

**Williams, Kelsey**

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**From:** Parmigiani, Ted [REDACTED]  
**Sent:** Thursday, June 02, 2005 8:04 AM  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** Request for IPC meeting re AMKR upgrade to 2-EW



AMKR060305.doc  
(860 KB)

[REDACTED],  
As per conversation with [REDACTED] this morning, would like to schedule IPC meeting on AMKR upgrade as soon as the IPC committee is available - today would be great if possible, otherwise available tomorrow, Monday, etc. I've enclosed the first call note as requested.

Thanks for all your help,

Ted

<<AMKR060305.doc>>

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June 03, 2005

North America  
Technology  
Semiconductors

## Amkor Technology (AMKR - \$3.85) 2-Equal weight

Recommendation Change

Ted Parnigiani

1.415.274.5241

Upgrade to 2-EW on 2H05 Profitability

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### Investment Conclusion

- Based on checks with key suppliers & customers, we bly AMKR's factories have been experiencing increasing levels of util. & mix improvement in Q2. More specifically, our research suggests ASP pressure is <2% & company-wide util. is roughly 80% today (vs. prior est of 75%) & poised to jump to mid-to-high 80's in Q3, 90%+ in Q4 - making 2H:05 profitability a likely scenario, in our opinion. We are upgrading AMKR fm 3-EW to 2-EW & adjusting price tgt fm \$2.75 to \$6.00 to reflect AMKR's return to profitability almost 1-yr earlier than our former ests (see note dtd 6/1/05). We look to become more constructive beyond our new \$6 price target & 2-EW rating after tangible evidence of debt reduction.

### Summary

- We expect high utilization, improving product mix & benign ASP pressure to accelerate profit recovery by 1-yr, or 2H:05 vs prior 2H:06 forecast.
- Our new price target of \$6.00 is based on 1.2x C06 EV Target /C06E Sales & 0.4x Price Target/ C06E Sales.

### Stock Rating:

New: 2-Equal weight  
Old: 3-Underweight

### Target:

New: 6.00  
Old: 2.75

Sector View: 1-Positive

### EPS (\$) (FY Dec)

|      | 2004   |        | 2005   |          | 2006  |          | % Change |      |
|------|--------|--------|--------|----------|-------|----------|----------|------|
|      | Actual | Old    | Nov    | St. Est. | Old   | St. Est. | 2005     | 2006 |
| 1Q   | 0.08A  | -0.39A | -0.39A | -0.39A   | 0.04E | -0.18E   | -588%    | 110% |
| 2Q   | -0.04A | -0.23E | -0.23E | -0.30E   | 0.08E | -0.11E   | -475%    | 135% |
| 3Q   | -0.13A | 0.00E  | 0.00E  | -0.18E   | 0.14E | -0.02E   | 100%     | 14%  |
| 4Q   | -0.21A | 0.06E  | 0.06E  | -0.12E   | 0.16E | 0.04E    | 129%     | 167% |
| Year | -0.29A | -0.57E | -0.57E | -0.99E   | 0.42E | -0.23E   | -97%     | 174% |
| P/E  |        |        | N/A    |          |       |          |          |      |

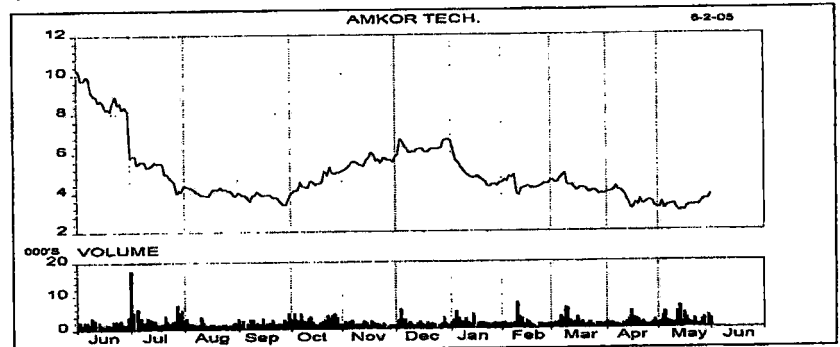
### Market Data

|                          |              |
|--------------------------|--------------|
| Market Cap               | 0.68B        |
| Shares Outstanding (Mil) | 175.70       |
| Float                    | 57.00        |
| Dividend Yield           | N/A          |
| Convertible              | Yes          |
| 52 wk Range              | 10.81 - 2.87 |

### Financial Summary

|                    |          |
|--------------------|----------|
| Revenue FY05       | 1995.0 B |
| Five-Year EPS CAGR | 999.90%  |
| Return on Equity   | -112.00% |
| Current BVPS       | 1.41     |
| Debt To Capital    | 89.21%   |

### Stock Overview



### Valuation, Rating and Price Target

Upgrading from 3-UW to 2-EW and raising price target from \$2.75 to \$6.00. While our prior \$2.75 price target was driven by our nearer-term concern of balance sheet deterioration, we believe greater certainty with respect to near-term visibility & sooner-than-expected profitability. Our new price target of \$6.00 is based on 1.2x C06 EV Target /C06E Sales & 0.4x Price Target/ C06E Sales – essentially the same multiples AMKR trades at today on our estimated C05 EV & Sales.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4

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Figure 1: AMKR Valuation & Price Target

| Price/Sales, EV/Sales, EV/EBITDA, P/Book Metrics |      |      |                    |      |      |
|--|------|------|--------------------|------|------|
| Current Stock Price                              |      |      | Target Stock Price |      |      |
| P/S  | C05E | 0.5x | P/S                | C05E | 0.5x |
|  | C06E | 0.3x |                    | C06E | 0.3x |
| EV/S   | C05E | 1.5x | EV/S               | C05E | 1.5x |
|  | C06E | 1.0x |                    | C06E | 1.0x |
| EV/EBITDA  | C05E | 4.5x | EV/EBITDA          | C05E | 9.0x |
|  | C06E | 4.5x |                    | C06E | 9.0x |
| P/Book   | C05E | 6.1x | P/Book             | C05E | 6.1x |
|  | C06E | 3.0x |                    | C06E | 3.0x |

Sources: Company Reports and Lehman Brothers Estimates

Figure 2: Amkor Technology P&L Model

Amkor Technology  
P&L Model (\$ millions)

