - on the IC ATM side of this, there is some pull in of the SiP product because of the, you know, in preparation for the product launch for the new generation product launch.

But on the EMS side, the final product is actually some push out, first of all, because of the timing gap there is. So from an IC ATM standpoint, there was some pulling in the third quarter, and therefore, that has some impact on the fourth quarter.

On top of that, we do see that inventories still being digested in the quarter. We haven't seen the end of it. So the overall softness still proceeds in the fourth quarter, and therefore, it has some negative impacts on the overall revenue on the IC side, the IC ATM side.

Randy Abrams of Credit Suisse: Okay, so the inventory adjustment, is it pretty even across the markets or one segment more concentrated and- what's the early view on where we're at into first quarter, if it could be above seasonal, as we're coming off a low base and...

Joseph Tung: Not to give any guidance on first-quarter, but I think what we're seeing now - first quarter of next year seems to be a pretty normal quarter for us. It's going to be a seasonal decline in terms of the overall business.

Randy Abrams of Credit Suisse: Could you talk - on the SIP, it seems like with the ramp, itwill be back at a 6% to a 7% margin for the EMS for gross margin. Is that the way we should think about that business for next year just given it still has a lot from a big customer. Where the things that may change the profitability profile, if it gets better or worse?

Joseph Tung: Yes, I think, last quarter and I mentioned that, for one particular SiP project, were still in the investment stage. So far, that - part of business is still not exactly at the targeted loading level.

So the main focus on that particular business is really to streamline the cost structure of it and that we have been doing quite a bit of effort on that. So we're seeing that the cost has been better aligned.

But still, I think the - that particular section, we still have some drag our overall EMS margin. So next year, you know, again, I can't really give you a projection (so to speak), but I think what we're reaching now is something that should be sustainable.

Randy Abrams of Credit Suisse: And the final question, the capex cut you made, if you talk about the areas versus the initial budget where the capex cuts are coming. And I guess, really, and we should think about this as a low base next year - (baseline), we're back at depreciation levels. We're back to what we originally started this year?

Joseph Tung: Well, I think the - I typically, you know, divide our capex into three categories. One is what we call the maintaining capex. It's basically the - every year, if we assume a 10% ASP drop, you lose 10% of the capacity and you need to make it up.

So that 10% lost in capacity, if you're going to make it up, is roughly $500 million a year. And if there is growth and, you know, it's a dollar for dollar investment to support the growth in the business.

And the third category is really the projects that we've been doing. For this year, in particular, I think, that number seems to be within that range. I think $500 million for maintenance, because there's really no growth in the traditional business.

And for the project we have, about $130 million to $150 million investment this year. So for next year, it really depends on how the market will shape up and we will put the capex into our budget for next year.

Rick Hsu of Daiwa Capital: Yes, hi, Joseph and Kenneth. This is Rick from Daiwa. Two questions. I think the first question is talking about your EMS capacity flat and loading is going to be up mid-teens for Q4. Is that fair to assume when it comes to revenue base is even higher than 15% because of the higher ASP?

Joseph Tung: I won't get very technical about this. This is really just a reference for you to come up with your own thoughts on how EMS revenues will look like for next quarter. I'll just give you a way to come up with the numbers. I think what I'm trying to say here is, you know, capacity stays flat, loading goes up, you know, revenue should go up a bit accordingly.

Rick Hsu of Daiwa Capital: Okay, fair enough. Okay, so for your utilization rate for Q3, can you elaborate a little bit more? I know you're talking about your advanced versus the traditional, but in terms of wire bond, testing and bumping utilization rate for Q3. Can you give some numbers?

Joseph Tung: Okay, in terms of wire bonding, Q3 we're at the mid-70s, advanced at low 80s. Testing, we're about mid-70s.

Rick Hsu of Daiwa Capital: (I am sorry,) low 80s for?

Joseph Tung: I'm sorry, low 80s for advanced.

Rick Hsu of Daiwa Capital: For advanced, okay. And okay, one last question. I think because of recent issues between your company and SPIL. Are you guys concerned about your customers trying to diversify the orders away to your competitors?

Joseph Tung: I think people ask that same question to the other company as well and they seem to haven't seen anything happening on that front. We are not seeing anything abnormal happening now either.

I think things are going on track and whatever we are looking at now is really the normal business we are going through.

