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## *High-tech Sector*

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### ***Waveband Allocation for 3G Phones***

The government will start allocating the 1.7Ghz bandwidth in fiscal 2006. Four firms have applied for license. However, it is most likely that up to only three firms will be allocated the bandwidth.

### ***Semiconductor Supply-demand Balance Improves in First Quarter***

Global inventories of semiconductors in the first quarter declined 51.5% from the previous quarter to around \$500 million, against a forecast of \$780 million, according to I-Supply, a market research firm. As a result, DOI fell to 33%. The research firm pointed out better-than-expected demand for MPUs, DSPs and discrete semiconductors for the improvement in the supply-demand balance. Despite the improvement, semiconductor manufacturers remain cautious of a weak market.

### ***Online Shopping Takes Off in Japan***

Individuals are increasingly shopping online. Rakuten, the largest in online shopping services firm reported that in the fiscal year ended March 2005 sales tripled to ¥10 billion from the previous fiscal year. Other online shopping services firms, like DeNA and Net Price, are also growing rapidly. Rakuten and Yahoo largely dominate sales through web malls designed for personal computers.

### ***EL Demand Expands***

Demand for OLED, a flat panel display seen as an alternative to TFT-LED panels is increasing. Given its superiority from the standpoint of viewing angle and response time, use in mobile phones and portable audio devices is increasing. The only drawback is limited life. If this shortcoming is overcome, the OLED panel will find applications as a television monitor. Industry experts foresee the global demand for OLEDs rising from an estimated \$700 million in 2005 to \$2-\$5 billion in 2009.

### ***Japan's FPD Parts and Materials Manufacturers Plan Heavy Investments in 2005***

Despite the current slowdown in semiconductor sales, semiconductor materials and parts manufacturers remain bullish and backed by surging profit are planning to significantly boost capital expenditure in a bid to hike production in anticipation of materials and parts shortages emerging in the second half of 2005.



### **Japan's PCB Manufacturers Hike Overseas Production**

Fuji Film is planning to invest to the tune of ¥100 billion over the medium-term Plans at Asahi Glass envision capital investment of over ¥100 billion in the next three years. Nitto Denko will be investing ¥90 billion in new facilities over the next three years. Other major producers in the market are Sumitomo Chemicals and Toray.

Overseas production of printed circuit boards by Japanese manufacturers in 2004 rose 12.2% from the previous year to ¥304.0 billion, according to the Japan Printed Circuit Board Association. Production gains were led by multi-layer PCBs, output of which was up 29.4%. Production of PCB modules was up 85.7%. On the other hand, output of single-side PCBs fell 28.6%. Meiko is hiking production in China. Nihon CMK is shifting production from ASEAN region to China.

### **Machine Tool Orders to Stay Strong Through 2005**

A survey of 25 senior executives at Japanese machine tool manufacturers revealed that all expect orders to stay strong through 2006. They site strong capital investment in the automobile sector as the reason to explain their bullish forecast. Although bullish, executives remain concerned about possible fluctuations in the exchange rate of the yen and rising prices of cast iron and steel. They also pointed out a possible slowdown in China as a matter of concern.

### **Home Security Services Market Growing**

Japan's home security services market is estimated only at ¥33.5 billion, against an anticipated ¥2.5 trillion for corporate security services. At present the diffusion rate in the home security services market is just 1%, with only about 400,000 households signed up for services. In the U. S. and Europe, roughly 15% of all households use home security services. Assuming that the diffusion rate will rise to the same level as in Western countries, the market should grow to ¥650 billion in the foreseeable future. Shops accounted for 45.7% of the total burglaries reported in the first half of 2004 and households 33.7%.

### **Earnings Roundup**

#### **Business Machine Manufacturers' First Quarter Results**

Two of the major Japanese business machine manufacturers reported strong growth in consolidated sales and earnings in their business machine divisions. Operating income in the business machine divisions at Canon rose 13.0% to ¥1,408 million on sales of ¥5,936 million. The growth was led by strong sales of color copiers, laser beam printers and other business machines. Although the gross profit margin slipped by 1% percentage point due to fierce competition, Canon managed to improve its operating income margin by 0.3% by slashing sales promotion expenses. Sales and earnings rose sharply at Ricoh's business machine division. An expanded lineup of high-end machines lifted sales. Sales of printing systems were up 22.2%. At Seiko Epson, sales fell 0.5% as the company shifted to MFP in inkjet printers. Sales of single-function products and scanners were down.



Yen in millions, %

	Sales	Operating income	Ordinary Income	Net Income
Canon (total)	8,434 (5.7)	1,433 (7.3)	1,495 (10.0)	931 (10.4)
<i>Business machines</i>	<i>5,936 (6.1)</i>	<i>1,408 (13.0)</i>	-	-
Ricoh	4,943 (4.3)	390 (6.8)	406 (5.9)	250 (5.1)
<i>Business Machines</i>	<i>4,327 (4.6)</i>	<i>549 (6.4)</i>	-	-
Seiko Epson	3,666 (2.6)	-58 (-1.0)	-62 (-)	-42 (-)
<i>Business machines</i>	<i>2,320 (-0.5)</i>	<i>101 (-10.4)</i>		-

### Yamada Denki (9831TSE1) Announces Sharp Upward Revision of Forecasts

Yamada Denki, a major consumer electronics chain, revised its consolidated forecasts for the fiscal year ended March 2005. The company now expects ordinary income to surpass the forecast released at mid-term book closing by 19.9% to ¥48.1 billion and net income topping the previous forecast by 24.6% to 28.8 billion. Consolidated net sales are expected to reach ¥1.1 trillion, increasing 1.4% from the previous fiscal year. The company cited higher sales combined with successful cost cutting to explain the upward revision. The company plans to declare a ¥1 extraordinary dividend to commemorate reaching the one trillion yen sales mark. Together with a ¥9 increase in regular dividend, Yamada Denki will be paying out a dividend of ¥21 per common share.

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

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

No new initial public offerings were approved during the week.

### Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
April	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
Sept	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	252
Dec	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
Jan	101.0	107.2	79.3	71.4	2,098		14,138	1,509	5,549	7,080	3,135	301
Feb	97.2	103.0	81.5	87.5	2,310		15,537	1,823	6,497	7,216	3,249	204
Mar	92.9*	98.4*	81.0*									234
YoY	-1.4	3.5	-0.2	3.2	7.3	-7.3	-6.3	-0.6	-3.7	-10.0	-9.1	-3.3

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

