



Vol . 201

High-tech Sector

Week ended March 19, 2006

Japan's Mobile Phone Handset Market to Expand in 2006

Demand for mobile phone handsets in 2006 will increase by more than 5% year-on-year in 2006, according to IDC Japan, a high-tech market research firm. In the first half, new spring models will drive the market. Number portability, to be introduced in November, will provide a tailwind in the second half. Mobile phone shipments in 2005 increased a lackluster 0.5% year-on-year to 44.32 million units, the first gain in two years. With the market shares of the three leading suppliers almost identical, the market is becoming increasingly competitive. With a market share of 17%, Panasonic Mobile Communications became the market leader for the first time, overtaking NEC (Stock code: 6701), the undisputed market leader so far. Sharp came in third, with a market share of 16%.

Foundries Experiencing Demand Recovery

Foundries are seeing demand for their services recovering strongly, after touching bottom sometime between the last quarter of 2004 and the first quarter of 2005. Demand has been rising steadily thereafter. TSMC, the largest foundry in Taiwan, was operating at more than its planned full capacity and capacity utilization at the second ranking UMC gradually rose to 86% in the fourth quarter of 2005. The capacity utilization rate at SMIC was 93% around the same time. The capacity utilization rate at MOS foundries was 94.3% in the fourth quarter of 2005, up from 91.3% in the previous quarter, according to SICAS's global semiconductor production capacity statistics.

Suburban Electronics Mass Merchandisers Target Urban Areas

Yamada Denki (Stock code: 9831), the largest consumer electronics chain in Japan, is muscling into city centers, strongholds of Yodobashi Camera and Bic Camera. Yamada Denki is advancing into city centers to drive revenue growth. Both Yodobashi Camera and Bic Camera played down Yamada Denki's new offensive. Midsize consumer electronics retailers, however, have been realigning themselves over the past few years, bracing for harsher competition with larger rivals.

Machine Tool Orders Up in February

Machinery orders in February were up 5.6% from the same month in 2004 to ¥112.7 billion, according to the Japan Machine Tool Builders Association. Monthly machine tool orders have been above their previous-year levels for 41 months in a row and above the ¥100 billion-level consecutively for 22 months. Orders are now at the pre-bubble level. However, orders fell 0.3% from the previous month. Domestic orders declined 1.9% year-on-year to ¥60.04 billion. Orders from the automobile sector were down 23.9%. However, overseas orders were up 15.7% to ¥52.74 billion.

Electrical Control Equipment Shipments to Increase Next Year

Shipments of electrical control equipment in fiscal 2006 are forecast to increase 3.4% year-on-year to a record ¥641 billion, according to the sector's trade association. The forecast assumes that orders from the automotive sector will stay strong and demand from the semiconductor sector will recover. Exports to China are also projected to be buoyant.

Sony's (6758 TSE1) New Game Box Launch Delayed

Sony Computer Entertainment announced Wednesday that its next-generation video game console will not hit the market until November. SCE officials blamed protracted negotiations on copyright protection technology for the delay of the Blu-ray Disc, which will be used for data storage in consoles. The larger issue for Sony, however, could be the delay's possible effect on the overall strategy for its next-generation DVD and microchips. Sony expects PlayStation3 to give momentum to Blu-ray in the battle for dominance against the HD-DVD format, a rival standard advocated by Toshiba (Stock code: 6502).

Electronic Component and Control Component Markets Recovering Steadily

According to a recent survey of electronic component and control component manufacturers by a leading industrial daily, a majority of respondents expect demand to recover steadily in fiscal 2006 and they are gearing up to respond to the expected higher demand. Of the total respondents, 75% feel that the market will be somewhat better. Those expecting the market to deteriorate totaled just 3%. Asked about the outlook for component prices, 45% said that they expect prices to decline by less than 10% while 28% felt that prices would be generally flat. On the other hand, 18% expect prices to rise by less than 10%.

Solar Cell Module Production Continues to Expand

Manufacturers of solar cell modules are stepping up production to meet growing demand. Japanese manufacturers account for about 60% of the global production, which in 2004 was up 1.6-fold from the previous year. Global demand in 2005 is estimated at 1,250 mega watts. In 2006, it should rise to 1,600 mega watts. Despite the bright outlook, concerns are rising about possible shortages of silicon used in the production of these modules, due mainly to an increasing demand from the semiconductor sector, which accounts for about 60% of total consumption.

eAccess (9427 TSE1) Selects Erickson as Infrastructure Equipment Supplier

eAccess has selected Erickson as a principal supplier for infrastructure equipment for the mobile phone business it plans to launch in 2007. Erickson has so far been unable to penetrate Japan's market and its sole major customer in Japan is Vodafone. Since most mobile phone carriers have at least two vendors, the question remains about which second vendor it will appoint, in addition to Erickson.

Non-contact IC Card Catches on in Japan

Non-contact IC cards are catching on in Japan, according to a recent survey by a leading industrial daily. According to the survey, about 60% of companies polled said they already have installed or plan to install systems for non-contact IC cards, suggesting that IC cards will become commonplace in two to three years.

Earnings Roundup

Profit Plunge at Cybozu (4776 TSE2) Temporary

Consolidated net income for the fiscal year ended January 2007 is likely to decline 23% year-on-year to ¥360 million despite a sales gain of 61% to ¥9.6 billion at Cybozu (Stock code: 4776). The profit decline is due mainly to temporary factors like surging personnel costs, reflecting explosive sales growth.

