GlobalFoundries

US CHIPS awards: incremental positive, but only in next upcycle

Maintain Rating: NEUTRAL | PO: 62.00 USD | Price: 54.80 USD

20 February 2024

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GFS announces US/state grants spanning next 10 years

On Feb-19 GlobalFoundries (GFS) announced $1.5bn in grants from the US CHIPS office and another $600mn from New York State, to help upgrade and modernize GFS fabs in Malta NY and Vermont. We assume the awards are over a 10-year period, with benefits accruing once GFS's specialty/mature node industry gets into the next upcycle (late CY25/early CY26). US CHIPS Awards cover about 15% of total capex, though companies can get incremental benefits from investment tax credits (25% cash back), and from help with raising additional debt, and from additional state grants. For GFS we leave our CY24E estimates unchanged, and assume the incremental awards are reflected in our longer-term 20% net capex intensity forecast. Maintain Neutral and $62 PO.

Positives: GFS key to global fab diversification

In our view incentivizing GFS is 100% aligned with the key goals of the US CHIPS Act – namely to build a globally diverse supply chain outside of China/Taiwan, especially in support of important end-markets in automotive, Industrial, defense and aerospace. These markets don't always require the most leading-edge chips but do benefit from specialized processes in trailing edge nodes (>12nm). GFS has secured multiple long-term agreements and partnerships with key US customers, such as GM, who can benefit from secure, domestic capacity for critical automotive chips. GFS is currently a top 5 global foundry and the only scale US-based foundry focused on trailing edge.

Pushbacks: global overcapacity? timing of next upcycle

Like the US, every global region including China, Europe, Japan, Korea, India etc. is carrying out its own version of CHIPS act funding to stimulate domestic manufacturing and to ensure long-term self-sufficiency. While not all "trailing-edge" or mature-node is created equal and requires key intellectual property, it is relatively easier to create that trailing node capacity versus bleeding edge <10nm nodes where each new fab can cost in excess of $15-$20bn. So two pushbacks: **1) First, US CHIPS funding could amplify global mature node capacity, and make the industry more secure but also more cyclical with potentially underutilized/fragmented capacity**. A lot of CHIPS Act thinking was done in a time of severe supply duress post COVID-19 when auto/industrial supply chains were shut down. That's no longer the case with many leading vendors (ADI, MCHP, and even GFS) lowering CY24 capex by 50% YoY and proactively lowering channel inventory. GFS, and indeed the entire auto/industrial complex, is going through a downcycle, reflected fab utilization that are in low 70s range (vs. normally well over 80-85%, with pricing no longer a tailwind. **2) We expect GFS to be prudent/disciplined in adding new capacity using these new federal/state sources of capital, i.e. benefits spread over many years.** GFS already has plans under way to expand its wafer capacity to 3mn wafers exiting CY24 (vs. 2.2mn in CY23), through adding 800K wafers mainly in Dresden, Germany. So beyond focused projects in Malta and Vermont, we expect usage of new federal/state funds to take a few years to fully benefit the financial statements via lower cost of capital.

Stock Data

Price	54.80 USD
Price Objective	62.00 USD
Date Established	13-Feb-2024
Investment Opinion	C-2-9
52-Week Range	48.12 USD - 72.37 USD
Mrkt Val (mn) / Shares Out (mn)	30,315 USD / 553.2
Free Float	15.1%
Average Daily Value (mn)	95.36 USD
BofA Ticker / Exchange	GFS / NAS
Bloomberg / Reuters	GFS US / GFS.OQ
ROE (2024E)	6.6%
Net Dbt to Eqty (Dec-2023A)	-0.1%
ESGMeter™	NLA

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. **12661536**

Timestamp: 20 February 2024 10:06AM EST

Price objective basis & risk

GlobalFoundries (GFS)

Our PO of $62 is based on 13x our CY25E EV/EBITDA , which is above Asian pure-play foundry peers at 4-8x but in line with US-based integrated design/manufacturing peers at 8-14x.

Downside risks to our PO are: (1) semi industry cyclicality where foundries are more impacted in down-cycle given high fixed cost structure, (2) execution on strategic repositioning which is critical to gross margin expansion and EPS growth, (3) large ownership concentration with Mubadala, which is wholly owned by the government of Abu Dhabi adds geopolitical and investor concentration risk.

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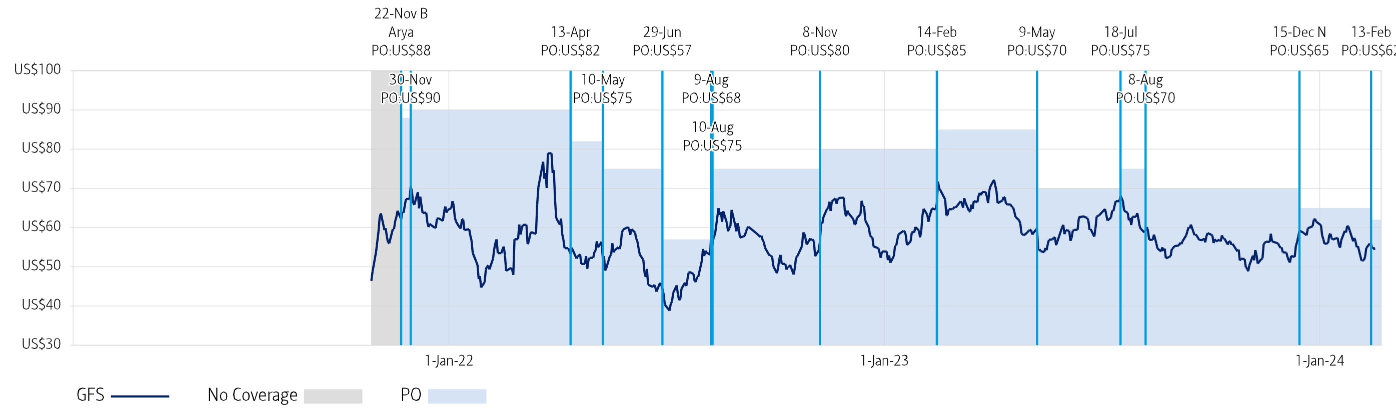
GlobalFoundries (GFS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Buy	≥ 10%	≤ 70%
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