Current version: 6/1/05  
Last version: 5/5/05

| FILE: AMKRWSH<br>FYE: December    | Fiscal 2004 |          |          |          |           | Fiscal 2005E |          |          |          |           | Fiscal 2006E |          |          |          |           |
|-----------------------------------|-------------|----------|----------|----------|-----------|--------------|----------|----------|----------|-----------|--------------|----------|----------|----------|-----------|
|                                   | Q1          | Q2       | Q3       | Q4       | 2004      | Q1           | Q2E      | Q3E      | Q4E      | 2005E     | Q1E          | Q2E      | Q3E      | Q4E      | 2006E     |
| Revenue                           | \$464.8     | \$492.5  | \$490.8  | \$453.3  | \$1,901.3 | \$417.5      | \$471.0  | \$535.0  | \$571.5  | \$1,995.0 | \$560.0      | \$590.0  | \$628.0  | \$637.0  | \$2,415.0 |
| Sequential Change                 | 1.3%        | 6.0%     | -0.3%    | -7.7%    | -7.9%     | -7.9%        | 12.8%    | 13.6%    | 6.8%     | 13.6%     | -2.0%        | 5.4%     | 6.4%     | 1.4%     | 21.1%     |
| Change Vs Year Ago                | 35.4%       | 30.3%    | 15.8%    | -1.2%    | 18.6%     | -10.2%       | -4.4%    | 9.0%     | 26.1%    | 4.9%      | 34.1%        | 25.3%    | 17.4%    | 11.5%    | 21.1%     |
| Cost of Goods                     | \$352.8     | \$397.8  | \$403.1  | \$379.8  | \$1,533.4 | \$374.1      | \$398.0  | \$422.7  | \$448.6  | \$1,643.4 | \$439.6      | \$460.2  | \$486.1  | \$492.1  | \$1,878.0 |
| Percent of Revenue                | 75.9%       | 80.8%    | 82.1%    | 83.8%    | 80.7%     | 89.6%        | 84.5%    | 79.0%    | 78.5%    | 82.4%     | 78.5%        | 78.0%    | 77.4%    | 77.3%    | 77.8%     |
| Gross Margin                      | \$111.8     | \$94.8   | \$87.8   | \$73.4   | \$367.8   | \$43.4       | \$73.0   | \$112.4  | \$122.9  | \$351.6   | \$120.4      | \$129.8  | \$141.9  | \$144.9  | \$537.0   |
| Percent of Revenue                | 24.1%       | 19.2%    | 17.9%    | 16.2%    | 19.3%     | 10.4%        | 15.5%    | 21.0%    | 21.5%    | 17.6%     | 21.5%        | 22.0%    | 22.6%    | 22.8%    | 22.2%     |
| Incremental GM                    | -41.3%      | -61.2%   | NM       | 38.1%    |           | 84.0%        | 55.3%    | 61.5%    | 28.8%    |           | 21.5%        | 31.3%    | 31.9%    | 33.2%    |           |
| R&D                               | \$9.0       | \$9.9    | \$8.7    | \$9.2    | \$36.7    | \$8.9        | \$9.1    | \$9.0    | \$9.0    | \$36.0    | \$10.0       | \$10.0   | \$10.0   | \$10.0   | \$40.0    |
| Percent of Revenue                | 1.9%        | 2.0%     | 1.8%     | 2.0%     |           | 2.1%         | 1.9%     | 1.7%     | 1.6%     | 1.8%      | 1.8%         | 1.7%     | 1.6%     | 1.6%     | 1.7%      |
| Amortization of Acq. Int.         | \$1.3       | \$1.6    | \$1.6    | \$1.5    | \$6.1     | \$2.0        | \$2.0    | \$2.0    | \$2.0    | \$8.0     | \$2.0        | \$2.0    | \$2.0    | \$2.0    | \$8.0     |
| General, Admin. & Mktg.           | \$52.2      | \$54.1   | \$53.2   | \$54.8   | \$214.3   | \$58.5       | \$58.5   | \$56.0   | \$56.0   | \$229.0   | \$55.0       | \$56.5   | \$57.5   | \$58.0   | \$227.0   |
| Percent of Revenue                | 11.2%       | 11.0%    | 10.8%    | 12.1%    | 11.3%     | 14.0%        | 12.4%    | 10.5%    | 9.8%     | 11.5%     | 9.8%         | 9.6%     | 9.2%     | 9.1%     | 9.4%      |
| Operating Expenses                | \$62.5      | \$65.6   | \$63.5   | \$65.5   | \$257.1   | \$69.4       | \$69.6   | \$67.0   | \$67.0   | \$273.0   | \$67.0       | \$68.5   | \$69.5   | \$70.0   | \$275.0   |
| Percent of Revenue                | 13.4%       | 13.3%    | 12.9%    | 14.5%    | 13.5%     | 16.6%        | 14.8%    | 12.5%    | 11.7%    | 13.7%     | 12.0%        | 11.6%    | 11.1%    | 11.0%    | 11.4%     |
| Operating Income                  | \$49.4      | \$29.2   | \$24.3   | \$7.9    | \$110.7   | (\$26.0)     | \$3.4    | \$45.4   | \$55.9   | \$78.7    | \$53.4       | \$51.3   | \$72.4   | \$74.9   | \$262.0   |
| Percent of Revenue                | 10.6%       | 5.9%     | 4.9%     | 1.7%     | 5.8%      | -6.2%        | 0.7%     | 8.5%     | 9.8%     | 3.9%      | 9.5%         | 10.4%    | 11.5%    | 11.8%    | 10.9%     |
| Other Income (Exp)                | (\$32.4)    | (\$13.7) | (\$39.0) | (\$42.8) | (\$127.9) | (\$42.9)     | (\$43.5) | (\$44.0) | (\$45.0) | (\$175.4) | (\$45.0)     | (\$45.0) | (\$45.0) | (\$45.0) | (\$180.0) |
| Percent of Revenue                | -7.0%       | -2.8%    | -8.0%    | -9.4%    | -6.7%     | -10.3%       | -9.2%    | -8.2%    | -7.9%    | -8.8%     | -8.0%        | -7.6%    | -7.2%    | -7.1%    | -7.5%     |
| Extraordinary Items (tax adj.)    | \$2.7       | \$22.7   | \$0.0    | \$0.0    | \$25.4    | (\$50.0)     | \$0.0    | \$0.0    | \$0.0    | (\$50.0)  | \$0.0        | \$0.0    | \$0.0    | \$0.0    | \$0.0     |
| Profit Before Taxes               | \$17.0      | \$15.5   | (\$14.8) | (\$34.9) | (\$17.2)  | (\$68.9)     | (\$40.1) | \$1.3    | \$10.9   | (\$96.8)  | \$8.4        | \$16.3   | \$27.4   | \$29.9   | \$82.0    |
| Percent of Revenue                | 3.7%        | 3.2%     | -3.0%    | -7.7%    | -0.9%     | -16.5%       | -8.5%    | 0.3%     | 1.9%     | -4.9%     | 1.5%         | 2.8%     | 4.4%     | 4.7%     | 3.4%      |
| Taxes                             | \$1.6       | \$0.0    | \$6.3    | \$1.9    | \$9.8     | \$1.2        | \$2.0    | \$2.0    | \$2.0    | \$7.2     | \$2.0        | \$2.0    | \$2.0    | \$2.0    | \$8.0     |
| Tax Rate                          | 9.5%        | 0.0%     | NM       | NM       | -57.2%    | -1.7%        | -5.0%    | 148.1%   | 18.4%    | -7.4%     | 23.8%        | 12.3%    | 7.3%     | 6.7%     | 9.8%      |
| Minority Interest                 | (\$0.4)     | \$0.0    | (\$1.3)  | \$0.7    | (\$0.9)   | \$1.0        | \$1.0    | \$1.0    | \$1.0    | \$4.0     | \$0.0        | \$0.0    | \$0.0    | \$0.0    | \$0.0     |
| Net Income-Operations             | \$15.0      | (\$7.2)  | (\$22.3) | (\$36.1) | (\$50.6)  | (\$69.1)     | (\$41.1) | \$0.4    | \$9.9    | (\$99.9)  | \$6.4        | \$14.3   | \$25.4   | \$27.9   | \$74.0    |
| Percent of Revenue                | 3.2%        | (1.5%)   | (4.6%)   | (8.0%)   | (2.7%)    | (16.5%)      | (8.7%)   | 0.1%     | 1.7%     | (5.0%)    | 1.1%         | 2.4%     | 4.0%     | 4.4%     | 3.1%      |
| Net Income Incl. Extra. Items     | \$17.7      | \$15.5   | (\$22.3) | (\$36.1) | (\$25.2)  | (\$119.1)    | (\$41.1) | \$0.4    | \$9.9    | (\$149.9) | \$6.4        | \$14.3   | \$25.4   | \$27.9   | \$74.0    |
| Average Shares - Fully Dil. (mil) | 180.2       | 175.9    | 175.7    | 175.7    | 176.9     | 175.7        | 175.7    | 175.7    | 175.7    | 175.7     | 175.7        | 175.7    | 176.2    | 176.7    | 176.1     |
| Operating EPS (fully diluted)     | \$0.08      | (\$0.04) | (\$0.13) | (\$0.21) | (\$0.29)  | (\$0.39)     | (\$0.23) | \$0.00   | \$0.06   | (\$0.57)  | \$0.04       | \$0.08   | \$0.14   | \$0.16   | \$0.42    |
| % Change Y/Y                      | NM          | NM       | NM       | NM       | NM        | NM           | NM       | NM       | NM       | NM        | NM           | NM       | NM       | NM       | NM        |
| % Change Q/Q                      | NM          | NM       | NM       | NM       | NM        | NM           | NM       | NM       | NM       | NM        | NM           | NM       | 77.3%    | 9.5%     |           |

