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## *High-tech Sector*

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### **IP Phone subscriber Growth Accelerates in Japan**

The number of fixed-line IP telephone service subscribers in Japan continues to grow, totaling 13.75 million as of the end of December 2006. That's an increase of 29.7% from a year earlier. NTT East has made notable progress, increasing its market share from 6.2% at the end of June to 9.9%. Softbank BB saw its share fall from 39.8% to 35.2% during the same period, but it remained the leading service provider. The number of mobile phone subscribers, including PHS subscribers, rose to 99.8 million, up 2.2% from June. In Internet connection service, subscriptions to the FTTH service rose further, by 25.9% in the June to December period. NTT continued to boost its market share at the expense of service providers related to electric power companies.

### **Mobile Phones Sales– Sharp (6753 TSE1) Expands Market Share**

Sharp (Stock code: 6753) increased its 2006 share of Japan's mobile phone market by 4.4 percentage points to 19.6%, recapturing the top spot. It was a notable gain over 2005, when Sharp was in third place among mobile phone vendors, and largely reflected a surge in shipments to NTT DoCoMo and Softbank Mobile. Panasonic Mobile had a different story to tell, as its market share declined 2.9 percentage points to 13.2%. Total mobile phone sale in Japan rose 5.1% to 47.26 million units, the second largest annual sales yet seen. Sales gains are primarily attributed to the start of number portability, a system that allows subscribers to take their phone numbers with them if they switch service providers.

### **YouTube Users' Ranks Continue to Grow in Japan**

February was a good month for YouTube, as a total of more than 10 million Japanese accessed the site for the first time, according to Net Rating, an Internet user survey firm. Page views totaled 625 million. Only 18 Japanese portal sites, including Yahoo and Rakuten, had traffic exceeding 10 million.

### **Japan Electronic Component Manufacturers Step Up Capital Investment – Unprecedented Boom**

Japan's eleven leading electronic component manufacturers increased capital investment to 377.3 billion in fiscal 2006, a sharp increase from the previous fiscal year, reflecting strong demand for electronic components—and a need to hike capital investment in order to maintain their lead against intensifying global competition. Industry insiders expect the trend to continue in fiscal 2007, as component manufacturers try to keep up with rising output at set manufacturers. Murata Manufacturing (Stock code: 6981) stood out among its peers, investing more than 100 billion yen. Other leading firms expanding investments are TDK (Stock code: 6762) and Taiyo Yuden (Stock code: 6976).

### **Open Source OS Gaining Popularity**

The LINUX open source operating system is fast finding popularity in the Japanese corporate sector, on the strength of the clear advantages it offers in terms of installation and maintenance costs. Businesses are expanding use of LINUX-based middleware and OS, and software service firms are offering OSS systems, either independently or through tie-ups with foreign vendors. Japan's LINUX business market is projected to increase from 350 billion yen in 2006 to 576 billion in 2009. System integration will account for 260 billion of the total, while support services will represent 165 billion, according to industry sources.

### **Asian Semiconductor Market Poised for Turnaround**

The Asian semiconductor market will grow at an annual rate of around 10% in 2007, matching the performance of the previous fiscal year, according to high-tech market research firm I-Supply. The forecast is based on the DG ratio for semiconductors and electronic components, which stood at 1.1 in January, unchanged from December 2006. Since Taiwan's foundries started marketing graphic chips in February, the semiconductor market could well bottom out in the first quarter of 2007, I-Supply added. We could see production rising after May, as manufacturers ramp up output to cope with demand created by Vista, Microsoft's new operating system, dual core MPUs and higher memory requirements for more powerful PCs.

### **Crystal Devices Production to Stay at High Levels in FY2007**

Production of crystal devices in Japan in fiscal year 2007, the year ending March 2008, is likely to continue to grow at a high pace: up 13% year-on-year in volume to 9.2 billion devices, and up 6.7% in value to 280.1 billion yen, according to a recent forecast by QIAJ, the sector's trade body. Production volume in FY2006 will increase by an estimated 17.3% to 8.1 billion devices, valued at 262.4 billion, up 13.7%. Production of industrial-use crystal oscillators is likely to be up 23.3% in volume and 15.4% in value. According to the trade body, demand for crystal oscillators for automotive use is propelling growth in Japan.

### **FPD TV Shipments Continued to Surge in February**

FPD television sets accounted for close to 80% of all TV shipments in Japan in February, according to JEITA, the electronic sector's trade association. February shipments of color television sets totaled 576,000 units, up 5.6% from the same month a year earlier. Of the total, CRTs represented 13% and PDPs 9.1%, with LCDs accounting for the rest. Shipments of LCD TVs smaller than 29" rose 46%, and in the 30-36" category by 50%. The 36" and larger category registered the highest growth, as shipments increased 2.6 times to 100,000 units.

