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High-tech Sector

Week ended Aug. 8, 2004

Installation of 3G Ground Stations Accelerates Worldwide

Installation of ground stations for the third generation (W-CDMA) mobile phones is expected to accelerate worldwide. The number of W-CDMA ground stations worldwide is expected to reach 477,000, 4.7 times compared with the end of 2003, by the end of 2007 while the number of ground stations for the CDMA is likely to rise to 221,000, up 37.3% compared to the end of 2003, by the same time. Since NTT DoCoMo uses the W-CDMA system, it is expected to have a clear competitive advantage over its rival KDDI, which at present leads in 3G phones in Japan.

NTT DoCoMo (9437 TSE) Captures the Lead in July

The net increase in the number of mobile phone subscribers in July was 437,500. As a result the subscriber base rose to 83.15 million as of the end of July. NTT DoCoMo had the largest increase of 225,700 and was followed by KDDI with an increase of 219,700. NTT DoCoMo was in the top spot two months running. NTT DoCoMo is benefiting from its large subscriber base from which much of the replacement demand comes. Vodafone suffered a decline of 3,100 mainly because its revised rate structure did not appeal to mobile phone users. The Tsuka Group also suffered a decline in its customer base.

China's MCU Market Shows Strong Growth

Shipments of MCUs in China in 2003 totaled 3,180 million units, up 23.4% from the previous year. Sales amounted to 16650 million yuan, up 26.1%. About half of the total sales represented sales to the consumer electronic sector. Demand also grew in other major application areas, such as industrial machinery, telecommunications and automobiles. Demand for MCUs from the automotive sector is expected to post solid growth, with sales rising to 4,283 million yuan in 2008 from the 863 million yuan recorded in 2003.

Korean Semiconductor Manufacturers to Step Up CAPEX

The four major South Korean conglomerates are expected to invest a combined ¥16 trillion over the next five years. Samsung plans to invest approximately ¥7 trillion focusing on semiconductors and LCDs and LG roughly ¥5 trillion. Hyundai is planning investments to the tune of ¥2.2 trillion and capital investment at SK is likely to be around ¥1.5 trillion.



Japan's ERM Market to See Steady but Unimpressive Growth

Japan's enterprise resources management solutions market in 2003 increased 2.6% to ¥767.3 billion, according to IDC Japan, a high-tech market research firm. Since there are no market stimulating factors on the horizon, the research firm predicts an average annual growth rate of 2.5% through 2008.

Japan's LCD Manufacturing Sector is Consolidating

After attempts at many configurations, finally Hitachi, Matsushita and Toshiba have agreed to jointly produce LCD panels. Earlier, Hitachi and Sony were negotiating for forming a partnership in LCD panels. Then came negotiations between Sharp, Matsushita and Toshiba. Attempts at both combinations failed. Except Sharp, Japanese LCD panel manufacturers do not have the resources to make the heavy investments required in this business and as a result they are focusing on small- to medium-size panels, where prices are relatively stable.

Miniature Inductor Demand Rises

Demand for miniature inverters for use in digital consumer electronic items such as digital cameras, mobile phones, notebook PCs and DVDs is rising. As a result, production of high-frequency chip inductors and power inductors is rising sharply. Production in Japan in 2004 is expected to increase to ¥26 billion, up from 24.3 billion recorded in 2003. Japanese producers dominate the market for the state-of-the-art miniature inductors.

Japan's e-learning Market Set for Explosive Growth

Japan's e-learning market, estimated at ¥170 billion in 2003, is expected to reach ¥648.4 billion in 2010, according to ALIC, a research firm. High-school education programs are expected to account for ¥172.7 billion while corporate educational programs will represent ¥282.2 billion. Vocational training programs will account for ¥122.8 billion. Other types of educational programs, including life-long educational programs, will represent ¥42.7 billion.

Machine Tool Orders Continue to Rise

Orders for machine tools at Japan's 11 leading machine tool manufacturers rose a combined 65.6% year-on-year in June. Orders in the first six months of 2004 were up 42.0% year-on-year. In June, orders rose 2.2 times at Toshiba Machine Co. and were up 2.1 times at Toyoda Machine Works.

Earnings Roundup***Electronic Component Manufacturers Cautious on Upward Revisions***

Despite full order books and a strong rebound in earnings in the first quarter, Japan's electronic component manufacturers have been cautious, with many opting for not revising upward their forecasts for the current fiscal year. This is mainly because it has become more difficult to forecast, given the upcoming US elections, an uncertain global economic outlook and delays in orders from set makers for components for products to be shipped for the Christmas season as they want to shorten lead times to avoid risk.



**First Quarter Net Up at ROHM
(6963 TSE)**

ROHM reported a 27% year-on-year increase in consolidated net income to ¥7,600 million for the first quarter ended June 2004. Sales were up 10% to ¥97,900 million. Sales were driven by strong demand for LSI for digital AV equipment and its successful diversification into LCD parts. However, component prices have been falling faster than expected and concerns as to whether the good times will continue have started to surface.

**First Quarter Net Income Up 177%
at Nichicon (6996 TSE)**

Nichicon reported a 177.1% year-on-year gain in consolidated net income for the first quarter ended June 2004 to ¥1.3 billion on a sales gain of 8.1% to ¥26.7 billion. Ordinary income increased 98.5% to ¥2.0 billion. In addition to higher sales, the company benefited from operational streamlining which included consolidation of its manufacturing and marketing networks.

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

Ninety-nine Plus (3338 Jasdaq)

Ninety-nine Plus, Inc., an operator of single-price discount stores, will list on the JASDAQ market on September 9. The company will offer 3,000 newly issued shares to the public in its initial public offering. Ninety-nine Plus also has a green shoe option, allowing it to offer an additional 450 shares. The fixed offering price will be announced on August 31. Nomura Securities is the lead underwriter for the offer. The company expects to raise ¥1.67 billion from the IPO, and plans to use the proceeds for capital expenditure.



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)
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	7,830	3,545	247
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	7,362	3,388	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	8,160	3,596	321
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	3,629	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	89.6	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	10,950	1,502	1,927	7,521	3,750	219
June	102.2	107.6	82.0									248
YoY	12.3	13.7	0.3	-2.7	6.3	1.4	10.8	13.2	4.2	15.2	13.4	8.4

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