Sources: Company reports and Lehman Brothers estimates

## Figure 3: Amkor Technology Balance Sheet Model

Figure 3: Amkor Technology, Balance Sheet Model.

Amkor Technology  
Balance Sheet Model (\$ millions)

Current version: 6/1/05  
Last version: 5/5/05

FILE: AMKRWKSH  
FYE: December  
Balance Sheet

Fiscal 2004  
Q1 Q2 Q3 Q4

Fiscal 2005E  
Q1 Q2E Q3E Q4E

Fiscal 2006E  
Q1E Q2E Q3E Q4E

ASSETS

Cash & Securities \$345 \$295 \$231 \$372 \$287 \$211 \$320 \$330 \$327 \$375 \$412 \$469

Accounts Receivable \$290 \$277 \$277 \$269 \$265 \$287 \$326 \$320 \$314 \$330 \$352 \$357

Total Inventories \$112 \$120 \$120 \$112 \$112 \$120 \$120 \$124 \$115 \$120 \$128 \$130

Other Current Assets \$38 \$37 \$32 \$33 \$39 \$39 \$39 \$39 \$39 \$39 \$39 \$39

Total Current Assets \$787 \$728 \$661 \$786 \$703 \$657 \$805 \$813 \$795 \$864 \$930 \$995

Net PP&E \$1,132 \$1,329 \$1,388 \$1,380 \$1,372 \$1,390 \$1,430 \$1,396 \$1,365 \$1,334 \$1,307 \$1,279

Other Assets \$797 \$760 \$786 \$799 \$791 \$791 \$791 \$791 \$791 \$791 \$791 \$791

Total Assets \$2,715 \$2,818 \$2,834 \$2,965 \$2,866 \$2,838 \$3,027 \$3,001 \$2,952 \$2,990 \$3,028 \$3,065

LIAB. & SHRHLDERS' EQUITY

Accounts Payable \$280 \$264 \$236 \$212 \$202 \$236 \$268 \$286 \$280 \$295 \$314 \$319

Short-Term Debt \$23 \$144 \$171 \$52 \$42 \$42 \$42 \$42 \$0 \$0 \$0 \$0

Other Current Liabilities \$165 \$165 \$183 \$175 \$210 \$185 \$185 \$185 \$170 \$185 \$200 \$210

Total Current Liabilities \$468 \$572 \$590 \$439 \$453 \$463 \$495 \$513 \$450 \$480 \$514 \$529

Long-Term Debt \$1,734 \$1,733 \$1,745 \$2,041 \$2,042 \$2,042 \$2,192 \$2,192 \$2,192 \$2,192 \$2,192 \$2,192

Other Liabilities \$87 \$91 \$97 \$109 \$118 \$118 \$118 \$118 \$118 \$118 \$118 \$118

Total Liabilities \$2,291 \$2,397 \$2,432 \$2,589 \$2,614 \$2,623 \$2,805 \$2,823 \$2,760 \$2,790 \$2,824 \$2,839

Minority Interest \$2 \$2 \$7 \$7 \$6 \$6 \$6 \$6 \$0 \$0 \$0 \$0

Shareholders' Equity \$423 \$419 \$395 \$370 \$247 \$210 \$216 \$172 \$192 \$200 \$204 \$227

Total Liab. and Equity \$2,715 \$2,818 \$2,834 \$2,965 \$2,866 \$2,838 \$3,027 \$3,001 \$2,952 \$2,990 \$3,028 \$3,065

