



Vol . 176

## *High-tech Sector*

Week ended August 7, 2005

### **July Cell Phone Sales – KDDI (9433 TSE1) Returns to Top Position**

KDDI reported a net increase of 23,500 subscribers in July, the highest among telecom carriers in Japan and 700 subscribers more than NTT DoCoMo (Stock code: 9437), the second ranked carrier, suggesting that the two are in a very close race. KDDI's (stock code: 9433) new cell phone models with new functions, such as analog TV reception and security using the GPS were well received and pushed up the subscriber count. Vodafone reported a net increase of 1,000 in its subscribers. There was a net increase of 71,500 for PHS subscribers on the back of renewed popularity of the personal handy phone system.

### **Private Sector Investment to Show Double-digit Growth for the First Time in 15 Years**

Japan's private sector capital investment in fiscal 2005, the year ending March 31, 2006, will increase an estimated 11.6% year-on-year to ¥22.3 trillion, according to a forecast released by a government-affiliated bank. Led by the automotive and electrical machinery sectors, capital investment in the manufacturing sector is projected to increase 19.8%, the third consecutive double-digit gain. The non-manufacturing sector will invest 6.9% more than the previous fiscal year, according to the forecast. The pick-up in capital investment is spreading over a broader front against a backdrop of rising earnings and ample cash flow.

### **Electronic Component Manufacturers Still Facing Head Winds**

Earnings of electronic component manufacturers were weak in the first quarter, with a number of firms falling behind their previous first-quarter performance as electronic component prices continued to decline at a time when raw material and parts prices were on the rise. As a result, the cost of sales ratio rose by 2.2 percentage points to 72.3% at Kyocera (Stock code: 6971) and was up 2.1 percentage points to 74.1% at TDK (Stock code: 6762). Sanken Electric ( Stock code: 6707) saw its cost of sales go up by 1.7 percentage points to 80.4%. However, several electronic component manufacturers reported a turn around in orders for certain components. With production of LCD displays on the rise, some components are already in short supply. Accordingly, Japan's electronic component manufacturers remain bullish about the second quarter.

### **SPE Forecast through Fiscal 2008**

Sales of made-in-Japan semiconductor and LCD panel production equipment in fiscal 2005, the year ending March 31, 2006, will decline 9.2% year-on-year to ¥1.9 trillion, according to a forecast released by SEAJ. Sales of semiconductor production equipment in fiscal 2005 are expected to decline 8.4% to ¥1.46 trillion, stay flat in fiscal 2006 and resume double-digit growth the following year. The report assumes that capital investment by semiconductor manufacturers in Japan will decline 8% to just under one trillion yen in fiscal 2005. The

correction phase will continue through fiscal 2006, but rebound, rising by double digit figures in 2007 and 2008. Sales of LCD panel equipment are expected to decline 11.4% in fiscal 2005 to ¥497.2 billion. Sales are expected to pick up from fiscal 2006 and by fiscal 2008 rise to a level where they will account for about 30% of the total sales of semiconductor and LCD panel production equipment.

#### **April-June Quarter PC Shipments Up 9.8%**

Shipments of personal computers in the April-June quarter rose 9.8% to 3.5 million units, according to IDC Japan, a high-tech market research firm. NEC (Stock code: 6701) was the largest vendor, with a market share of 19.5%. Shipments at Fujitsu (6702) were largely unchanged, as slower sales to the consumer market offset the gains in sales to the corporate sector. Third-ranked Dell saw shipments rise by 25.6%, led by a 48.4% increase in shipments of notebook PCs.

#### **Global Electronic Component Shipments Rise in May**

Global shipments of electronic components increased 3% to ¥319.0 billion, according to JEITA, the electronic sector's trade body. Shipments of connectors, heads, pickups, switches, power supply components and high-frequency components fueled the gain. Although overall shipments showed steady growth, shipments of passive parts (capacitors, resistors, transformers, coils, etc.) have been sluggish for four months in a row.

#### **Dell to Launch Flat Panel TVs in Japan**

Dell plans to start selling large-size (over 30") flat panel televisions in Japan. Like personal computers, it will sell flat panel televisions through a range of direct marketing channels, including the Internet and the telephone. The company plans to offer 30" plasma television sets for ¥300,000, challenging more established rivals like Matsushita Electric, which has a 42.1% share of the domestic market at present.

#### **Machine Tool Orders Up in First Half**

Aggregate machine tool orders at Japan's 11 major machine tool manufacturers in the first half of the 2005 rose 14.0% to ¥337.7 billion. Domestic sales increased 12.4% year-on-year to ¥210.1 billion and exports were up 16.6% to ¥127.6 billion. The only company reporting lower domestic sales was Amada, where sales in Japan fell 9.6%. Toshiba Machine (Stock code: 6104), Okuma (Stock code: 6103) and Mitsubishi Heavy Industries (stock code: 7011) reported lower exports.