Casio Micronics (6760 JAQ) Projects Strong Profit Growth for FY to March 2007

Casio Micronics (Stock code:6760) is likely to post a 25% year-on-year increase in non-consolidated ordinary income to ¥2,500 million on a sales gain of 12% to ¥28 billion. The company says that sales will be driven by rising demand for LCD-related components. This will be the fifth straight year-on-year gain in ordinary income. The company is expected to report an 11% increase in ordinary income to ¥2,000 million on sales of ¥25 billion, up 6%.

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

Image Information (3803 HRLS)

Image Information Inc., an information technology services firm, will list on the Hercules market of the Osaka Securities Exchange on April 21. The company will offer 2,000 shares to the public in its initial public offering. Of those 1,700 are newly issued shares and 300 are shares currently held in private. The tentative price range will be announced on March 31. The fixed offering price will be announced on April 11. For the next fiscal year ending March 2007, the company is forecasting non-consolidated pretax profit of ¥261 million and net profit of ¥154 million on revenues of ¥1.6 billion, earnings per share of ¥17,311.01 and a dividend of ¥2,500. Shinko Securities is the lead underwriter of the offer.

KTK (3035 JAQ)

KTK Inc., an office supplies firm, will list on the JASDAQ Securities Exchange on April 18. The company will offer 650,000 shares to the public in its initial public offering. Of those 500,000 are newly issued shares and 150,000 are shares currently held in private. The tentative price range will be announced on March 29. The fixed offering price will be announced on April 7. For the current fiscal year ending May 20, 2006, the company is forecasting consolidated pretax profit of ¥246 million and net profit of ¥172 million on sales of ¥10.26 billion and an earnings per share of ¥47. Tokai Tokyo Securities is the lead underwriter of the offer.

Nepro Japan (9421 JAQ)

Nepro Japan Co., Ltd., a mobile phone handset marketing company, will list on the JASDAQ Securities Exchange on April 21. The company will offer 1,700 shares to the public in its initial public offering. Of those 760 are newly issued shares and 940 are shares currently held in private. The lead underwriter of the offer, Mitsubishi UFJ Securities, also has a green shoe option, allowing it to offer an additional 250 shares in the event of exceptional demand. The tentative price range will be announced on March 31. The fixed offering price will be announced on April 11. For the next fiscal year ending March 2007, the company forecasts a consolidated pretax profit of ¥751 million and net profit of ¥353 million on of ¥18.73 billion and an earnings per share of ¥41,005.

QOL (3034 HRLS)

QOL Co., Ltd., a pharmacy chain, will list on the Hercules market of the Osaka Securities Exchange on April 21. The company will offer 3,010 shares to the public in its initial public offering. Of those 1,500 are newly issued shares and 1,510 are shares currently held in private. The tentative price range will be announced on March 31. The fixed offering price will be announced on April 11. For the current fiscal year ending March 2006, the company is forecasting consolidated pretax profit of ¥752 million and net profit of ¥397 million on sales of ¥21.45 billion, an earnings per share of ¥28,929.21. Mizuho Investors Securities is the lead underwriter of the offer.

System Location (2480 JAQ)

System Location Co., Ltd., a company specializing in support services for car leasing firms, will list on the JASDAQ Securities Exchange on April 21. The company will offer 160,000 shares to the public in its initial public offering. Of those 40,000 are newly issued shares and 120,000 are shares currently held in private. The tentative price range will be announced on March 31. The fixed offering price will be announced on April 11. For the current fiscal year ending March 2006, the company forecasts a consolidated pretax profit of ¥318 million and net profit of ¥171 million on sales of ¥1.2 billion and an earnings per share of ¥148.58. Mizuho Investors Securities is the lead underwriter of the offer.

GOLD PAK (2589 JAQ)

GOLD PAK CO., LTD., a soft drink manufacturer, will list on the JASDAQ Securities Exchange on April 18. The company will offer 700,000 shares to the public in its initial public offering. All of those shares are currently held in private. The lead underwriter of the offer, Mitsubishi UFJ Securities, also has a green shoe option, allowing it to offer an additional 105,000 shares in the event of exceptional demand. The tentative price range will be announced on March 30. The fixed offering price will be announced on April 7. For the current fiscal year ending March 2007, the company forecasts a non-consolidated pretax profit of ¥1.6 billion and net profit of ¥910 million on of ¥45.1 billion and an earnings per share of ¥300.86.

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) |
|------|-------|-------|------|----------------------|--------------------|------------------|--------------------|-------------------|------------------------|--------------------|----------------------|------------------------------|
| 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 |
| June | 106.5 | 113.4 | 86.7 | 123.3 | 2,409 | 2,040 | 16,111 | 2,134 | 6,215 | 7,762 | 3,440 | 233 |
| July | 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 |
| Oct | 107.4 | 113.0 | 86.4 | 80.1 | 2,261 | 1,432 | 15,800 | 2,450 | 5,196 | 8,154 | 3,573 | 224 |
| Nov | 109.4 | 115.7 | 85.5 | 84.6 | 2,376 | 1,472 | 16,973 | 2,728 | 5,919 | 8,326 | 3,614 | 252 |
| Dec | 108.2 | 114.5 | 82.7 | 83.9 | 2,490 | 1,438 | 16,787 | 2,326 | 6,438 | 8,023 | 3,465 | 336 |
| YoY | 12.0 | 8.9 | 3.9 | 7.6 | 10.7 | 1.1 | 9.5 | 18.3 | 7.4 | 8.9 | 4.8 | -6.4 |

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