Sources: Company reports and Lehman Brothers estimates

Sources: Company reports and Lehman Brothers estimates

## Figure 4: Amkor Technology Performance Metrics

Figure 4: Amkor Technology : Performance Metrics

| Amkor Technology           |             |          |          |          |              |           |           |           |              | Current version: 6/1/05 |           |          |  |
|----------------------------|-------------|----------|----------|----------|--------------|-----------|-----------|-----------|--------------|-------------------------|-----------|----------|--|
| Performance Metrics        |             |          |          |          |              |           |           |           |              | Last version: 5/5/05    |           |          |  |
| FILE: AMKRWKSH             | Fiscal 2004 |          |          |          | Fiscal 2005E |           |           |           | Fiscal 2006E |                         |           |          |  |
| FYE: December              | Q1          | Q2       | Q3       | Q4       | Q1           | Q2E       | Q3E       | Q4E       | Q1E          | Q2E                     | Q3E       | Q4E      |  |
| Profitability Ratios       |             |          |          |          |              |           |           |           |              |                         |           |          |  |
| Return On Equity           | 14%         | (7%)     | (23%)    | (39%)    | (112%)       | (78%)     | 1%        | 23%       | 13%          | 29%                     | 50%       | 49%      |  |
| Return on Avg Equity *     | 7%          | (3%)     | 3%       | (13%)    | (40%)        | (48%)     | (48%)     | (37%)     | (11%)        | (37%)                   | 27%       | 37%      |  |
| Return On Assets           | 2%          | (1%)     | (3%)     | (5%)     | (10%)        | (6%)      | 0%        | 1%        | 1%           | 2%                      | 3%        | 4%       |  |
| Return On Net Assets       | 3%          | (1%)     | (3%)     | (6%)     | (11%)        | (6%)      | 0%        | 1%        | 1%           | 2%                      | 4%        | 4%       |  |
| Return On Sales            | 3%          | (1%)     | (5%)     | (8%)     | (17%)        | (9%)      | 0%        | 2%        | 1%           | 2%                      | 4%        | 4%       |  |
| * Avg Over Last 4 Qtrs     |             |          |          |          |              |           |           |           |              |                         |           |          |  |
| Efficiency Ratios          |             |          |          |          |              |           |           |           |              |                         |           |          |  |
| Sales / Total Assets       | 0.68        | 0.70     | 0.69     | 0.61     | 0.58         | 0.66      | 0.71      | 0.76      | 0.76         | 0.79                    | 0.83      | 0.83     |  |
| A/R Days Sales Out         | 57          | 51       | 52       | 54       | 58           | 56        | 56        | 51        | 51           | 51                      | 51        | 51       |  |
| Inventory Turns            | 12.6        | 13.3     | 13.5     | 13.6     | 13.4         | 13.3      | 14.1      | 14.5      | 15.3         | 15.4                    | 15.3      | 15.2     |  |
| Days of Inventory          | 29          | 27       | 27       | 27       | 27           | 27        | 26        | 25        | 24           | 24                      | 24        | 24       |  |
| Liquidity Ratios           |             |          |          |          |              |           |           |           |              |                         |           |          |  |
| Current Ratio              | 1.7         | 1.3      | 1.1      | 1.8      | 1.5          | 1.4       | 1.6       | 1.6       | 1.8          | 1.8                     | 1.8       | 1.9      |  |
| Quick Ratio                | 3.6         | 2.0      | 1.5      | 3.0      | 2.3          | 2.4       | 3.0       | 3.0       | 4.0          | 4.0                     | 4.0       | 4.1      |  |
| Net Working Capital        | \$598       | \$420    | \$307    | \$559    | \$451        | \$430     | \$578     | \$586     | \$625        | \$679                   | \$730     | \$785    |  |
| Long-Term Debt / Equity    | 410.2%      | 413.3%   | 441.7%   | 552.3%   | 827.0%       | 973.3%    | 1014.1%   | 1276.0%   | 1144.4%      | 1098.0%                 | 1074.1%   | 966.5%   |  |
| Debt/Capital               | 80.8%       | 81.7%    | 82.9%    | 85.0%    | 89.4%        | 90.9%     | 91.2%     | 92.9%     | 92.0%        | 91.7%                   | 91.5%     | 90.6%    |  |
| Total Debt / Equity        | 415.6%      | 447.6%   | 485.0%   | 566.4%   | 844.1%       | 993.4%    | 1033.6%   | 1300.6%   | 1144.4%      | 1098.0%                 | 1074.1%   | 966.5%   |  |
| EBITDA/Interest            | 3.1         | 6.4      | 2.1      | 1.6      | 0.8          | 1.5       | 2.5       | 2.7       | 2.7          | 2.8                     | 3.1       | 3.2      |  |
| EBITDA- Capex/Interest     | -2.1        | -2.7     | 0.3      | 0.7      | -0.3         | -0.3      | 0.1       | 2.0       | 1.9          | 2.1                     | 2.2       | 2.3      |  |
| Op Inc / Assets, exc. Cash | 8.3%        | 4.6%     | 3.7%     | 1.2%     | -4.0%        | 0.5%      | 6.7%      | 6.4%      | 8.1%         | 9.4%                    | 11.1%     | 11.5%    |  |
| Book & Cash Value          |             |          |          |          |              |           |           |           |              |                         |           |          |  |
| Book Value Per Share       | \$2.35      | \$2.38   | \$2.25   | \$2.10   | \$1.41       | \$1.19    | \$1.23    | \$0.98    | \$1.09       | \$1.14                  | \$1.16    | \$1.28   |  |
| Cash Per Share             | \$1.92      | \$1.68   | \$1.32   | \$2.12   | \$1.63       | \$1.20    | \$1.82    | \$1.88    | \$1.86       | \$2.13                  | \$2.34    | \$2.66   |  |
| Net Cash Per Share         | (\$7.84)    | (\$9.00) | (\$9.59) | (\$9.79) | (\$10.23)    | (\$10.66) | (\$10.80) | (\$10.84) | (\$10.61)    | (\$10.35)               | (\$10.11) | (\$9.75) |  |

Sources: Company reports and Lehman Brothers estimates

### Company Description:

Amkor Technology is the world's leading subcontractor of semiconductor packaging assembly and test services, a sub-segment of the semiconductor industry.