### **Taiwan's Consumer Electronics Manufacturers Continue to Forge Ahead**

Having won almost total domination of the global PC market, Taiwan's consumer electronics manufacturers are now raising their profile in digital consumer electronics and mobile communication devices, taking advantage of the ongoing fusion of information, communication and broadcasting media. Combined sales of the 3-07 Taiwanese listed electronics firms rose 18.3% year-on-year in 2006, with the top 50 posting an 80% gain.

### **Earnings Roundup**

#### **Ricoh's (7752 TSE1) Net Profit Seen Up 18% At Y130bn In FY07**

Ricoh Co.'s (Stock code: 7752) consolidated net income is projected to rise 18% to around 130 billion yen for the fiscal year through March 2008, for a third straight year of record results, on sales of 2.24 trillion yen, up 9%. The secret of success is increased sales of copiers and laser printers. Sales will rise in part due to acquisitions: of IBM Corp.'s digital business printer operations, and of the European business of U.S. office equipment firm Danka Business Systems Plc. Ricoh is expected to raise its annual dividend by 7 yen to around 35 yen per share, and its consolidated payout ratio looks likely to rise more than 1 percentage point, to around 20%. For the current fiscal year, ending March 31, sales are projected at some 2.06 trillion yen,

up 8%. Net profit is expected to climb 13% to about 110 billion yen, topping the 100 billion yen mark for the first time. Ricoh will likely make an annual dividend payout of 28 yen per share, up 4 yen.

### **Kyocera (6971 TSE1), TDK (6762 TSE1), Murata (6981 TSE1) Seen Posting Higher Profits In FY07**

Japan's leading electronic parts manufacturers, Kyocera (Stock code: 6971), TDK (Stock code: 6762) and Murata Mfg. (Stock code: 6981) are heading for higher sales and profits in the year ending March 2008, according to analyst forecasts compiled by a leading stock market information service firm. These bullish outlooks reflect rising global shipments of cellular phones, personal computers, LCD televisions and other electronic products. Murata, the global leader in the segment, will raise its output capacity by 15-20% in the first half of fiscal 2007, and second-ranked TDK will also add capacity. The three firms' consolidated incomes before income taxes are projected to grow by 10-13% year-on-year, climbing from 150 billion yen to 166.8 billion yen at Kyocera, from 89 billion yen to 98 billion yen at TDK, and from 118 billion yen to 133 billion yen at Murata.

### **Initial Public Offerings**

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

### **Jason (3080 HRLS)**

Jason Co., Ltd., a grocery store operator, will list on the Osaka Securities Exchange's Hercules market on April 26. The company will offer to the public 1.3 million shares currently held privately. The tentative price range will be announced April 5. The offering price will be announced April 16. For the fiscal year ended February 2007, the company forecasts consolidated net profit of 385 million yen on revenue of 14.74 billion yen, and earnings per share of 30.05 yen. Ichiyoshi Securities 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)
<b>Feb</b>	108.2	112.3	81.8	94.8	2,440	1,500	16,763	2,055	6,704	8,005	3,572	181
<b>Mar</b>	101.4	109.7	81.4	103.4	3,440	1,549	20,718	2,305	9,447	8,967	4,103	225
<b>Apr</b>	106.9	110.1	86.9	101.6	2,244	1,698	15,977	2,308	5,655	8,014	3,586	214
<b>May</b>	105.6	113.5	85.6	98.6	2,118	1,585	15,650	2,300	5,218	8,132	3,681	205
<b>June</b>	109.6	115.6	86.7	116.7	2,523	1,902	17,173	2,370	6,292	8,810	3,780	227
<b>July</b>	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
<b>Aug</b>	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
<b>Sept</b>	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
<b>Oct</b>	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
<b>Nov</b>	112.9	118.2	85.0	82.9	2,507	1,545	17,643	2,939	5,972	8,731	3,823	238
<b>Dec</b>	111.6	116.0	83.6	85.4	2,568	1,771	16,809	2,468	6,005	8,337	3,544	306
<b>Jan</b>	110.8	116.8	82.9	76.4	2,327	1,342	15,193	1,657	5,335	8,201	3,626	258
<b>YoY</b>	0.1	0.3	0.6	-5.8	5.9	4.0	1.5	-5.3	-1.6	5.1	3.0	-7.6

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