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High-tech Sector

Week ended Feb. 20, 2005

NTT DoCoMo (9437 TSE1) to Withdraw from PHS Service

NTT DoCoMo will stop accepting subscriptions for its PHS (personal handyphone system) from April and will terminate the service in two to three years. With rates for regular mobile phone services coming down, the number of subscribers to the PHS service has been steadily declining and NTT DoCoMo has been running up losses. This move will also better position NTT DoCoMo to compete with KDDI by channeling resources into more lucrative areas.

Japan's Mobile Phone Market Matures – Shipments Down in 2004

Domestic shipments of mobile phones in 2004 fell 14.9% year-on-year to 43.19 million, according to JEITA, the electronic sector's trade association. This is the first YoY decline in two years, suggesting that the market is basically mature, as the number of subscribers has climbed to over 80 million. With fewer new models coming on the market, replacement demand was also weak. The association is projecting sales in 2005 on a par with 2004. Demand will be underpinned by the continuing shift from the 2G to 3G phones, the association said.

Internet AD Billings Top Those for Radio

Total ad billings in Japan increased 3.0% year-on-year in 2004 to ¥5.8 trillion, the first increase in four years. Forecasts for 2005 see total ad billings rising 1.4% to ¥5.9 trillion. Internet ad billings in 2004 increased 53.3% to ¥181,400 million, topping those for radio ads for the first time and establishing Internet advertising as a media in its own right. Internet ad billings were driven by substantial increases in advertising from the automobile, beverages and telecommunications sectors.

Sharp (6753 TSE1) Draws Up Bullish Medium-term Business Plan

Sharp's medium-term business plans envision LCD sales increasing 1.5 fold from the current level to ¥1.1 trillion in the fiscal year ending March 2008, the final year of the plan. Much of the additional production capacity will come from the second Kameyama plant, slated to come on stream in 2006. The plan also calls for increasing sales of solar cells to ¥250,000 million, up 2.5-fold from the current level. Overall, the company's medium-term plan sees total sales in the target year rising 30% from the current level and the return on equity topping 10%.



Electronic Components – Likely to Bottom Out in First Quarter

The DG ratio, orders and sales in December 2004 for electronic components were 1,00, 1,07 and 1,19 respectively, according to Data Garage, a high-tech market research firm. Although the DG ratio slipped by 0.4 points from November, sales and orders were up. The important point is the recovery in orders. However, higher sales are due in part to the high-demand period in December. However, if the above order trend holds in the first quarter (which seems to be the case) the electronic component sector may touch bottom and head for recovery in the first quarter of 2005.

SEAJ SPE Outlook 2004-2007

Sales of Japanese semiconductor production equipment will increase at an annual average (CAGR) rate of 5.6% from 2004 through 2007, according to SEAJ, the sectors trade body. However, sales of Japan-made SPE are expected to drop in 2005 (-20.6%) and 2006 (-5.6%), before rebounding, up 15.6%, in 2007. The same report forecast sales in Japan to increase at an annual average rate of 7.1% during the same period. The forecast sees sales in Japan declining 14.1% in 2005, picking up (2.8%) in 2006 and rebounding (16.2%) in 2007.

Machine Tool Orders up in January

Machine tool orders in January rose 30.4% year-on-year to ¥107.3, according to the Japan Machine Tool Builders Association. This was the eighth consecutive year-on-year gain in monthly orders. Although orders were lower from the previous month, they stayed at the one trillion yen level for nine months in a row. Exports to China fell 33% from the previous month and this resulted in an export decline for the first time in ten months. Domestic orders were up 34% YoY.

Bankruptcies in January Up in Electrical Machinery Sector

A total of 48 companies in the electrical sector went bankrupt in January, an increase of 6.6% from the same month a year earlier. They left an estimated ¥341,00 million in unpaid debt. A majority, 70% of the companies going under, were small firms, with less than five employees.

Taiwanese PC Manufacturers Shifting Production to China

All major Taiwanese personal computer manufacturers are rapidly shifting production to China as their profits come under pressure. The profit margin at QUANTA, the largest producer, has fallen sharply from 8% to just a few percent. Trends at other major Taiwanese PC manufacturers, such as Compal, INVENTEC, Wistron, ASUSTek and MITAC, are similar. Their major customers include HP, Dell, IBM, Gateway and Apple.



Earnings Roundup**IT Service Sector 3Q Results – A Mixed Picture**

Third quarter business results in the IT service sector were mixed, with some firms reporting record high profits while others fell into the red for the first time. While orders in the IT sector are on the recovery path, customers are demanding better cost-performance, affecting IT service firms' profits. One of the star performers was Otsuka Shokai, which reported a year-on-year sales gain of 8.2% and an ordinary income gain of 88%. Net income at Otsuka Shokai was up 3.5 times compared to the same period a year earlier. TIS and NRI also posted higher sales and profit. Embedded software is a growth area, where there is a shortage of system engineers. NEC Software and Fujitsu BSC were affected by the shortages. Demand for embedded software is expected to expand to two trillion yen in 2007.

Initial Public Offerings News (For detailed information, go to:

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>)

Kabu.com Securities (8703 TSE)

Kabu.com Securities Co., Ltd., a logistics service firm specializing in transportation, warehousing, and delivery centers, will list on the Tokyo Stock Exchange on March 17. The company will offer 50,000 shares in its initial public offering. Of those, 36,000 are newly issued shares and 14,000 are shares currently held in private. The tentative price range will be announced on February 25. The fixed offering price will be will be announced on March 8. Daiwa Securities SMBC is the lead underwriter of the offer.

Higashi Twenty One (9029 JASDAQ)

Higashi Twenty One Co., Ltd., a Japanese company specializing in system development and information processing services, will list on the JASDAQ Securities Exchange on March 17. The company will offer 806,000 shares in its initial public offering. Of those, 400,000 are newly issued shares and 406,000 are shares currently held in private. The tentative price range will be announced on February 25. The fixed offering price will be will be announced on March 8. Funds raised through the IPO will be used for repaying debt. Ichiyoshi Securities is the lead underwriter of the offer.

CEDAR (2435 JASDAQ)

CEDAR Co., Ltd., a nursing care service provider with day care center for the elderly as the mainline, will list on the JASDAQ Securities Exchange on March 17. The company will offer 1,000,000 shares in its initial public offering. Of those, 500,000 are newly issued shares and 500,000 are shares currently held in private. The tentative price range will be announced on February 28. The fixed offering price will be will be announced on March 9. Funds raised through the IPO will be used for capital investment related to the expansion of its network center chain. Nikko Citygroup is the lead underwriter of the offer.



Jupiter Telecomm (4817 JASDAQ)

Jupiter Telecomm Co., Ltd., a high-speed Internet provider, also offering telephone and cable services, will list on the JASDAQ Securities Exchange on March 23. The company will offer 1,194,421 shares in its initial public offering. Of those, 1,091,500 are newly issued shares and 102,921 are shares currently held in private. The tentative price range will be announced on March 3. The fixed offering price will be will be announced on March 14. Funds raised through the IPO will be used for capital investment and debt repayment. Nikko Citygroup is the lead underwriter of the offer.

Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	7,941	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	99.9	106.1	81.5	74.9	2,116	1,419	15,088	2,369	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	251
Dec.	99.0	106.0	79.1	78.3								329
YoY	-1.2	3.5	-2.7	-4.2	16.3	6.0	-3.1	7.9	-4.8	-4.9	1.7	2.3

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