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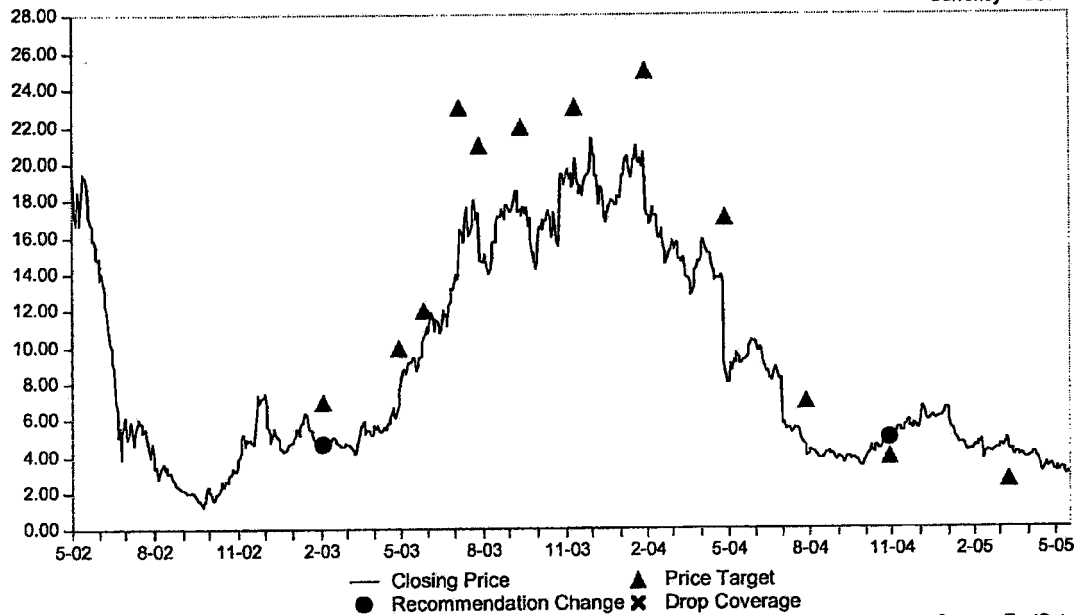
## Important Disclosures

Rating and Price Target Chart: AMKR

### AMKOR TECHNOLOGY

As of 17-May-2005

Currency = USD



Source: FactSet

| Date      | Closing Price | Rating        | Price Target |
|-----------|---------------|---------------|--------------|
| 10-Mar-05 | 4.35          |               | 2.75         |
| 28-Oct-04 | 5.00          |               | 4.00         |
| 28-Oct-04 | 5.00          | 3-Underweight |              |
| 28-Jul-04 | 3.98          |               | 7.00         |
| 28-Apr-04 | 8.63          |               | 17.00        |
| 29-Jan-04 | 17.45         |               | 25.00        |
| 12-Nov-03 | 20.32         |               | 23.00        |

| Date      | Closing Price | Rating       | Price Target |
|-----------|---------------|--------------|--------------|
| 12-Sep-03 | 17.57         |              | 22.00        |
| 29-Jul-03 | 14.93         |              | 21.00        |
| 07-Jul-03 | 16.24         |              | 23.00        |
| 28-May-03 | 10.56         |              | 12.00        |
| 30-Apr-03 | 7.57          |              | 10.00        |
| 04-Feb-03 | 4.64          |              | 7.00         |
| 04-Feb-03 | 4.64          | 1-Overweight |              |

FOR EXPLANATION OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART

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| Company Name:    | Disclosures | Ticker | Price (06/02) | Rating         |
|------------------|-------------|--------|---------------|----------------|
| Amkor Technology | C,J         | AMKR   | 3.85          | 2-Equal weight |

**C** - Lehman Brothers Inc. makes a market in the securities of this company.

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**AMKR:** Amkor's financial results are dependent on and may vary with: global demand for electronic devices and products, growth of its broad customer base and the semiconductor industry, competitive issues, factory yields and capacity utilization, and the availability and pricing of packaging materials used to manufacture a wide variety of customer products. Additionally, Amkor's manufacturing facilities are located in regions where there is currently an above-average level of geopolitical risk.

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to [www.lehman.com/disclosures](http://www.lehman.com/disclosures)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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## Sector View

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

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**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

## Stock Ratings From February 2001 to August 5, 2002 (sector view did not exist):

This is a guide to expected total return (price performance plus dividend) relative to the total return of the stocks' local market (i.e. the market where the stock primarily trades) over the next 12 months.

**1-Strong Buy** - expected to outperform the market by 15 or more percentage points.

**2-Buy** - expected to outperform the market by 5-15 percentage points.

**3-Market Perform** - expected to perform in line with the market, plus or minus 5 percentage points.

**4-Market Underperform** - expected to underperform the market by 5-15 percentage points.

**5-Sell** - expected to underperform the market by 15 or more percentage points.

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**Williams, Kelsey**

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**From:** [REDACTED]  
**Sent:** Thursday, June 02, 2005 8:51 AM  
**To:** Midday Notes [MiddayNotes@lehman.com]  
**Cc:** Parmigiani, Ted [REDACTED]; [REDACTED]  
**Subject:** Upgrade to 2-EW on 2H05 Profitability; For MANUAL INTRADAY Distribution.



AMKR060305.doc  
(868 KB)

Ticker: AMKR  
Note type: Company Note.

Status: APPROVE for MANUAL INTRADAY Distribution.

\*\*HOLD FOR 11AM\*\*

Please use this one.

SA approved. -- [REDACTED]

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**Williams, Kelsey**

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**From:** [REDACTED]  
**Sent:** Wednesday, March 30, 2005 10:00 AM  
**To:** Parmigiani, Ted [REDACTED]  
**Subject:** Go to the Moore meeting without me, we have big ratings change looming...

[REDACTED]  
Vice President  
New York Institutional Equity Sales  
Lehman Brothers  
phone: [REDACTED]  
email: [REDACTED]  
[REDACTED]

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> Stock Ratings From February 2001 to August 5, 2002 (sector view did  
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> points.  
>  
> Stock Ratings Prior to February 2001 (sector view did not exist):  
> 1-Buy - expected to outperform the market by 15 or more percentage

March 30, 2005

**Commodity Chemicals**

Recommendation Change

**First Hill of the Ethylene Cycle****Sector View:**

New: 3-Negative

Old: 2-Neutral

**Investment conclusion**

- Ethylene contract prices settled flat at 41.5 c/lb. in March, according to CMAI. The net result is a 4 c/lb reduction in ethylene cash margins, due to rising cash production costs. With U.S. spot ethylene trading 6.5 c/lb below contract price, we expect to see additional pressure on ethylene cash margin in the forthcoming months.

**Summary**

- PE prices and therefore margins are expected to decline 1-2 c/lb. for March contract (although this has not been settled yet), as discussed in our previous notes on 3/17 and 3/28. The data on the PE producer and consumer inventory indicates that the inventory level is at a 2 year high and is likely to take the next 3-5 months to de-stock, thereby putting further pressure on polyethylene demand and prices. Essentially, U.S. PE producers are faced with a tough choice: to cut operating rates or to cut PE prices. One of the two actions is necessary to bring excess inventory down to a more normal level.
- We are lowering our commodity sector rating from 2-neutral to 3-negative, due to the expected pressure on the sector because of weakness amongst the ethylene/PE producers. However, clearly believe that not all commodity chemical product cycles are equal. We remain bullish on the chlor-alkali cycle and stocks.

