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High-tech Sector

Telecommunications Equipment Market Set for Recovery

Demand for telecommunications equipment, including optical telecommunications devices, will recover in 2004, according to iSuppli Corporation, a high-tech market research firm. Recovery should extend to all telecommunication device areas by the fourth quarter, the forecast claims. The compound annual growth rate of the sector, including carriers, enterprises and consumers, will average 7% from 2003 through 2007. The growth rate has been a minus 22% from the period, between 2000 and 2003. Optical semiconductors will experience the strongest growth in 2004, with global demand rising 14%. It will be followed by logic ICs, with an estimated growth rate of 9% and discrete ICs and micro parts, with growth rates estimated at around 6%.

Japan's SPE Market Forecast

Demand for semiconductor production equipment in Japan will rise an annual average rate of 20% from fiscal 2003 through fiscal 2006 but will slow down marginally in fiscal 2006. Helped also by extensive business restructuring and streamlining measures, the combined profit of the nine major Japanese SPE manufacturers in the fiscal year ending March 2004 will rise to ¥280,000 million, up from a loss of ¥56,200 million in the previous fiscal year. SPE manufacturers are stepping up capital investment for semiconductors, such as flash memories, CCDs, MOS sensors and display drivers, in which Japan has a lead. Investment in SPEs designed for the 300-mm wafer is also increasing.

Semiconductor Market Experiencing Dynamic Changes

Affected by the rapid growth of digital consumer electronic devices, the global semiconductor market is experiencing unprecedented structural changes. Demand for relatively less important items such as CCDs and FPD drives are witnessing explosive growth. Japanese semiconductor manufacturers have clear competitive advantages in these items. These two items are expected to grow into trillion yen markets in the next two to three years. Since most digital electronics manufacturers are based in Japan, Japan's semiconductor manufacturers are well positioned to take advantage of this trend.



NEC(6701 TSE1) Develops Unbreakable Code System

NEC has developed an encryption code system based on the quantum theory. The company also claimed that it has accomplished in extending the distance, to which it can be transmitted, to 150 kilometers, 1.5 times the transmission distance achieved so far. The company hopes that banks, credit card firms, government agencies will adopt the system since it can cover the entire Tokyo metropolitan area. Field tests are scheduled to start next fall.

JEITA Releases Global Forecasts for IT-related Devices

Demand for Read-write type of DVD decks in 2006 will be an estimated 88,000,000 units, up 284% compared to 2003, according to JEITA forecasts. Hybrid inkjet printers will see demand rising by 104% to 42,750,000 units during the same period. Demand for LCD displays should rise 102% to 101,691,000 units, the report estimates. Hard disk drives will experience a 43% increase in demand to 362,150,000 units.

IT Service Sector Sales Up in January

Sales of the IT service sector in Japan rose 2.0% in January, recording a fourth consecutive year-on-year gain in month sales, according to the Ministry of Economy, Trade and Industry. Although sales of custom software to the telecommunications sector fell in January, sales to the public sector, the financial industry and the manufacturing sector were up. As a result, aggregate sales of custom software were up 0.8%. Sales of system integration software rose 8.4%, maintaining the growth trend that started in late last year. Sales of system maintenance and operation software were up 14.3%, underpinned by strong demand from the financial and manufacturing sectors. Software product sales have also been strong, rising steadily for the past six months. Sales in January were up 13.2% year-on-year. Database service sales were up 3.8%. While overall demand is on the recovery path, profit margins are under severe pressure, particularly on custom software. This will likely affect IT service firms' March 2004 financial results.

Sharp (6753 TSE1) Becomes Global Leader in Solar Cells

Sharp was the leading supplier of solar cells in 2003, sustaining its leadership position for the fourth year in a row. Sharp's global market share in 2003 was 26.7%. Kyocera followed it with a market share estimated at 10.4%. Other major players in the market were the BP Solar Group, RWE and Mitsubishi Electric(6503 TSE1).

Shin-Etsu Chemical (4063 TSE1) to up 300-mm Wafer Production

Shin-Etsu Chemical plans to increase production of the 300-mm silicon wafer by 50% to 300,000 wafers/month by the end of the year. Intel and South Korea-based Samsung have already raised production and it is only now that Japanese suppliers are following suit. Toshiba(6502 TSE1) and NEC Electronics(6723 TSE1) also plan to hike production by the end of the year.



Canon (7751 TSE1) to Boost Production of Digital Cameras

Canon plans to boost production of digital cameras in 2004 by 75% from the previous year to 15 million units. The company's plans call for capturing a 22% share of the global market estimated at 70 million units.

Bankruptcies Decline in the Electrical Machinery Sector

Bankruptcies in the electrical machinery sector in February declined 24.4% to 34 from the same month a year earlier. Firms going belly up in February left ¥4,977 million in unpaid debt, down 71.4% from February 2003. An overwhelming majority, 82.3%, cited sluggish sales due to recession as the main reason forcing them out of business.

Japan Likely to have Entered Sustained Growth Phase

If the economic data for the last quarter of 2003, which showed the economy growing 6.4% over the previous quarter, is a guide, Japan's economy may have entered a period of sustained growth. Shipments have been rising steadily and bringing down inventories, which means that manufacturers will step up capital investment for boosting output to make up for depleted inventories.

