



Vol . 173

## *High-tech Sector*

Week ended July 17, 2005

### **Mobile Handset Shipments Decline in May**

Shipments of mobile communications terminals in May declined 1.9% year-on-year to 3.31 million units, according to JEITA, the electronic sectors trade association. Shipments of cell phones were 3.22 million units, down 2.8%. This was the result of a 35.9% drop in 2G phones to 1.15 million units and a 36.5% increase in the shipments of 3G phones to 2.07 million units. The shipments of PHS for the consumer market were up 49.9% to 91,000 units. The diffusion rate of cell phones has reached 72.6%. The net increase in subscribers was 288,800, a decline of 33.3% from the previous month.

### **BB Use Spreads in Japan**

The number of broad band users in Japan is expected to top 20 million by the end of July. At the same time the number of access points for wireless LAN services is also increasing rapidly and is expected to reach 200,000 stations by the end of the year.

### **CCD/CMOS Camera Market Outlook**

According to a recent survey by Yano Economic Research Institute, a high-tech think tank, the markets for CCD and CMOS cameras should increase at an average annual rate of 38.7% through 2007. The global CMOS cameras market was an estimated 1.85 million in 2004 and will increase to 3.07 million in 2007. The share of CMOS cameras in the CCD/CMOS camera market is likely to hover around 57%. The global demand for CCD cameras is projected to increase from 1.24 million to 2.3 million during the same period.

### **Specialized Mass Merchandisers Increase Market Share**

Specialized mass merchandisers are increasing their market share in all retail categories. In consumer electronics the largest five have increased their combined market share to 59.0%, up 22 percentage points over a period of ten years. The leading firms in each of the retail sectors seem to be growing even faster. Yamada Denki (Stock code: 9831), the largest consumer electronics retailer, boosted sales by 16.3%. The growth was driven in part by aggressive investment in new store openings. The company expanded its floor space by 207,000 square meters in fiscal 2004, the year ended March 2005.

### **First Quarter Semiconductor Orders Plunge at Tokyo Electron(8035 TSE1)**

Orders (non-consolidated) for semiconductor production equipment (including equipment for LCD panels) in the first quarter of the current fiscal year (April-June) plunged 15% from the previous quarter to ¥110 billion. This the first drop in quarter-on-quarter orders at Tokyo Electrocn (Stock code: 8035) since the 2004 Oct-December. However, orders for LCD production equipment doubled from the previous quarter to ¥27,000 million, reflecting a rebound in investment by LCD panel manufacturers as inventory adjustment in digital consumer equipment is nearing an end.

### **India's Electronic Devices Production Set for Solid Growth**

The production of electronic devices in India for the OEM and ODM markets is expected to increase at an average annual rate of 21% from 2004 through 2009, according to a New York-based high-tech market research firm. Production growth will be driven principally by expanding domestic demand as well as for exports as foreign manufacturers shift production to India to take advantage of its inexpensive labor.

### **Business Software Demand Slowing Down**

Demand for business software has turned sluggish with sales in May dropping 10.5% year-on-year to ¥34,700 million, according to government statistics. In the seventeen months from November 2003 to May 2005, there were only two year-on-year increases in monthly sales. The only areas of positive growth were security software (up 23.2%) and application software (up 19.2%). On the contrary, software for the telecommunications sector declined 16.9% and that for software development was down 6%. This sector is suffering from several problems, including weak marketing networks, difficult-to-develop markets, and rapid technological changes, in addition to intense price competition.

### **Outlook for Electronic Devices Uncertain**

The outlook for the electronics devices sector has become increasingly uncertain amid rising orders but declining prices. However, industry insiders are bullish, expecting demand for digital consumer electronics to pick up from autumn and support the electronic devices sector. Moreover, since no negative factors are on the horizon, electronic device manufacturers have not changed their bullish projections.

### **Bankruptcies Decline in the Electronics Sector**

Bankruptcies in the electronics sector in the first half of 2005 declined 7.7% from the same period a year earlier to 214, the third consecutive year-on-year decline for the first half and the lowest in the past ten years. Although the first-half liabilities left behind by companies going bankrupt stayed below the ¥100 billion mark for three years in a row, it was up 59.7% from the first half of 2004.

### **Earnings Roundup**

#### **Toshin Electric(2761 JASDAQ) to Post Strong Profit Gain**

Toshin Electric (Stock code: 2761), a wholesaler of electrical equipment, is likely to have chalked up an 18% increase in consolidated ordinary income in the fiscal year ended May 2005 to a record ¥3,800 million, on sales of ¥42,900 million, up 9% from the previous fiscal year and ¥2,000 million higher than the previous forecast. Sales were driven by strong demand for air conditioning equipment and door phones with monitors. An expanding network of sales bases and an increase in the number of clients also contributed to sales. Sales and profit should continue and are likely to be up 5% each in the current fiscal year to May 2006.

### **Initial Public Offerings (For detailed information, go to:**

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

### **CROPS (9428 NSE)**

CROPS Co., Ltd, a subscription agent for KDDI, also engaged in staffing and building maintenance services, will list on the Nagoya Stock Exchange on August 11. The company will offer 760,000 shares to the public in its initial public offering. Of the total, 380,000 are newly issued shares and 380,000 are shares currently held in private. The tentative price range will be announced on July 22. The fixed offering price will be announced on August 2. Tokai Tokyo Securities is the lead underwriter of the offer.

### Biznet (3381 JASDAQ)

Buznet Co., Ltd, a Japanese company providing a stationery and office supplies procurement service for large and medium-scale enterprises, will list on the JASDAQ Securities Exchange on August 17. The company will offer 4,000,000 shares to the public in its initial public offering. Of the total, 2,000,000 are newly issued shares and 2,000,000 are shares currently held in private. Proceeds from the IPO will be used for planned capital investments. The tentative price range will be announced on July 29. The fixed offering price will be announced on August 9. Nikko Citigroup 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	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	216
YoY	-0.2	-1.1	0.2	3.2	3.7	-4.8	-6.8	-0.4	-1.5	-12.3	-11.8	-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