Rick Hsu of Daiwa Capital: Thank you so much.

Joseph Tung: Thank you.

Roland Shu of Citigroup: Hi Joseph. First question is for EMS business linearity. First question is for your EMS revenue linearity in 4Q? Thank you.

Joseph Tung: In 4Q?

Roland Shu of Citigroup: Yes. Because in September actually you have the peak monthly sales for EMS and I am wondering will this momentum continue in 4Q and about the linearity in 4Q. Thank you.

Joseph Tung: You mean on the monthly basis?

Roland Shu of Citigroup: Yes.

Joseph Tung: I think it is pretty linear in the EMS business and what we are seeing is a normal pattern although with a different scale in this year. We are seeing that there will be quite a bit of growth in the EMS in the fourth quarter as we mentioned here in the guidance.

Roland Shu of Citigroup: Yes, you know, I believe there will be growth in 4Q, so can we assume, for the monthly sales, there will be continuing growth through end of this year?

Joseph Tung: Yes.

Roland Shu of Citigroup: Okay thank you. And how about for first quarter next year? I think for our EMS business actually declined about 25% in first quarter this year and also first quarter last year. And so how about for next year?

Joseph Tung: As I mentioned we will see normal seasonality going into first quarter next year.

Roland Shu of Citigroup: So is this 25% decline a normal seasonality for EMS?

Joseph Tung: I don’t have the numbers now.

Roland Shu of Citigroup: Okay yes thank you. All right second question is looking at this year and last year for your - the logic OSATs total revenue actually underperformed foundry revenue growth. My personal interpretation for foundry actually, you know, since they continue to migrate to the leading edge technology.

So in the meantime they are able to increase the wafer ASP. But for the OSATs wise, for your leading edge flip-chip packaging, I think the unit price property will be still the same. I don’t know if I read this right or you have a different thinking about it. What are the like to like change of ASP for OSATs in the past year?

Joseph Tung: I think in terms of technology in the OSATs world and the lifespan is much shorter. For each particular node you may have a much longer time to enjoy maybe what we call a premium pricing.

But this is really not the case for OSATs. I think for OSATs, you know, even if you bring out a copper, I think pretty soon the competition will be coming in, and customer will drive the price down a bit.

For this year we are experiencing pretty similar price adjustments on quarterly basis. So no I don't think we are like to like with foundry.

Roland Shu of Citigroup: So you're ASP point of view for like to like ASP, did you see ASP increase in the past year or, you know, or, it was declining a lot, though.

Joseph Tung: It goes through normally a 10%, 15% drop on the yearly basis.

Roland Shu of Citigroup: Ten to 15%.

Joseph Tung: That is the typical pattern. Anything that is maturing and there is price drop. So the main, one of the main focuses we have is continue to improve our efficiency even for the new products. Like I mentioned for the SiP products, we also need to work very hard to bring the cost down.

Roland Shu of Citigroup: Okay thank you. And also TSMC next year is going to mass production its InFOfor one key customer. And what's the business impact to ASE and what's your counter plan on TSMC InFO tape out?

Joseph Tung: We do have our own fanout technology as well. Some being existing and some being developed. And I think with in terms of fanout, we are aiming at targeting different target markets. I think foundry is really targeting on the very the most advanced, high performance of chips with limited customers.

We are - our technology is really to aim at a more broader customer base with maybe low to mid-end technology requirements.

But even for InFO itself I think at the end of the day when they start mass production there will still be some natural division of works between us and foundries.

And how much business we will get we don't know but, you know, that will happen with wafer probe and that will happen with wafer bumping as well.

I don't think the foundry will ever get into - well I shouldn't say for them. But logically this is really not their core business so I don't think we will have a head to head competition with foundries going forward.

There will still be a complementary type of relationship with them. There will be some competition but I think most of it will still be cooperation.

Roland Shu of Citigroup: Okay when do you think this collaboration or cooperation will happen?

Joseph Tung: According to their schedule, its second half next year right?

Roland Shu of Citigroup: Okay thank you. My last question is on, for one memory backend company in Taiwan , they invest in 2.5D, 3D, and even TSV aggressively, and they claim they are able to mass production next year. So what is your view on this total addressable market on this 2.5D, 3D, or TSV, and what is your progress on this project? Thank you.