**Ethylene cycle at the short-term inflection point**

**We are lowering our sector ratings on the U.S. Commodity chemicals sector from 2-Neutral to 3-Negative due to the expected near term pressure on ethylene / Polyethylene (PE) producers.** The recent data on negative ethylene/PE pricing and margins trends do not signal the end of the chemicals cycle. This short term inflection point in the ethylene cycle could result in a stock price correction amongst most of the ethylene leveraged stocks. This trend relates primarily to the ethylene / PE producers (LYO, NCX, DOW, WLK, HUN). In contrast, cl-alkali chain remains fundamentally very strong and we continue to recommend PPG and GGC (both 1-O.W.).

**In the next 6 months, we believe ethylene/PE chain profit momentum will likely reverse from the previous 8 months of upward trend.** The ethylene/PE chain is expected to remain weak through the summer until the Aug./Sept. time frame by when the ethylene/PE producers could have worked through their inventory levels. The ethylene prices could be pressured in forth coming months due to the 6.5 c/lb gap between the spot and contract ethylene prices in March and also the producer inventory buildup. If raw materials costs (oil and natural gas) continue to escalate, then ethylene prices might actually stay flat or even increase slightly. Regardless of that, the cash margins ( the true measure of profitability of commodity chemical companies) are likely to be under pressure over the next 6 months, and thus possibly pressure stock prices for the major ethylene producers (LYO, NCX, DOW, WLK, HUN). **We are lowering our near term outlook on NCX from 1-Overweight to 2 – Equal weight and our outlook on WLK from 2-Equal weight to 3- Underweight. Please review our individual notes on WLK and NCX for more details.**

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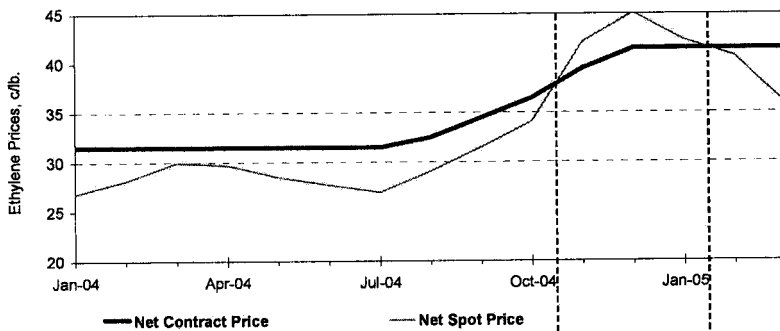
**PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 5 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6**

We view the cl-alkali cycle as inherently longer and stronger due to supply fundamentals, the short product chain, and an inability to store large amounts of caustic, chlorine inventory throughout the chain. This makes the current operating rate of 99% more genuine and more sustainable as long as industrial demand continues to grow in 2005-06 even at a modest pace. Thus, we remain positive on PPG and GGC (both 1-OW).

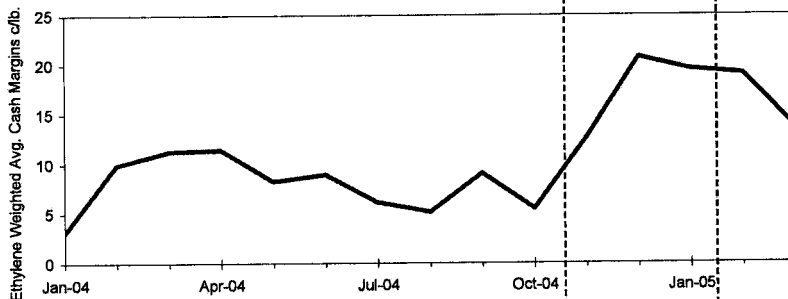
As a follow-up to our previous notes (published on March 17<sup>th</sup> and March 28<sup>th</sup>), this report aims to provide an updated view of the current ethylene / PE market, based on review and analysis of similar previous situations. For example, based on review of the past 20 years, it is apparent that inflection points (larger than normal gaps on the plus or minus side) between ethylene spot and contract prices can be leading indicators to the near-term directional changes in ethylene cash margins.

So far in 2005, the U.S. ethylene market has seen some softness. Through industry sources, we have confirmed that last week (when oil price was \$56/barrel) the spot price of ethylene traded at 35 c/lb, 6.5 c/lb LOWER than the March contract price which settled flat to the previous month at 41.5 c/lb. While spot market is only about 10-15% of the total volume, the change in US ethylene spot price does serve as a leading indicator for the contract prices. With the delta between the contract and spot price is so large at 6.5 c/lb (or 15%), it is reasonable to expect the ethylene prices and (much more importantly) cash profit margins to be under pressure in April and possibly through the summer.

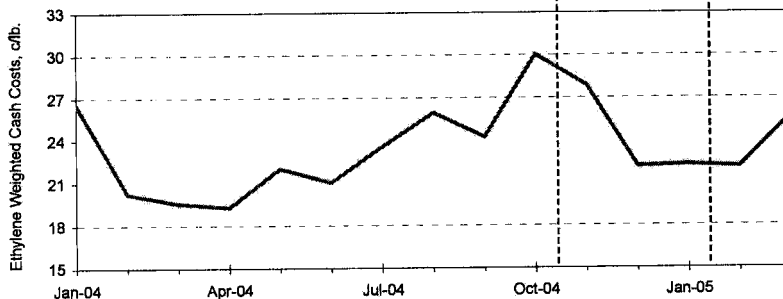
US Ethylene Contract vs. Spot Prices, c/lb.



Ethylene Contract Cash Margins, c/lb. (weighted Avg. of oil, nat gas as feedstocks)



Ethylene Weighted Average Cash Costs, c/lb.



Source: CMAI

**The Current Ethylene Peak of 2004-06.** The chart above shows our expectations for the inflection points in the current ethylene cycle. The first cross-over point in late 2004 (spot is above contract price = very tight market), followed by the second

inflection point in early 2005, with spot ethylene dropping below the contract price, indicating sequential weakness. We expect this to lead to lower contract prices and cash margins through mid-2005.

We believe that if after a 3-4 months adjustment of producer inventories the end-market PE demand remains strong, we could see yet another inflection point where spot prices are once again higher than contract prices, suggesting a positive momentum in higher prices and profit margins. Obviously, all the above considerations assume fairly stable energy prices (i.e. oil prices within \$50-58 range). A larger decline in oil prices could either accelerate a downtrend in PE prices, while sharp increase could put provide support to higher PE prices, while eating into profit margins.

- So far, ethylene and PE demand in 2005 has been weaker than expected by the market. **U.S. PE inventories have increased 750 M lbs over the past 4 months and are currently at their highest level in 2 years.** It appears that U.S. producers have recently been undisciplined in their high rates of production and have significantly overestimated the amount of export demand to the Asian region. The result has been lower than expected total demand and increased producer-level inventories. Data on US polyethylene producer and consumer inventory data is available upon request.

