



Vol . 187

## *High-tech Sector*

Week ended October 23, 2005

### **Cell Phone Sales Up Marginally in First-Half**

Cell phone sales in Japan in the first half were up 0.9% compared to the same period a year earlier to 21.29 million units, according to the MM Research Institute. Sharp (Stock code: 6753) increased its market share by 2 percentage points to 17%, rising to first place in the ranking by market share. Sharp was ranked third in the first half of 2004. NEC's (Stock code: 6701) market share slipped by 3.5 percentage points to 15.7%. Toshiba (Stock code: 6502) increased its market share by 5.8% to 14.0%. Other major manufacturers also suffered market share declines.

### **Mail-Order Sales Through Mobile Phones Rise Sharply**

Mail-order sales through mobile phones rose 46.6% YoY in fiscal 2004, according to a survey by a major economic daily. Young women in their twenties and thirties seem to be shopping more through their mobile phones due to the convenience it offers. Total mail-order sales, including catalog sales, increased 5.1% to ¥1.6 trillion, the newspaper added. Orders placed through mobile phones represented 10% of total web-based sales.

### **Taiwan's IT Firms Boosting Sales**

IT firms in Taiwan are reporting double or even triple digit sales gains at a time when the overall economic growth rate is slowing in the island nation. Particularly strong growth is being reported by manufacturers of notebook PCs, FPDs and value-added products like cell phones. Sales at HTC in the January-August period were up 105% YoY to NT\$39,135 million and Hon Hai reported a 58.2% sales gain during the same period.

### **LCD Panel Production Equipment Outlook**

Although sales of FPD production equipment (mainly LCD panel production equipment) in fiscal 2005 are likely to fall 11% year-on-year to ¥561.4 billion, the longer-term outlook is favorable, according to SEAJ, the sector's trade body. But sales should pick up in fiscal 2006 and reach ¥782.1 billion in fiscal 2008, reflecting growing demand for FPDs. The projected 11% sales decline in fiscal 2005 is lower than the beginning-of-year forecast which saw a 40% decline, suggesting that demand is already picking up. The demand growth will be underpinned by the introduction of larger panel sizes and lower prices realized through rising yields.

### **Machine Tool Prices Rise**

Machine tool prices, lifted by rising demand from the automotive sector, are rising sharply. Demand growth is exceeding machine tool manufacturers' production capacity. The average sales price of metal-working machines was up 15% to ¥13.35 million, up from ¥11.7 million

last year. The average price of smaller machine tools rose 5.8% to ¥6.9 million. The price increases are not limited only to major manufacturers like Mori Seiki (Stock code: 6141) but are spreading to smaller machine tool manufacturers also.

### **Machine Tool Orders Up in September**

Machine tool orders rose 3.6% year-on-year in September to ¥115.8 billion, according to the Japan Machine Tool Builders Association. This is the 36<sup>th</sup> consecutive year-on-year gain in monthly machine tool orders, the association added. Orders have been above the ¥100 billion level for 17 months in a row. Orders in the January-September period increased 12.5% YoY to ¥1.01 trillion.

### **CAE Software Market Expands**

Demand for CAE software, considered to be an indispensable tool for assuring manufacturing quality, is increasing in Japan along with the spread of 3D CAD systems and advances in computer-based processing technologies. The number of companies using CAE from the design stage is also increasing. Moreover, the use of CAE software, so far largely limited to major firms, is spreading to small and medium-size companies. Major vendors of CAE software in Japan are Cybernet Systems (Stock code: 4312), MSC Software and Moldflow Japan.

### **TFT LCD Manufacturers Returning to Profitability**

The global market for TFT LCD panels is reviving. Unlike the first quarter, when major Taiwanese producers were in the red and the only company reporting profit was Samsung Electronics, LG Phillips and AUO (Taiwanese manufacturers) returned to profitability in the second quarter. But second-tier Taiwanese manufacturers were still in the red in the second quarter. As the market is showing further signs of stability, the number of firms returning to profitability is expected to increase. However, competition will remain stiff since production capacity exceeds demand by about 10%.

### **Earnings Roundup**

#### **Interim Ordinary Income Triples at Dentsu Tech (4682 JAQ)**

Interim consolidated ordinary income at rose 3.2-fold to ¥1.43 billion at Dentsu Tech (Stock code: 4682) , a sales promotion agency, the company said on October 17. However, sales were down 3% to ¥69 billion, due mainly to the transfer of certain businesses to other Dentsu group firms. Profit margins rose as the businesses transferred were mostly low-margin operations.

#### **Profit Growth Restored at Stanley Electric (6923 TSE1)**

Stanley Electric (Stock Code: 6923) is expected to report a 1% year-on-year increase in interim consolidated net income to approximately ¥9 billion on a sales gain of 5% to ¥149.7 billion. Sales are being driven by rising orders for automotive headlamps, reflecting higher automobile production. On the other hand, sales of electronic devices were slower, but the slowdown was offset by gains in automotive parts.

#### **Furukawa Electric Likely to Post Strong Earnings (5801 TSE1)**

Furukawa Electric (Stock code: 5801) is likely to see its interim consolidated ordinary income rise by 71% to ¥18.5 billion on sales of ¥395 billion, up 5% year-on-year. Sales gains came from rising demand for optical communication equipment. Lower depreciation expenses and foreign exchange gains on loans to its U. S. subsidiary lifted profit.

#### **Earnings Outlook for Semiconductor Traders – A Mixed Picture**

More semiconductor traders are revising their current fiscal year earnings projections downward. Of the 38 major semiconductor traders, 13 have scaled down their full-year

forecasts, up from four in the previous fiscal year. The sales growth of the 37 major semiconductor traders is likely to average 3.7%, about half of the 7.6% recorded in the previous fiscal year. At a time when semiconductor traders handling only domestic products are suffering from sales declines, traders handling overseas semiconductor products are likely to report strong sales growth, suggesting that foreign manufacturers are raising the profile in the domestic market,.

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

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

**Mebix (3780 MTH)**

Mebix Co., Ltd., a Japanese IT firm specializing in the development and operation of support systems for clinical testing and providing services related to clinical testing on an outsourcing basis, will go public on the Mothers market of the Tokyo Stock Exchange on November 18. The company will offer 5,700 issued shares in its initial public offering. Of the total, 4,500 are newly issued shares and 1,200 are shares currently held in private. The tentative price range will be announced on October 28 and the fixed offering price will be announced on November 9. Daiwa Securities SMBC is the lead underwriter for the initial public offering.

**DATAPLACE (3781 NSE)**

DATAPLACE Co., Ltd., a Japanese data base distribution firm, will go public on the Nagoya Stock Exchange on November 17. The company will offer 3,000 newly issued shares in its initial public offering. The tentative price range will be announced on October 27 and the fixed offering price will be announced on November 7. HS Securities is the lead underwriter for the initial public offering.

**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>	2.1	3.9	7.9	-6.0	2.0	-12.9	-0.7	11.6	0.5	-4.2	-6.4	-5.4

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