Joseph Tung: I am not that technical so I will leave this question to Tien Wu next time. But I think what we are seeing, what foundry is doing is really the chip of the overall industry. And I don't think it will have a huge impact on us in terms of the overall TAM.

And also that part of the business is really additional business from our perspective. Because most of the processes is really wafer level process. And I think it is only natural that the wafer foundry lead the way in terms of the technology development of that.

What we need to do is really to put ourselves in sync with that technology roadmap and be ready to do whatever we will be given to do once the division of work is formalized.

Kenneth Hsiang: Actually the next question will be coming from a caller. Szeho Ng from BNP.

Szeho Ng of BNP Paribas: Hi good evening. I think the investment in SPIL would there be any change in your dividend policy for next year?

Joseph Tung: There is no plan on changing our dividend policy. I think in the past two, three years we have been paying cash dividends to the level of 65% to 70%. I think we are not changing it at this point.

Szeho Ng of BNP Paribas: Okay that is great. And then second question on the rate of bumping capacity. Can you remind us whats the latest for 12-inch and 8-inch?

Joseph Tung: Wafer bumping for 8-inch we have $95K a month and for 12-inch we increased it slightly from $80K to $82.5K a month.

Szeho Ng of BNP Paribas: Okay I see. All right. Any expansion plan for next year for wafer bumping?

Joseph Tung: I think we will continue to increase smaller steps but to - I think we would need to look at the overall situation to decide how much we will be putting in next year after the budgeting cycle.

Szeho Ng of BNP Paribas: I see all right. Because increase from installed capacity and ASE right now is a smaller vendor than the other Taiwanese competitor so I just wanted to see if there is any plan to be more aggressive on that area.

Joseph Tung: Well I think the overall capacity increase is depending on the dynamics of our business composition. And we will make our necessary investment accordingly.

Szeho Ng of BNP Paribas: Okay. All right. Thanks very much.

Joseph Tung: Thank you.

Kenneth Hsiang: Gokul, you still have one? Name and company.

Gokul Hariharan of J.P. Morgan: Hi this is Gokul from JPMorgan.

Joseph Tung: Hi

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Gokul Hariharan of J.P. Morgan: The first question is on SiP - you mentioned that one of the projects is still below your desired level of profitability or even potentially loss making.

Should we have to wait for a new model cycle for that to get better or do you see that getting better anytime in the next three to six months?

Joseph Tung: I don't have any comment on that. I think, you know, this is something it is really something that is not worth to comment basically. What we can do is really to look at the current situation and let us streamline the operation better and also to find ways to reduce cost.

I think we have been making progress on that in terms of cost savings, in terms of bringing up the yield so that we can bring down the overall cost of it.

In terms of actual business terms I think we are working with the customers very closely. We now actually have a better picture of the cost side of it. So in terms of business terms when it comes to the next generation I think we will have a better reference point to decide what's really the right terms that we should be negotiating.

I think things are working towards that direction and we would remain confident that eventually this will become a worthwhile investment for us as well. So I guess really if you put things in perspective, this could be a next billion unit business as well.

So I kept calling it we are still at the investment stage and this is what we are talking about.

Gokul Hariharan of J.P. Morgan: On the flip side previously you mentioned competitive landscaping of your current projects is primarily Japanese vendors. As we go into next year is that going to change significantly or still be the same name?

Joseph Tung: It is hard to say but I certainly cannot preclude that there will be other competitors coming in. I think as I mentioned customer will look for second or third souce. I think our main goal is really to stay at the primary supplier and get the first mover advantage of the product that is coming out of the stream.

Gokul Hariharan of J.P. Morgan: Thank you.

Eric Chen from UBS Securities: Eric Chen from UBS. And in terms of the SiP, the non-profitable, the new project SiP business, and how about the capacity in Q4, do we see the capacity decline or the capacity is still maintained?

Joseph Tung: I really don't have a comment on that.

Eric Chen from UBS Securities: Okay so cost. the efficiencies are mainly from the yield rate.

Joseph Tung: From yield rate and from the overall the operations when we streamline the operations.

Eric Chen from UBS Securities: Okay and you also mentioned you probably will re-negotiate with your client next year right?

Joseph Tung: No I am not saying that. I am saying that, you know, for each generation there will be a round of negotiation on the business term. I am saying that now that we have a better picture on what the real costs will be.