### Impact of US HDPE Producer Inventory on Prices and Cash Margins

|        | Highest PE Producer<br>Inventory Level | HDPE<br>Price, c/lb. | Margin, c/lb. | Oil, WTI<br>\$/barrell | Nat Gas<br>\$/mBtu |
|--------|--|----------------------|---------------|------------------------|--------------------|
| Apr-03 |  | 51                   | 8.0           | 28.3                   | 5.2                |
| May-03 | ***                                    | 49                   | 6.0           | 28.1                   | 5.2                |
| Jun-03 |  | 47                   | 5.8           | 30.7                   | 6.0                |
| Jul-03 |  | 46                   | 6.5           | 30.7                   | 5.4                |
| Aug-03 |  | 46                   | 6.6           | 31.6                   | 4.8                |
| Oct-04 |  | 59                   | 11.3          | 53.2                   | 5.7                |
| Nov-04 |  | 65                   | 12.9          | 48.4                   | 7.6                |
| Dec-04 |  | 65                   | 10.9          | 43.2                   | 7.4                |
| Jan-05 |  | 65                   | 11.2          | 46.8                   | 6.1                |
| Feb-05 | ***                                    | 65                   | 11.8          | 47.9                   | 6.2                |
| Mar-05 |  | 64                   | 10.8          | 54.4                   | 6.3                |

Source: Lehman Brothers Estimates

- What do we believe this means to the near-term direction of ethylene and PE prices and cash margins? **DOWN.** For example, the table above shows that the last time of high producer inventories in April-May '03, the price of PE decreased 5 c/lb over 3 months, despite flat-to higher energy prices. **Hence, we believe PE contract prices will settle DOWN 1-2 c/lb in March as opposed to increasing the proposed 3-5 c/lb,** which were announced a few months ago, but then went sideways a couple of months without actual implementation.

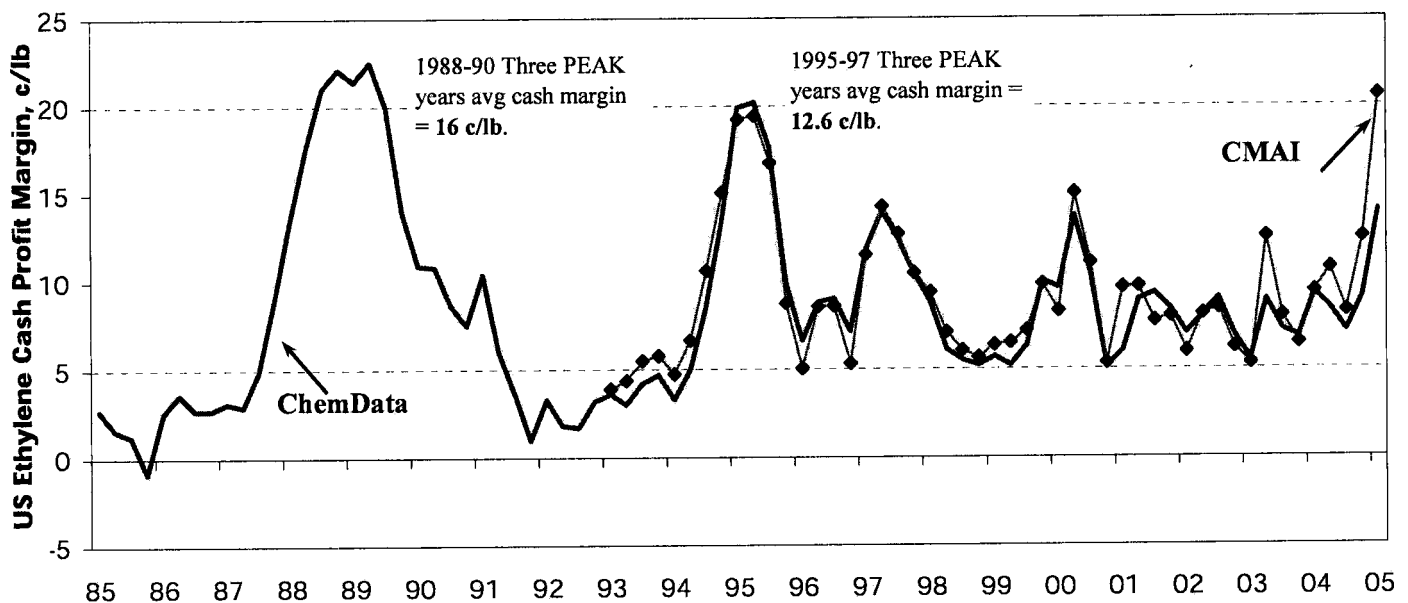
To summarize, the two main causes for concern for the ethylene/PE cycle are the currently high level of PE producer inventory and a large delta between contract and spot ethylene prices. Obviously, the two factors are interrelated. Despite a slowdown in PE demand since December 2004, US producers continued to run facilities at high operating rates. Producers expected the PE demand to pick up in February, with the Chinese buyers returning after the Lunar year holidays and US packaging companies increasing purchases in anticipation of 5+4 c/lb price increases. As both demand assumptions did not play out, the PE producers faced higher inventories.

## The shape of the next Ethylene Peak: a Tale of Two Camels

In recent discussions with numerous investors, we faced the questions about the shape, timing and magnitude of the next cyclical peak. The chart below should provide a useful reference to the two previous peaks: a large, single peak of 1988-89 and a smaller, "double-hump" peak of 1995-97. Ten years ago, the 1995 peak was fairly similar in form to the current peak, followed by a sequential weakness in 1996 (due to an economic slowdown), and then another peak in 1997, caused by an improving economy and a large extended shutdown of Shell Chemical plant (2.4% of ethylene capacity shut down for more than 10 months).

So the question is whether the current peak will resemble a one-hump camel of 1988 or a two hump-camel of 1995-97? While the exact answer will not be known until after the peak is seen in the rear-view mirror, a two hump-camel scenario is more likely, in our view. The incremental data points over the next six weeks (contract and spot prices, consumer and producer PE inventory, run-rate of PE demand and export trends) should provide a bit more clarity for the formation of the first hump of this cycle.

### U.S. Ethylene Cash Profit Margin



Source: ChemData and CMAI \* CMAI = Avg costs (Oil + Gas) \*\* ChemData = Ethylene Production by Ethane Cracking

- Will the current peak be similar to 1988 (single) or 1995-97 (double) shape?
- •What will be the timing and duration of the peak?

