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High-tech Sector

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NTT DoCoMo (9437 TSE1) Recapturing Lost Ground

The number of subscribers to NTT DoCoMo's (Stock code 9437) 3G mobile phones rose to 20 million as of the end of December 2005 and is expected to touch 23.5 million by March 2006. It is at this point that it will surpass KDDI (Stock code: 9433), the run-away leader in 3G phones so far. KDDI is forecasting a combined subscriber base for its 2.5G and 3G phones at 21.5 million as of the end of March 2006. Sales of Vodafone's 3G phones have been sluggish and its subscriber base was only 2.08 million as of the end of November 2005.

Japan's Machine Tool Manufacturers Set for Another Bumper Year

The Japan Machine Tool Manufacturers Association has announced a bullish forecast for 2006, which sees orders staying at the one trillion yen level for a third year in a row, but 7.7% lower than 2005. The bullish forecast sees strong demand from the automobile sector and expects demand from the digital consumer electronics sector to recover. Orders in the January-November period rose 10.3% year-on-year to ¥2.24 trillion.

Demand for Large-scale LCD Drivers to Show Strong Growth

Demand for drivers used in large-scale LCD televisions is expected to increase from 1.7 billion units recorded in 2004 to 4.3 billion units in 2009, according to a U.S.-based market research firm. This translates into a CAGR of 20.6%. Demand will be driven by rising output of TFT-LCD panels, the primary application, notebook PCs and LCD televisions. By application growth in driver output on the CAGR basis, will be 18% for LCD-monitor drivers, 16% for notebook-PC drivers and 49% for LCD-TV drives. However, sales growth will be lower than volume growth and will continue to be under intense pressure. To sustain revenue growth, manufacturers will have to switch to more powerful drivers and slash cost.

Outlook for Semiconductor and Flat Panel Production Equipment

Sales of semiconductor production equipment in fiscal 2005, the year ending March 2006, are expected to decline 7.4% year-on-year in 2005 to ¥1.99 trillion, according to SEAJ, the sector's trade body, due mainly to a reactionary decline from the ¥2.16 trillion record high posted in 2004. Orders are, however, set to recover in fiscal 2006, rising 8.5% from the previous year to ¥2.17 trillion, supported by a growing range of semiconductor applications, and rising output of flat-panel television. The industry association is also forecasting a 13.7% increase for fiscal 2007 and a 10.0% increase for fiscal 2008, when sales are forecast at ¥2.72 trillion. Sales of

production equipment for LCD panels fell 6.0% year-on-year in fiscal 2005 to ¥527.7 billion but should recover in fiscal 2006, rising 10% year-on-year to ¥580.5 billion, says the association. Sales growth will accelerate to 20% in fiscal 2007 but slow down to 10% in fiscal 2008, according to SEAJ forecasts.

Japan's Small-size LCD-panel Manufacturers Face Growing Competition from Asian Rivals

Japan's small-size LCD-panel manufacturers in 2005 shipped 35% more panels compared to the previous year, reflecting growing output of digital cameras and automotive devices, according to Techno Research, a high-tech research firm. However, prices slipped by about 50% during the same period. They are also facing growing competition from their South Korean and Taiwanese counterparts as they shift production to small-size LCD panels from those for notebook PCs and other applications. In response, manufacturers in Japan are stepping up research and development, building closer relations with customers and shifting to low-temperature poly-silicon TFTs to maintain their high market share.

Electronic Device Manufacturers Bullish on Capital Investment

Japan's 16 major electronic component manufacturers in fiscal 2005, the year ended March 2006, spent ¥492.7 billion for capital investment, up 10% year-on-year. Now, they are drawing up aggressive capital investment plans for fiscal 2006. Among those planning to hike capital investment are Murata Manufacturing (Stock code 6981), Alps Electric (Stock code: 6770), NIDEC (Stock code: 6594) and TDK (Stock code: 6762).

Measuring Instrument Manufacturers Bullish on 2006

More than 80% of Japan's precision instrument manufacturers expect total demand to rise in 2006, with 33.4% expecting total demand to increase by 10%-19%, according to a survey by a leading industrial daily. Another 44.4% expect demand to increase by a single-digit figure. The remaining 22.2% expect sales in 2006 to be largely unchanged from the previous fiscal year. As for the outlook for sales, 15% of measuring instrument manufacturers are forecasting a more than 20% increase in revenue, with 29.6% expecting a 10%-19% growth. Close to 40% of measuring instrument manufacturers expect sales to increase by a single-digit figure. Only 18.5% say that their sales will be largely unchanged from the previous year.

