



Vol . 234

## *High-tech Sector*

Week ended April 15, 2007

### **Semiconductor Demand to Recover in 2007 Second Half**

Semiconductor inventories might still be on the rise, and uncertainty the best description of the immediate market situation, but demand should start to pick up in the second half. That's the perspective of JEITA, an electronics industry trade body. The association sees three positive forces in play: NAND flash memory inventory adjustment should run its course by the end of spring; overall demand will get a lift from Microsoft's new Vista OS; and the approach of the Beijing Olympics will boost sales of consumer electronics.

### **Outlook for Photo Mask Market**

Global photo mask demand in 2006 was 320 billion yen, an increase of 4.4% from the previous year. While shipments of high-end masks for the 65nm process are rising, prices are on the skids in the volume zone of low- and middle-end process masks. As a result, overall market growth is likely to be held to single digits. Toppan Printing (Stock code: 7911) was the largest supplier last year, with a market share of 28.3%. The second ranked Dai Nippon Printing (Stock code: 7912) was close behind at 21.7%. Other major players were Photonics (13.2%) and Hoya (6.0%). Industry insiders expect the market to look up from late 2007, supported by growing production of electronic devices.

### **Profit Proves to be Elusive for TFT Panel Manufacturers**

Manufacturers of TFT-LCD panels are finding it extremely difficult to make money. The average operating profit margin of the five leading producers in 2006 shrank to a mere 2.2%. LG Phillips reported an operating loss, as did Taiwan-based CPT and Hannstar. Sharp (Stock code: 6753) was the only player with a healthy profit margin, and that a robust 7.6%. South Korean manufacturers plan to stanch the red ink by slashing capital investment in 2007 by 40% to 60%. Sharp, on the other hand, plans to increase capital spending by about 3%.

### **Sony (6540 TSE1) Ready to Start Mass Production of OLED TVs**

Sony (Stock code: 6540) says that it has perfected technology for the mass production of OLED panels and plans to ship 1,000 11-inch OLED TVs by the end of the year. Toshiba has also announced that it will start producing 32-inch OLED panels and commercialize them in OLED TVs in 2009.

### **Machinery Orders Slow Down in February**

Machinery orders (excluding ships and electric power sectors) declined by 5.2% over the previous month to 1.4 trillion yen, according to government statistics. Orders from the manufacturing sector fell 9.0%. Orders from the electrical machinery sector, included in the manufacturing sector, were down 29.7%, largely due to a slowdown in orders for semiconductor

production equipment amid global inventory adjustment in the IT sector. On the other hand, orders from the non-manufacturing sector increased 0.1%.

### **Optical Industry Expands in FY2006**

Japan's optical industry, including semiconductor laser devices for communications applications, semiconductor laser devices for optical disks and LEDs, saw output increase 5.3% in fiscal 2006, to 7.9 trillion yen, according to industry sources. In this fiscal year, production is projected to rise by 3.8%. Optical fiber was the star of 2006, recording growth of 10.8%, and it is expected to continue to drive growth in fiscal 2007. The future looks less bright for LED, with output in fiscal 2007 likely to fall for the third year in a row.

### **Drive Recorder Market Poised for Solid Growth**

Production of drive recorders in 2006 more than doubled from the previous year to 100,000 units, according to Yano Research Institute. Demand will grow steadily through 2012, when it will reach 500,000 units with a value of 18,000 million yen, the Institute added. Drive recorders are fitted on the front glass of a car and videotape the movement of the car. The information is useful in case the car is involved in an accident.

### **Consumer Electronics Shipments Up in February**

February shipments of consumer electronics in Japan rose 16.3% year-on-year to 206.3 billion. Visual equipment, led by flat panel televisions, grew 26.6% to record a seventh year-on-year gain in monthly shipments. Shipments of audio devices moved the other way to fall 10.7%, mainly reflecting an extraordinary surge in shipments in the same month a year earlier. CAR AVC device shipments increased 6.9%, lifted by brisk demand for car navigation systems.

### **Domestic Production of Converter Components Continues to Slip**

Production of converter components in Japan declined 17.7% year-on-year to 48.1 billion yen, according to government statistics. Converter components include magnetic heads, small motors, micro robots, speakers, pickups, etc. Production has been falling since 2003, when it reached 94.6 billion yen. The decline is largely attributable to a shift to overseas production. Forecasts see output declining to 44.4 billion yen in 2007.

### **Earnings Roundup**

#### **Capcom (9697 TSE1) Likely To Report 43% Pretax Profit Jump For FY06**

Capcom (Stock code: 9697) is expected to report a consolidated pretax profit of around 10 billion yen for the fiscal year ended March 31, an increase of 43% on the year. Brisk sales of games for the PlayStation Portable and other systems pushed up sales by 4% to 73 billion yen, and operating income is likely to have increased 37% to roughly 9 billion yen, due in part to foreign exchange gains on dollar-denominated assets. The initial forecast for operating profit was 7.3 billion yen. Net profit is believed to have dipped 21% to about 5.5 billion yen. The initial projection was 4.4 billion yen.

#### **TDK (6762 TSE1) expected to Post 45% Increase in Net Income**

TDK (stock code: 6762) is expected to report a net income gain of 45% to a record 64 billion yen for the year ended March 31, on the strength of increased sales of electronic components for digital home appliances and cell phones. Sales climbed an estimated 8% to around 855 billion yen, beating the previous forecast. Pretax profit likely rose 33% to about 88 billion yen. The effect of lower prices for electronics parts was offset by higher volumes.

#### **Shin-Etsu Chem's (4063 TSE1) Net Income Likely Increased 34% In FY06**

Shin-Etsu Chemical (Stock code: 4063) is expected to post a 34% rise in consolidated net income to about 154 billion yen in the year ended March 31, amid growing global demand for

silicon wafers for semiconductors. Sales rose 15% to roughly 1.3 trillion yen as the firm benefited from a worldwide expansion in production of memory chips, as well as rising prices amid tight supply. The company announced that it will increase its annual dividend by 35 yen to 70 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>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	257
<b>Feb</b>	109.7#	116.3#	82.8#									178
<b>YoY</b>	1.4	3.6	1.2	-5.8	5.9	4.0	1.5	-5.3	-1.6	5.1	3.0	-1.7

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