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## *High-tech Sector*

Week ended August 21, 2005

### **Control Components Market Recovering Steadily**

After recession, a steady recovery of electronic components and control components is evident, according to a recent survey by a leading industrial daily. Among the 58 manufacturers and electronic component traders surveyed, 41% (16 firms) expect sales to increase by about 10% in the second half of the current fiscal year and 10% (17 firms) are projecting sales growth of 10%-19%. Thirty percent (17 firms) expect sales to be largely unchanged. Sales, according to respondents, will pick up as inventory adjustment in digital electronics and the IT sector comes to an end, leading to a pickup in production and boosting demand for electronic components and control equipment. Apart from these the growing demand from the automotive sector should drive sales. Rising capacity utilization at electronic component manufacturers already evidences signs of a pickup.

### **Internet Security Market Set for Explosive Growth**

Japan's Internet security market will increase 2.7-fold from its 2004 level to ¥739 billion by 2010, and the service-related demand will increase five-fold to ¥376 billion, according to a forecast released by Fuji Kimera, a high-tech think tank. Based on the market condition, demand for certification systems will increase 1.8-fold to ¥365 billion, the report adds. There will be a rise in demand due to the enactment of the personal information protection law and the growing need for data security.

### **VOD Starts to Attract Attention**

As optical fiber networks spread in Japan the infrastructure for video-on-demand is taking shape. This is viewed as an excellent business opportunity. In spite of limited number of title offers and high prices of services, operators are extremely bullish and there is no shortage of new entrants from broadcasters to telecom carriers launch VOD services. A major video rental shop is also reportedly planning to start a VOD service. At present On-Demand TV Company offers only about 1,800 titles, mostly Hollywood films, dramas and Japanese animation films for a monthly fee of ¥2,100. The company expects to sign up 400,000 households by 2008.

### **China's PCB Market Expanding Rapidly**

China's printed circuit board market that was around ¥926 billion in 2004 is expected to post a year-on-year increase of 28% in 2005 to ¥1.1 trillion, according to the China Printed Circuit Board Association. The market has grown eight fold in the ten years from 1995 to 2004.

### **Cyber Crime Up Sharply in 2005**

A comparative study by the Japan's law enforcement authority shows that the number of cyber crime cases in the first six months of 2005 increased 52% from the same period a year earlier to 1,612. Although the methods used by cyber thieves are becoming increasingly subtle,

corporations have been slow in responding. The number of phishing sites that could be identified in Japan increased to 65, according to JPCERT/CC, a non-profit organization.

### **PC Monitor Sales on the Upswing**

Sales of PC monitors are rising in tandem with the growth in shipments of desktop personal computers in Japan. As a result, monitor prices are stabilizing for the first time since last year and the market is becoming bi-polar, with cheap models on one end and high-performance models at the other end. As the demand for 17" and 19" panels grows some manufacturers are abandoning the 15" panel, and this in turn is stabilizing the price of the smaller panel. Shipments of display monitors in Japan are expected to increase from ¥276.7 billion in 2004 to ¥302.6 billion in 2005. The demand for 2007 is projected at ¥357.4 billion.

### **Japan's Digital Electronics Market Outlook**

Japan's LCD television market in 2008 is expected to have increase by 80%, compared with 2004, to ¥470 billion, according to Fuji Kimera. Demand for plasma televisions will, however, increase by only 31.8% to ¥145 billion, the report forecasts. The high-tech industry think tank is projecting 77% increase to ¥350 billion in DVD recorders during the same period.

### **Earnings Roundup**

#### **Profits to Jump 49% at En-Japan (4849 Hercules)**

En-Japan (Stock code: 4849), an Internet ad agency specializing in help-wanted ads, expects its non-consolidated ordinary income for the current year to increase 49% year-on-year to ¥3,350 million on billings of ¥11,000 million, up 58% from the previous year and ¥1,200 million higher than the previous forecast. The sales and earning growth are being driven by higher ad rates and a growing number of ads on its help-wanted sites, the company says.

