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High-tech Sector

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Mobile Phone Operators to Face More Competition

The government plans to increase licenses for mobile phone services, a sector dominated by just four carriers. Two broadband Internet service providers, Softbank BB and eAccess, are expected to be given licenses to provide third-generation service nationwide. The government plans to give new operators priority in reallocation of phone channels. The government has been considering releasing channels in 1.7gigahertz and 2GHz to encourage competition. The 1.7-GHz band will be allocated to two or three firms and the 2-GHz to one firm. NTT DoCoMo and Vodafone are also requesting new channels in the 1.7-GHz band to accommodate subscriber's growth.

First Quarter Server Market

Server shipments in Japan in the first quarter of 2005 increased 11.9% to 155,000 units but fell 5.8% in value to ¥205.9 billion, according to IDC Japan, a research firm. The eighth consecutive double-digit gain in quarterly shipments pushed up shipment number to a record high level. Demand for x86 servers has been particularly strong, with the value of shipments up 4.2% and the number of units shipped up 14.2%. Fujitsu, with a market share of 25.1%, moved up to the top spot for the first time in two quarters. HP Japan was ranked second in terms of market share. It was also the only company among the top three to see an increase in the value of shipments. IBM Japan slipped to the third position.

Plasma TV Demand Experiences Explosive Growth in China

Shipments of plasma televisions to China in the first quarter increased 5.5 times, compared with the same period a year earlier, to 136,000 units, surpassing shipments to the Japanese market. China has now emerged as the third largest market for plasma televisions after the U. S. and Europe. The so-called new rich in China are eagerly picking up plasma television sets. Shipments to the domestic market rose only 9% year-on-year but were 55% lower than the previous quarter.

Semiconductor Market Set for Recovery

Most Japanese semiconductor manufacturers expect recovery in the second half of 2006, with some expecting it to come as early as next summer (July-Sept. 2005). They are betting on a rebound in demand for digital home electronic products, particularly flat-panel televisions, and personal computers. Some expect the recovery to be driven by growing demand in China. However, executives remain concerned about the U. S. economy, which, if it slows down, could delay the expected recovery.

Digital Home Electronic Product Prices on the Skids

Prices of major digital home electronic products are falling sharply, according to a survey by a major economic daily. The price of 32-inch LCD television was 36% lower than a year ago and that of 160gigabit DVD recorder was down 37%. Prices of other digital home electronic products are showing similar trends.

IT Outsourcing Continues to Increase

IT outsourcing market is set for resumed growth after 2005, according to a survey by JUAS, a computer users association. Only about 47% of all firms responding to the survey said they were fully or partially outsourcing their IT needs. At present, corporations are focusing on reducing costs related to server, network and application system operations through outsourcing. Given the relatively low ratio of outsourcing at present, the IT outsourcing market is expected to grow at annual rates of 8-10% through 2009, led by BPO/BTO, which is expected to grow annually by 20%. But there are problems. Users are concerned about security and some users complain that cost reduction through outsourcing is deceptive.

Recruit to Invest in Cybird(4823 JASDAQ)

Recruit will acquire an 11.01% capital stake in Cybrid (Stock code: 4823), a Japanese company specializing in distribution of content over mobile phone networks. The two companies will also sign a business collaboration agreement. Recruit plans to withdraw from the real estate business and concentrate its management resources into Internet and mobile phone-based services.

Yahoo(4689 TSE1) to Enter Securities Brokerage Business

Yahoo Japan (Stock code: 4689) has entered into a business tie-up with Nikko Cordial (Stock code: 8603) and E*Trade Securities (Stock code: 8701) to diversify into the securities business. The company will allow clients to open securities accounts from their personal computers. Yahoo will also market selected financial products. The decision to enter the securities market is in line with its policy of becoming a comprehensive financial services provider. The company already is involved in credit cards and banking services. Other portal site operators and virtual mall operators are also actively entering the financial services sector.

Earnings Roundup

Arm Electronics(6671 JASDAQ) to Post Solid Profit Growth

Arm Electronics (Stock code: 6671), a Japanese company specializing in the design and manufacture of PCB prototypes is expected to report a 29% increase in consolidated ordinary income to about ¥600 million for the current fiscal year ending March 2006. In May, the company started operation of a new factory to double the production capacity. Consolidated net sales are likely to be up 64% to ¥6,000 million. Higher depreciation expenses associated with the start-up of the new plant will be absorbed by sales driven by higher value-added products.

Six of Seven CAD/CAM System Vendors to Post Higher Sales

In the fiscal year ended March 2005, four of the seven CAD/CAM system vendors reported higher sales while the remaining three suffered sales setback. Differences in the ability to provide system solutions (including hardware and software) seem to have affected sales. In the current fiscal year ending March 2006, six of the seven expect to post higher sales. Mutoh Kogyo (Stock code: 7999) is the only one projecting lower sales for the year.

Initial Public Offerings (For detailed information, go to:

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

IK (3377 JASDAQ)

IK Corporation, a Japanese company engaged in used motorcycle business, will list on the JASDAQ Securities Exchange on June 30. The company will offer 2,200 shares in its initial public offering. Of those, 1,600 are newly issued shares and 600 are shares currently held in private. The company plans to use a part of the proceeds from its initial public offering to open new stores and manage the rest through safe investments for future investments. The tentative price range will be announced on June 13. The fixed offering price will be announced on June 21. Nomura Securities is the lead underwriter of the offer.

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)
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	1,169	14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	102.0*	106.1*	85.3*									216
YoY	0.0	-1.0	0.2	-7.9	4.9	-12.1	-7.9	-6.3	-7.9	-10.0	-9.6	-3.5

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