When you are going through the first generation, you know, there is a lot of uncertainties involved. Now after you have gone through the product, we have a better idea of how the costs are associated with it.

And so we have more data points in coming up with the more suitable or accurate terms that we need to pursue.

Eric Chen from UBS Securities: Okay. So far do we have any visibility in terms of the capacity usage and for the next generation product?

Joseph Tung: No.

Eric Chen from UBS Securities: No so that means there is some risk.

Joseph Tung: No means comment on that.

Eric Chen from UBS Securities: No comment even for the idle capacity.

Joseph Tung: I have no comment on the particular product.

Eric Chen from UBS Securities: Okay thank you. And by the way for the - you talked about the EMS and you probably have four projects with your major client and all of them, you are the primary source right even including the latest one, the force touch.

Joseph Tung: No I think three out of four we are primary. One is we are actually a latecomer. I think for that particular project we were brought in to prepare ourselves for the next or even young generation when it goes into a more sophisticated type of product.

Eric Chen from UBS Securities: Okay thank you. My last question regarding the cash position. Would you mind going through your cash position again in terms of ECB and the tender offer and how can you give the consistent cash dividend. We would like to get an idea.

Joseph Tung: Well in terms of cash from second quarter to third quarter the cash balance - let me give you the numbers. At the end of second quarter we have $58.9 billion cash and cash equivalents in NTD.

At the end of third quarter after we paid the $35 billion for the transaction our cash value is still at $45.6 billion.

And if you look at our third quarter you can see that EBITDA was $500 million. And the CAPEX was only about $140 million. And so we continue to generate free cash flow.

In fact, in third quarter the cash flow that we generated is about $12 billion NT, except because of the exchange rate movement, the number was reduced to about $10.5 billion NT.

So going forward I think not only that we can continue to support operations. I don't think it creates that much of a pressure on us in terms of maintaining our dividends.

Eric Chen from UBS Securities: Okay that is very helpful. And sorry just one more question. Regarding to the recent situations in China. The JCET is very aggressive and the Nantong Fujitsu is also very aggressive. So do you have any big picture, the big plan given the strategy of going forward how you play the game in China and overall?

Joseph Tung: Well, you know, the competition is not just coming from China I think from all over the place. I think everybody is - we are in this industry for the past 30 years we have seen all sorts of competition coming from all directions. I think in China is getting more aggressive in terms of the OSATs sector.

So regardless, you know, competition is given. And I think what we need to do is continue to drive up our technology. Also to drive down our cost and you know try to continue and enhance our competitiveness going forward.

But of course, you know, we have been saying that, you know, Taiwan OSATs industry as a whole should find ways to cooperate in the face of - to face the upcoming competition from China.

Because its really all supported by the government itself. So the competition from that is different from competing with individual companies in the world.

So I think Taiwan - we believe that Taiwan OSATs collectively we do hold the majority share of the world market. But individually we are still small in scale. So I think one form or another cooperation among the OSATs players is really very important to face the coming competition going forward.

Okay I talked about our own efforts. I think for the cooperation of collaboration is very necessary.

Eric Chen from UBS Securities: Great. Thank you very much.

Joseph Tung: Thank you.

Randy Abrams of Credit Suisse: The first follow-up I wanted to expand on this question about the debt position. The debt to equity that you reported higher but you are also now carrying this SPIL long term investment.

I am curious if you need to do equity financing if you want to bring down net debt to equity or factoring in that SPIL investment you feel pretty comfortable with the amount of cash investment resource?

Joseph Tung: Yes I think you know given the strong cash flow that we are generating and also I don't whether this is good or bad. I think in the next few quarters I don't think the CAPEX will be very, very substantial. So we believe we will have quite a bit of free cash flow coming in and we will use that to pay down this debt.

Randy Abrams of Credit Suisse: So the timeline on the fanout you are going to target more of a mass market solution for fanout? How do you see that in terms of adoption or customer interest relative to flip chip?

Do you see over next couple of years flip chip will transition stand out for the mainstream part of the market? I am curious how you see this mass market solution.

Joseph Tung: What I know is that we are making investments in the fanout and I think aside from this investing into capacity, purchasing technology, I think we are also finding other solutions with better efficiency or better cost structure. And we are doing quite a bit of searching on that.

