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## *High-tech Sector*

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### **Japan's Mobile Phone Market Matures – Focus Shifts to Value-added Services**

With subscriber growth slowing to less than 5 million subscribers per year for two years in a row, Japan's mobile phone market has clearly matured. As competition for subscriber heats up, mobile phone manufacturers are launching new models with value-added functions, such as TV and music reception. Although the total pie is expanding at a snails pace, KKDI (Stock code: 9433) has benefited significantly following the introduction of number portability as 148,300 subscribers from the two other major carriers switched to KDDI.

### **Japan's Mobile Phone Subscribers Not Actively Switching Service Providers**

Japan introduced the number portability system in October 2006 but customer response has been lukewarm at best. Only 1.99 million subscribers, or one in about 50, switched from their current service providers. KDDI was the runaway leader, attracting 816,000 subscribers from other carriers. As of the end of March, there were 96.7 million mobile phone subscribers in Japan. NTT DoCoMo (Stock code: 9437) was the leading carrier, with a share 54.4%. KDDI had a share of 29.1% (up from 27.7% from March 2006) and SoftBank (Stock code: 9984) 16.4%.

### **Taiwan's Semiconductors Producers Have a Bumper Year –Step Up CAPEX in 2007**

Semiconductor production in Taiwan in 2006 rose 24.6% to NT\$1.9 trillion, according to the Taiwan Semiconductor Industry Association. In response to growing demand for their chips, Taiwan's semiconductor manufacturers are stepping up capital investment. TSMC plans to increase capital investment to NT\$2,800 million in 2007 up from NT\$2,457 million in 2006. Nanya will invest NT\$1,800 million in 2007, up sharply from NT\$120 million in 2006. UMC, Powerchip, and ProMos are also planning to invest more in 2007. Winbond is the only major semiconductor manufacturer in Taiwan planning investment cuts. It plans to invest NT\$255 million, down from NT\$636 it invested in 2006.

### **PCB Output to Increase Marginally in 2007**

Production of printed circuit boards in Japan in 2007 will increase only 1.9% year-on-year to 1.33 trillion, according to the Japan Printed Circuit Board Association. The slowdown comes after a robust 16.6% gain in 2006 to 1.31 trillion yen in 2006. Demand for printed circuit boards recovered in 2005 and has stayed at high levels since then. While the over production growth in 2007 will be much slower, certain categories of PCBs are expected to show solid growth. Output of multi-layer built-up type PCBs is likely to be up 7.5%

### **Earnings Roundup**

### **Nintendo (7974 TSE1) Likely to Post Strong Profit Growth**

Nintendo (Stock code: 7974) is expected to post a consolidated income before taxes of about 260 billion yen for the year ended March 31, up 62%, on stronger-than-expected sales of its DS hand-held game device and compatible games, which drove up sales 90% to 966 billion yen. Its net profit is believed to have risen 47% to roughly 145 billion yen, beating the forecast by about 25 billion yen. DS sales worldwide are likely to have surpassed the firm's target of 23 million units. Nintendo's policy is to distribute 33% of consolidated operating profit or 50% of net profit, whichever is higher, as dividends. According, Nintendo stands to pay out half its net profit, which adds up to more than 550 yen a share, topping the projection of 480 yen.

### **FY 2007 Pre-tax Profit to Show Strong Growth**

Japanese listed firms are likely to post a 12% gain in consolidated pretax profit to a combined 34.19 trillion yen for fiscal 2007, according to forecasts by The Nikkei, a leading Japanese economic daily. The projections are based on 1,592 companies with March book-closings, excluding financial firms and those trading on the three markets for start-ups. Precision equipment makers are expected to post double-digit pretax profit growth. They will be aided by improved profitability of color photocopiers, which are growing in popularity in Europe and the U.S. Machinery manufacturers, are likely to post double-digit growth again this fiscal year. On the other hand, nonferrous-metal companies and others in the basic materials sector will likely see profit growth slow.

### **S.E.S (6290 JAQ) Likely to Double Pre-tax Profit**

S.E.S. (Stock code: 6290), a manufacturer of equipment for cleaning semiconductor wafers, is expected to post consolidated pretax profit of approximately 2.5 billion yen, up 100%, on a sales gain of 10% year-on-year to 24 billion yen for the year through March 2008. Demand for such equipment is growing as chipmakers boost output to keep up with rising sales of cellular phones and digital home electronics. Devices for cleaning solar cells are also seeing growing demand. Based on its targeted payout ratio of 30%, S.E.S. is expected to raise its annual dividend payout to 27 yen for fiscal 2007, an increase of 2 yen from the previous year.

### **Kenwood (6765 TSE1) Sharply Scales Down Earnings Forecast**

Kenwood (Stock code: 6765) revised its consolidated net profit forecast to a decline of 87% year-on-year to 800 million yen for the year ended March 31 due to slower-than-expected sales of car audio products in the U.S. and Europe. Kenwood, which had expected sales to remain flat at 185 billion yen, now sees them falling 7% to 171 billion yen. The main factor for the decline was sluggish results at the company's mainstay car electronics business, which accounts for approximately 60% of its revenue. Kenwood, however, plans to maintain its annual dividend at 2 yen per share.

### **Initial Public Offerings**

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

No new initial public offerings were approved during the week.

### 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