The answers to the above questions will be critical for peak EPS, and thus valuation of DOW, HUN, LYO, NCX and WLK.

We continue to believe it is time to lock-in the profits in LYO and WLK.

At this time, our RELATIVE ranking of ethylene stocks (from top pick to least attractive) is as follows:

We believe NCX (2-EW) is the best stock in the group but the stock price could see pressure along with the rest of the group; DOW, HUN, (both rated as 2-EW), while WLK and LYO (both, rated as 3-UW) has the highest risk and lowest forward return, in our view. For LYO, the arguments are stretched valuation, very high financial leverage and hence risk. Meanwhile, WLK has enjoyed a very rich run-up from the IPO. Although WLK has a strong chlor-alkali contribution, relatively low leverage and thus modest risk, a very shallow liquidity in the stock would make the stock vulnerable to sharp downward correction.

## Producers' Sensitivity Analysis and Outlook for Major Chemical Commodities

|                               |             | Ethylene   | HDPE  | LLDPE | LDPE  | Cl-alkali | VCM   | PVC  | Styrene | PS         | PET        | PP   |
|-------------------------------|-------------|------------|-------|-------|-------|-----------|-------|------|---------|------------|------------|------|
| <b>Historical Perspective</b> |             |            |       |       |       |           |       |      |         |            |            |      |
| Peak margins, 1995            |             | 17.4       | 7.5   | 6.9   | 8.6   | \$257     | 2.7   | 4.8  | 11.1    | 8.1        | 27.8       | 10.5 |
| Trough margins, 2001          |             | 7.2 (2002) | (0.4) | (2.7) | (0.2) | 14 (1999) | (2.1) | 0.4  | 3.7     | 0.9 (2002) | 2.4 (2003) | 3.1  |
| <b>Next Expected Peak</b>     |             | 2006       | 2006  | 2006  | 2006  | 2005      | 2005  | 2005 | 2006    | 2006       | 2007       | 2006 |
| PRODUCER LEVERAGE             |             | Ethylene   | HDPE  | LLDPE | LDPE  | Cl-alkali | VCM   | PVC  | Styrene | PS         | PET        | PP   |
| DuPont                        | EPS, in cts | --         | --    | --    | 0.5   | --        | --    | --   | --      | --         | --         | --   |
| PPG                           | EPS, in cts | --         | --    | --    | --    | 6.6       | 2.7   | --   | --      | --         | --         | --   |
| Dow Chemical                  | EPS, in cts | 14.9       | 4.0   | 2.9   | 2.5   | 4.4       | 4.3   | --   | 2.8     | 2.9        | --         | 1.3  |
| NOVA                          | EPS, in cts | 37.9       | 8.3   | 14.2  | 2.2   | --        | --    | --   | 20.8    | 24.6       | --         | --   |
| Huntsman                      | EPS, in cts | 13.6       | --    | 2.1   | 1.2   | --        | --    | --   | 0.7     | 0.8        | --         | 3.1  |
| New Lyondell                  | EPS, in cts | 28.4       | 8.6   | 2.9   | 3.9   | --        | --    | --   | 7.3     | --         | --         | --   |
| Westlake                      | EPS, in cts | 28.2       | --    | 14.4  | 8.4   | 3.6       | 13.4  | 9.9  | 4.6     | --         | --         | --   |
| Eastman                       | EPS, in cts | --         | --    | 3.5   | 5.4   | --        | --    | --   | --      | --         | 27.6       | --   |
| Wellman                       | EPS, in cts | --         | --    | --    | --    | --        | --    | --   | --      | --         | 27.1       | --   |
| Georgia Gulf                  | EPS, in cts | --         | --    | --    | --    | 9.1       | 61.1  | 50.8 | --      | --         | --         | --   |
| Olin Corp                     | EPS, in cts | --         | --    | --    | --    | 11.1      | --    | --   | --      | --         | --         | --   |

Source: CMAI, company reports, Lehman Brothers

Please see our company-specific research notes on WLK and NCX for stock-specific analysis and implications.

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## Important Disclosures:

The analysts responsible for preparing this report have received compensation based upon various factors including the Firm's total revenues, a portion of which is generated by investment banking activities.

| Related Stocks:             | Ticker | Price (03/28) | Rating         |
|-----------------------------|--------|---------------|----------------|
| Air Products & Chemicals    | APD    | 63.42         | 1-Overweight   |
| Celanese Corp.              | CE     | 17.83         | 1-Overweight   |
| Du Pont                     | DD     | 51.24         | 2-Equal weight |
| Dow Chemical                | DOW    | 51.10         | 2-Equal weight |
| Eastman Chemical            | EMN    | 59.38         | 3-Underweight  |
| Georgia Gulf Corp           | GGC    | 47.88         | 1-Overweight   |
| Huntsman Corp.              | HUN    | 23.73         | 2-Equal weight |
| Lyondell Chemical           | LYO    | 28.86         | 3-Underweight  |
| Monsanto Co                 | MON    | 60.10         | 3-Underweight  |
| NOVA Chemicals              | NCX    | 43.50         | 2-Equal weight |
| NL Industries               | NL     | 23.27         | 3-Underweight  |
| Nalco Holding               | NLC    | 18.50         | 2-Equal weight |
| Olin Corp                   | OLN    | 22.77         | 2-Equal weight |
| PPG Industries              | PPG    | 70.62         | 1-Overweight   |
| Praxair Inc.                | PX     | 47.95         | 1-Overweight   |
| Rohm & Haas                 | ROH    | 47.83         | 2-Equal weight |
| Ultrapar Participacoes S.A. | UGP    | 16.24         | 3-Underweight  |
| Valspar Corp                | VAL    | 46.51         | 1-Overweight   |
| Westlake Corp.              | WLK    | 32.40         | 3-Underweight  |

## Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2- Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). To see a list of the companies that comprise a particular sector coverage universe, please go to [www.lehman.com/disclosures](http://www.lehman.com/disclosures)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

## Stock Rating

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

## Sector View

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

**Stock Ratings From February 2001 to August 5, 2002 (sector view did not exist):**

This is a guide to expected total return (price performance plus dividend) relative to the total return of the stocks' local market (i.e. the market where the stock primarily trades) over the next 12 months.

**1-Strong Buy** - expected to outperform the market by 15 or more percentage points.

**2-Buy** - expected to outperform the market by 5-15 percentage points.

**3-Market Perform** - expected to perform in line with the market, plus or minus 5 percentage points.

**4-Market Underperform** - expected to underperform the market by 5-15 percentage points.

**5-Sell** - expected to underperform the market by 15 or more percentage points.

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Lehman Brothers Global Equity Research has 1680 companies under coverage.

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42% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 9% of companies with this rating are investment banking clients of the Firm.

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