But I think things will start to happen and we will see some of our own capacity or some of our own solutions coming off maybe in the second half of next year we will see some very good results on that.

Randy Abrams of Credit Suisse: Housekeeping on this. If you could give the contribution percent of total sales like for ATM and Consolidated for third quarter for the SIP?

Joseph Tung: SIP in terms of packaging is about 9% in the quarter. I think it will be the same in fourth quarter. SIP in terms of overall it will be 22% in the quarter going to about 25% in the fourth quarter. It will be a range from 25% to 30% in the quarter.

Pretty much in line with what we projected in the beginning of the year. I think this year is SIP overall revenue we will achieve slowly came out to double next year's number.

Randy Abrams of Credit Suisse: And then the last question I have just on the materials business. It looks like it fell off quite a bit this quarter on memory. How is the medium term? Is this a temporary pullback in memory and it will revert back to the levels it was at? Or do you see opportunities new substrate like more flip chip or other things to rebound this?

Joseph Tung: Well I don't think this is an industry phenomena. It's just our own selective customer is going to some adjustments and we are seeing that coming back in the fourth quarter. So it is a temporary thing.

Andrew Chen of Yuanta: This (Andrew Chang) from (unintelligible) right here. I have a pretty simple just a top down big question. This year has been a pretty interesting year. If you actually look at the M&A activities going on in the industry. I mean you have JCET with STATS and you also have Amkor with J-Device.

Obviously I think for most industries you can almost say that horizontal consolidation over time should be pretty positive for the industry participants especially the leader.

Do you agree that this is the right trend to go and do you also thing that ASE want to be part of it in terms of the horizontal consolidation trend?

Joseph Tung: We certainly think that we see competition landscape changing every day. We are seeing that, you know, from a customer side we are seeing quite a bit of consolidation as well.

Avago buying Broadcom, Intel buying Altera and so on and so forth. So that, you know, our customer becomes bigger giving them more leverage. At the same time we are seeing the Chinese are very, very aggressive and buying off STATS ChipPAC and buying AMD'S backend operations, and we are expecting to see more coming actually.

So yes I think the, you know, some form of or some level of consolidation is needed if we want to stay competitive going forward. I think it is really not a question of - I think what we want to try to avoid is one minus one.

If you look at Taiwan's OSATs industry one is that we need to expand our scale. I think individually even ASE is the world's largest OSATs player still we have less than 20% of the overall market compared to TSMC, their position in foundry business.

But we really do need to form some sort of alliance or some sort of collaboration so that we can better utilize our collective resources.

And I think also the very important part of it is really the emerging SiP market and that requires huge resource to build up business and we do see that really the next big thing in the OSATs world.

And just a company of our size or any other company's size is really resource constrained to try to develop that part of the business in a meaningful way.

So yes I do believe that horizontal growth, consolidation is something that is really necessary.

Andrew Chen of Yuanta: Just a quick follow up. So it does seem that there is definitely a sense of urgency. So we should be a bit more aggressive I guess going down the line.

Joseph Tung: In what sense?

Andrew Chen of Yuanta: In terms of following this industry trend of horizontal consolidation.

Joseph Tung: Yes I do agree with you.

Andrew Chen of Yuanta: And just a follow up on the one plus one less than two. A lot of the markets have been focusing on this and I find it intriguing. The way I look at it is actually the available flip chip capacity for the advanced packaging capacity out there right now and are quite limited and in the hands of a few players.

So that is also kind of the reason why some of the key players are consolidating. Probably for some customers there is limited availability of sources they can go to. So of course some of the mid to low end part probably susceptible to some share loss potentially during some integrations

Say for instance, during the time for JCET was with STATS ChipPAC, but, you know, come on, if we just look at the flip chip do you really see that big of a high risk in terms of that diversion?

Joseph Tung: No I think the real risk is one minus one. I don’t think it is really meaningful to discuss whether one plus one is greater or less than two. There is really - if we are not working together we will continue to compete with each other. At the end of the day, it will be, you know, one minus one.

Andrew Chen of Yuanta: Thanks for your time and hopefully that message gets conveyed some time down the line.

Kenneth Hsiang: No questions? Well thank you for attending the quarter earnings release. See you in the fourth quarter. Thank you.

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