Semiconductor Market Outlook

Fiscal 2005, the year ending March 2006, is likely to be remembered as a year when losers were clearly separated from winners in the semiconductor market. The difference in the performance among companies manufacturing discrete products and those focusing on driver ICs etc., affected by stiff price competition became apparent. In fiscal 2005, overseas semiconductor manufacturers Intel, Samsung and TI, led by strong demand for mobile phones and personal computers, saw stronger growth than their Japanese counterparts in Japan whose core strength lies in digital consumer electronics. The outlook for major applications is as follows: Demand for personal computers and computer peripherals is expected to stay strong as demand grows in BRICS countries. The outlook for mobile phones is also good. Demand for flat-panel televisions should continue to grow strongly and that for MP3 players will experience explosive growth. On the other hand, demand for DSCs will be sluggish.

Consumer Electronic Sales to Increase in 2006

Sales of consumer electronic products in calendar 2006 in Japan are expected to increase 3%-4% from the previous year, following a similar growth in the second half of fiscal 2005.

Growth will be led by strong demand for digital consumer electronics, including flat-panel televisions, and DVD recorders, devices designed for lower power consumption and environmental load, and security-related devices.

India Retains Leadership Position in Offshore Outsourcing Market

India remained the most attractive country for outsourcing, according to a recent survey by AT Carnie, a high-tech research firm. It was followed by China and Malaysia. The findings of the survey were analyzed on the basis of three parameters: cost, labor skills, and business environment. India came out on the top with a score of 0.73 points, compared to the third-ranked Malaysia, which had a score of 0.57. The U. S. was ranked 11. It scored high for the availability of a diverse range of skills and excellent business environment, but its ranking was held down by the high level of cost.

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Iwai Securities (8707 TSE)

Iwai Securities Co., Ltd., a general securities firm, will list on the Tokyo Stock Exchange on February 8. The company will offer 6,320,000 shares to the public in its initial public offering. Of those 4,500,000 are newly issued shares and 1,820,000 are shares currently held in private. The tentative price range will be announced on January 20. The fixed offering price will be announced on January 30. Cosmo Securities is the lead underwriter of the offer.

Ground Financial Advisory (8783 JAQ)

Ground Financial Advisory Co., Ltd., a real estate sales and securitization services firm, will list on the JASDAQ Securities Exchange on February 10. The company will offer 2,750 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 750 are shares currently held in private. The tentative price range will be announced on January 23. The fixed offering price will be announced on February 1. The company plans to use the proceeds for launching new services and for hiring and training new employees. Daiwa Securities SMBC is the lead underwriter of the offer.

Housefreedom (8996 FSE)

Housefreedom Co., Ltd., a company specializing in real estate brokerage and the development of single-family housing in addition to construction contracting and casualty insurance agency services, will list on the Fukuoka Stock Exchange on February 10. The company will offer 8,000 shares to the public in its initial public offering. Of those 6,000 are newly issued shares and 2,000 are shares currently held in private. The tentative price range will be announced on January 20. The fixed offering price will be announced on January 31. D-Brain Securities is the lead underwriter of the offer.

PUBLIC (7830 JAQ)

PUBLIC Co., Ltd., a company manufacturing and marketing business furniture, will list on the JASDAQ Securities Exchange on February 14. The company will offer 920,000 shares to the public in its initial public offering. Of those 500,000 are newly issued shares and 420,000 are shares currently held in private. The tentative price range will be announced on January 25. The fixed offering price will be announced on February 3. The company plans to use the proceeds for loan repayment. Mitsubishi-UFJ Securities is the lead underwriter of the offer.

Toridoll (3397 MTH)

Toridoll Co., Ltd., a company operating a chain of independently located restaurants and restaurants in shopping centers, will list on the Mothers market of the Tokyo Stock Exchange

on February 15. The company will offer 2,500 shares to the public in its initial public offering. Of those 1,250 are newly issued shares and 1,250 are shares currently held in private. The underwriter has a green shoe option for offering an additional 350 shares in case of exceptional demand. The tentative price range will be announced on January 26. The fixed offering price will be announced on February 6. Daiwa Securities SMBC 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)
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
Jun	106.5	113.4	86.7	123.3	2,409	2,040	16,111	2,134	6,215	7,762	3,440	233
Jul	102.1	106.8	87.8	110.2	2,270	1,804	15,145	2,028	5,545	7,572	3,370	268
Aug	110.8	113.1	88.5	74.1	2,180	1,249	15,156	1,985	5,439	7,733	3,522	224
Sept	104.0	109.0	86.1	79.0	2,762	1,331	17,721	2,394	6,937	8,390	3,701	206
YoY	6.7	7.8	4.3	7.5	6.9	0.9	-5.1	3.9	4.7	5.8	-4.0	-0.3

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