#### **Septeni (4293 JASDAQ) to Post Higher Profit**

Septeni (Stock code: 4293), also an Internet ad agency, expects the consolidated ordinary income for the current fiscal year ending September 2005 to increase 15% year-on-year to ¥700 million on billings of ¥14,500 million, up 27% from the previous fiscal year. The profit growth was slower than expected due to sharply higher personal expenses, reflecting more hiring to cope with a rapidly expanding business and investments in IT systems.

#### **IXI (4313 TSE2) to Post Strong Interim Earnings**

IXI (Stock code: 4313), a company specializing in IT services to the corporate sector, is likely to see its interim consolidated ordinary income increase by 81% year-on-year to ¥900 million, about ¥100 million higher than the previous forecast, on sales of ¥6100 million, up 2.3 fold from the same period a year earlier. Rising corporate profit is inducing customers to increase investment in IT systems.

### **1Q Earnings Revisions - Winners and Losers**

Revisions to 1Q business forecasts show clear separations of winners and losers. This is true in individual industry sectors as well as across the board. In digital home electronics, Matsushita (Stock code: 6752) seems to be doing favorably while Sony (Stock code: 6758) and Seiko Epson (Stock code: 6724) are facing head winds. Matsushita is benefiting from strong sales of its plasma televisions, while sale of flat panel TVs at Sony are sluggish. Seiko Epson is mired in a brutal price competition in the printer market. In electronic components Fujikura has revised its forecasts upwards, while NEC Electronics (Stock code: 6723) and Ricoh (Stock code: 7752) have been forced to make downward revisions. Growing demand for optical fiber is boosting profit at Fujikura (Stock code: 5803). Slower demand for LSI used in mobile phones is weighing heavily on financial results at NEC Electronics. In systems, Fujitsu (Stock code: 6702) now expects to report higher profit. On the other hand, profit is under severe pressure at Oki Electric (Stock code: 6703). Fujitsu is benefiting from a strong demand for optical transmission systems in the North American market, Whereas Oki Electric has been affected due to weak

demand for IT systems from the financial sector.

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

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

**Yakuodo (3385 JASDAQ)**

Yakuodo Co., Ltd, a drugstore chain, will list on the JASDAQ Securities Exchange on September 15. The company will offer 3,150 shares to the public in its initial public offering. Of those 1,800 are newly issued shares and 1,350 are shares currently held in private. The tentative price range will be announced on August 29. The fixed offering price will be announced on September 6. Mitsubishi Securities is the underwriter of the offer.

**Kyotaru (8187 JASDAQ)**

Kyotaru Co., Ltd, an operator of sushi takeout chain, will list on the JASDAQ Securities Exchange on September 21. The company will offer 12,500 shares to the public in its initial public offering. Of those 8,500 are newly issued shares and 4,000 are shares currently held in private. Nomura Securities, the lead underwriter, has a green shoe option of, allowing it to offer up to 1,500 additional shares in the event of exceptional demand. Kyotaru's shares were delisted in 1997 as the company became insolvent due to heavy debt. It has been rehabilitated with support from Yoshinoya D&C Co. (Stock code: 9861). Kyotaru expects to net ¥941 million from the IPO. It plans to use the funds for capital investment. The tentative price range will be announced on September 1. The fixed offering price will be announced on September 9.

**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)
<b>June</b>	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
<b>July</b>	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
<b>Aug</b>	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
<b>Sept</b>	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
<b>Oct</b>	99.9	106.1	81.5	74.9	2,116	1,419	15,088	2,369	5,014	7,705	3,721	253
<b>Nov</b>	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	252
<b>Dec</b>	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
<b>Jan</b>	101.0	107.2	79.3	71.4	2,098	1,169	14,138	1,509	5,549	7,080	3,135	301
<b>Feb</b>	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
<b>Mar</b>	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
<b>Apr</b>	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	214
<b>May</b>	101.3	106.2	85.7	103.3	1,977	1,723	13,948	1,969	4,965	7,014	3,226	208
<b>YoY</b>	<b>4.4</b>	<b>5.5</b>	<b>-1.7</b>	<b>9.0</b>	<b>0.6</b>	<b>-0.3</b>	<b>-10.0</b>	<b>-0.1</b>	<b>7.7</b>	<b>-13.9</b>	<b>-14.0</b>	<b>-6.9</b>

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