Machine Tool Orders Up in February

Orders for machine tools in February rose 22.9% year-on-year to ¥84,500 million, according to the Japan Machine Tool Builders Association. This was the 17th consecutive year-on-year gain in monthly machine tool orders. Domestic orders increased 25.4% to ¥45,800 million and overseas orders were up 20% to ¥38,700 million. At home, rising production of digital home electronic items, replacement demand from small and medium size firms and higher automobile output drove orders. Overseas orders were underpinned by strong demand from China and other Asian countries. Combined orders at Japan's eight major machine tool builders rose 26.4% year-on-year to ¥31,037 million. The Toshiba Machine(6104 TSE1) Group reported the strongest growth, with orders up 71.1%. Orders were up 46.7% at Mori Seiki(6141 TSE1).

Taiwan's Share of Global LCD Panel Market Estimated at 41%

Sales of Taiwanese made displays in 2003 rose 46% to an estimated ¥1.2 trillion. The strong growth is expected to continue in 2004, with sales expected to rise 39% to ¥1.75 trillion, according to a report by PIDA, a trade body. The expected growth will be driven by TFT-LCD, PDP and OLED panels, the report claims. The report estimates that Taiwan will become a major supplier accounting for 31% of the global supply in 2006.

Earnings Roundup***ACCESS(4813 Mothers) Reports Strong Profit Rebound***

ACCESS, a company specializing in the development of Internet browsers for cell phones, reported consolidated ordinary income of ¥1,200 million for the fiscal year ended January 2004, surpassing the previous forecast by ¥290 million. It was a strong rebound from a ¥337 million loss in the previous fiscal year. Rising royalties, and lower R&D, advertising and personnel expenses, drove the profit rebound. Sales rose 24% to ¥8,797 million. Sales rose as royalties on browser software from NTT(9432 TSE1) increased sharply following the introduction of its 3G FOMA phones.

Tokyo Seimitsu (7729 TSE1) to Report Strong Profit

Tokyo Seimitsu is expected to report consolidated ordinary income of ¥5,400 million, a 4.3-fold increase from the previous fiscal year, on sales of ¥62,000 million, up 31%. Sales topped previous forecast by ¥2,000 million, reflecting stronger-than-expected demand for semiconductor production equipment. However, the company is expected to book a net loss of ¥3,700 million (against a ¥2,000 million net income forecast) as it moves up a ¥9,700 million extraordinary loss representing manufacturing cost of new products, to be launched in the new fiscal year starting April 2004.

Initial Public Offerings News (For detailed information, go to: <http://www.ipotokyo.com>)

Sogo Clinical Pharmacology (2399 Mothers) Sogo Clinical Pharmacology will list on the Tokyo Stock Exchange's Mothers market on April 8. The company specializes in clinical testing services. The company will offer 6,000 shares in its initial public offering. Of these, 3,000 are newly issued shares and 3,000 are existing shares. The company plans to use the funds raised from the IPO for capital expenditures, investment and loans and working capital. A tentative price range is to be announced on March 22.

Basic Electronics Industry Statistics

| | Prod | Ship. | Inv. | Capacity utilization | H. Elec. machinery | Cons. appliances | Electronics Sector | Cons. electronics | Industrial electronics | Semicon (Production) | Electronic devices | Consumer electronics (sales) |
|------|-------|-------|------|----------------------|--------------------|------------------|--------------------|-------------------|------------------------|----------------------|--------------------|------------------------------|
| Jan. | 90.9 | 95.2 | 83.9 | 72.0 | 1,953 | 1,255 | 14,010 | 1,302 | 5,837 | 3,140 | 6,871 | 336 |
| Feb. | 88.8 | 92.8 | 81.6 | 85.2 | 2,091 | 1,439 | 15,026 | 1,420 | 6,573 | 3,192 | 7,033 | 234 |
| Mar. | 88.6 | 88.7 | 84.4 | 107.7 | 3,155 | 1,691 | 19,029 | 1,748 | 9,561 | 3,456 | 7,720 | 266 |
| Apr. | 86.6 | 92.6 | 82.7 | 96.2 | 1,788 | 1,677 | 14,103 | 1,783 | 5,261 | 3,171 | 7,059 | 216 |
| May | 92.0 | 96.2 | 81.1 | 97.0 | 1,857 | 1,707 | 14,721 | 1,952 | 5,501 | 3,307 | 7,269 | 205 |
| June | 92.6 | 96.2 | 81.1 | 115.9 | 2,003 | 2,039 | 16,003 | 1,954 | 6,481 | 3,449 | 7,569 | 229 |
| July | 91.3 | 90.4 | 92.6 | 106.4 | 2,023 | 1,924 | 15,859 | 1,823 | 6,206 | 3,545 | 7,830 | 247 |
| Aug. | 91.2 | 95.8 | 87.0 | 60.5 | 1,771 | 1,165 | 14,332 | 1,577 | 5,593 | 3,388 | 7,362 | 230 |
| Sept | 94.1 | 96.4 | 82.7 | 74.3 | 2,495 | 1,313 | 18,078 | 2,314 | 7,335 | 3,761 | 8,430 | 209 |
| Oct. | 98.6 | 104.9 | 80.8 | 75.2 | 2,005 | 1,397 | 16,942 | 2,473 | 6,100 | 3,698 | 8,370 | 228 |
| Nov. | 99.4 | 99.8 | 81.8 | 74.1 | 1,913 | 1,465 | 16,360 | 2,310 | 5,897 | 3,611 | 8,153 | 244 |
| Dec. | 100.2 | 102.4 | 81.3 | 80.9 | 2,123 | 1,529 | 17,484 | 2,289 | 7,034 | 3,596 | 8,160 | 321 |
| YoY | 11.5 | 11.4 | -4.1 | 2.7 | -2.4 | 4.6 | 16.0 | 28.4 | 6.5 | 14.2 | 15.6 | -17.0 |

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