#### **Earnings Roundup**

##### **Alps (6770 TSE1) Electric Posts Strong First-Quarter Profit**

Alps' (Stock code: 6770) ordinary income for the first quarter ended June 2005 rose 45.4% year-on-year to ¥11,000 million on a sales gain of 10.7% to ¥168.24 billion. Net income for the quarter was up 44.1% to 4,500 million. Sales were driven by photo printers for digital cameras, automotive sensors and hard disk drives. Although orders are strong, Alps did not revise its full-year forecasts since prices of its mainstay electronic components are on the skids.

##### **Trend Macro (4704 TSE1) Reports Higher Interim Profit**

Consolidated operating income of Trend Macro (4704) for the first half ended June 2005 rose 12% year-on-year to ¥12,700 million on a sales gain of 21% to ¥34.4 billion, the company said Wednesday. Net income was up 22% to ¥8,400 million. Sales of its Virus Buster software were down 6% due to recent problems with the software, which affected the image of its products. On the other hand, sales of software to corporate clients were strong and exports to the North American and Asian markets were up. But sales seem to be rebounding in the third quarter, with consolidated sales likely to be up 9% to ¥17.2 billion.

**First-Quarter Profit Plunges at Funai Electric (6839 OSE1)**

Funai Electric (Stock code: 6839) reported a 28% year-on-year drop in its first-quarter consolidated ordinary income to ¥5,900 million despite a sales gain of 12% to ¥72.9 billion. By operating region, sales were strong in North America, rising 27% to ¥48.9 billion. By product, sales of DVD-related products rose 14% to ¥20.5 billion. Despite the higher sales, operating income fell 31% to ¥4,800 million as prices slipped more than 20% in the North American market.

**First-quarter Ordinary Income Plunges at FERROTEC (6890 JASDAQ)**

First-quarter ordinary income at FERROTEC (Stock code: 6890) plunged 52% year-on-year to ¥130 million despite a sales gain of 4% to 5.4 billion. The company blamed the profit decline on an increase in small-lot orders, resulting in lower efficiency, in addition to a sharp drop in the sales of high-margin seals for hard disk drives.

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

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

**Japan Corporate Housing Service (8945 TSE Mothers)**

Japan Corporate Housing Service Co., Ltd, a company providing corporate housing, dormitory and parking administration services on an outsourcing basis will list on the Tokyo Stock Exchange's Mothers market on September 2. The company will offer 1,000 shares to the public in its initial public offering. All shares are newly issued. The tentative price range will be announced on August 12. The fixed offering price will be announced on August 23. Shinko Securities is the underwriter of the offer.

**NOAH (3383 NSE)**

NOAH Co., Ltd, a company specializing in repair and resale of semiconductor production equipment, and sales and installation of new SPE equipment, will list on the Nagoya Stock Exchange on September 7. The company will offer 2,090 shares to the public in its initial public offering. Of those 1,000 are newly issued shares and 1,090 are shares currently held in private. The tentative price range will be announced on August 17. The fixed offering price will be announced on August 26. Mizuho Investors Securities is the underwriter of the offer.

**Yoko Toshi Kaihatsu (8946 JASDAQ)**

Yoko Toshi Kaihatsu Co., Ltd, a company specializing in planning and development of condominiums for investment, will list on the JASDAQ Securities Exchange on September 9. The company will offer 2,600 to the public in its initial public offering. Of those 1,600 are newly issued shares and 1,000 are shares currently held in private. The proceeds from the initial public offering will be used to finance working capital requirements. The tentative price range will be announced on August 19. The fixed offering price will be announced on August 30. UFJ Tsubasa Securities is the underwriter of the offer.

**Turbolinux (3777 Hercules)**

Turbolinux Co., Ltd, a Japanese company involved in application development, sales, consulting and support of systems based on the open source OS LINUX, will list on the Osaka Securities Exchange's Hercules market on September 15. The company will offer 19,000 shares to the public in its initial public offering. Of those 10,000 are newly issued shares and 9,000 are shares currently held in private. The tentative price range will be announced on August 31. The fixed offering price will be announced on September 7. Nikko Citigroup Securities is the 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	1,723	13,948	1,969	4,965	7,014	3,226	208
YoY	-4.2	-1.3	1.7	9.0	0.6	-0.3	-10.0	-0.1	7.7	-13.9	-14.0	-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