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High-tech Sector

Week ended July 24, 2005

Cell Phone Subscriber Growth Strong in June

There was a net increase of 331,400 subscribers in June, increasing the total cell phone subscriber base in Japan to 88.07 million. NTT DoCoMo's share of the market as of the end of June was 56% and it signed up 176,500 new users in that month. KDDI's market share was 22.9% as of the end of June. The company signed up 160,200 new subscribers in June. Vodafone registered its first net increase in subscribers for the first time in recent months.

Machine Tool Orders at Bubble Levels

Machine tool orders in June rose 10.8% year-on-year to ¥115.1 billion, according to the Japan Machine Tool Builders Association. This was the 33rd consecutive year-on-year gain in monthly orders, the association added. Machine tool orders have also been above the ¥100 billion level for 14 months in a row. Aggregate orders in the first half of the year were ¥672.8 billion, a level close to that seen during the so-called bubble period. Orders were strong from the mold manufacturing sector (up 28.3%) and the automobile parts sector (up 23.9%). Moreover, orders in July also seem to have been strong and are expected to exceed ¥110 billion.

Machinery Orders Plunge in May

Machinery orders, a closely watched leading indicator, in May were down a seasonally adjusted 6.7% from the previous month to ¥952.5 billion (excluding ships and electric power sectors), according to the Cabinet Office. This was the second consecutive month-on-month drop in machinery orders. Machinery orders from the manufacturing sector fell 20.6%, the first time they have dropped by more than 20% since 1987, when the government started compiling machinery order statistics.

Flexible PCB Market Expanding

Demand for flexible rigid printed circuit boards is expanding as it finds an expanding range of applications, such as cell phones. Sales of this type of PCB in 2005 are expected to exceed ¥24.1 billion, up from ¥19.1 billion recorded in 2004, according to the Japan Printed Circuit Board Association.

Electronic Component Manufacturers Hike Production of Components for Automotive Electronics

Japan's major electronic component manufacturers, Alps Electric (Stock code: 6770), Japan Aviation Electronics (Stock code: 6807), and Shindengen Electric (Stock code: 6844), plan to boost production of components for automotive electronics, a rapidly expanding market. The global automotive electronics market is expected to reach \$25 billion by 2008, up from an estimated \$15 billion in 2005.

The shift of emphasis to automotive electronics represents a strategic move to lower dependence on consumer electronics.

LCD Televisions Enter Rapid Growth Phase

If the 60% to 80% increases in LCD television sales during the three-day weekend in July is any guide, LCD television demand is poised to enter the rapid growth phase. The LCD TV sales growth is in stark contrast to that of DVD decks and plasma televisions. Sales of these products were largely flat during the holiday period. With prices of LCD TVs now down to affordable levels and summer bonuses up, demand is rising rapidly.

Semiconductor Manufacturers Turn Bullish

At the beginning of the year, most semiconductor manufacturers were bearish about the prospects for 2005. But now the sentiment is changing as more of them are showing confidence and expecting demand to increase 5% - 6% in 2005. While no one is expecting a boom, semiconductor manufacturers expect moderate growth driven by demand for semiconductors for personal computers, storage devices, cell phones and digital consumer electronic products, where inventory adjustment has largely run its course.

Earnings Roundup

Elpida Memory (6665 TSE1) Posts Net Loss in First Quarter

Elpida Memory (Stock code: 6665) reported a first-quarter (April-June) consolidated net loss of ¥2,300 million on sales of ¥48,000 million, up 5% year-on-year. While sales of semiconductors, led by those for cell phones, were higher, declining prices slashed margins, driving the company into the red. Elpida, however, has not revised its full-year forecasts since it feels that price declines have finally been arrested and that this will help it to meet its full-year targets.

Okinawa Cellular (9436 JASDAQ) Reports Strong First-quarter Profit Growth

Okinawa Cellular (Stock code: 9436) reported a 23% year-on-year jump in non-consolidated ordinary income to ¥2,380 million in the first quarter of the current fiscal year ended June 2005 on sales of ¥11,170 million, up 2%. Sales were driven by au fixed rate data communication service. Okinawa Cellular is the largest mobile phone operator in Okinawa, with a more than 50% market share in Okinawa Prefecture.

Initial Public Offerings (For detailed information, go to:

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

UCS (8787 JASDAQ)

UCS Co., Ltd, a Japanese credit card company, will list on the JASDAQ Securities Exchange on August 23. The company will offer one million shares to the public in its initial public offering. All of these will be newly issued shares. The company split its shares 1,000-for-1 on May 20, 2005. It expects to net ¥2.58 billion from the IPO. Of the total proceeds, the company plans to use ¥291 million for investment in IT systems. The remaining ¥2.28 billion will be earmarked for financing working capital requirements. The company is projecting net income of ¥2.29 billion on revenues of ¥14.69 billion for the current fiscal year to February 2006. This translates into earnings per share of ¥243.30. The tentative price range will be announced on August 2. The fixed offering price will be announced on August 11. UFJ Tsubasa 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)
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	214
May	101.3	106.2	85.7	103.3	1,977							208
YoY	-4.2	-1.3	1.7	9.0	0.6	-4.8	-6.8	-0.4	-1.5	-12.3	-11.8	-5.2

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