



Vol . 238

## *High-tech Sector*

Week ended May 13, 2007

### **NTT DoCoMo (9437 TSE1) Continues to Lose Subscribers**

NTT DoCoMo (Stock code: 9437) has continued to lose subscribers following the introduction of the number portability system in Japan, which allows subscribers to change their carrier while still retaining their original cell phone number. In April, NTT DoCoMo lost 89,400 subscribers to rivals. It was the seventh consecutive outflow of subscribers for the company. Softbank Mobile, one of the three major carriers, saw an increase in subscribers switching to its service for the first time, as 4,700 subscribers switched to it from the other two carriers. A total of 84,700 cell phone users switched to KDDI (Stock code: 9433). According to government statistics, approximately two million subscribers have switched carriers following the introduction of the number portability system in October 2006.

### **Smart Phone Market Set for Strong Growth**

The global smart phone market in 2006 expanded 45.2% to 143.5 million units, according to Yano Economic Research Institute. The market in Japan increased 36.0% to 33.5 million units. The think tank estimates show the market growing to 349 million units in 2009.

### **SNS Catching on in Japan**

Social Networking Service (SNS) is winning popularity among local government bodies and large corporations. SNS membership was 10 million members as of the end of March 2007, according to government statistics. A recent survey showed that 70% of local government bodies were interested in introducing SNS systems. Close to 30% of corporations covered in survey also showed interest in SNS services.

### **SPE Investment to Stay Strong in Japan**

Japan's seven major semiconductor manufacturers will invest a combined 970 billion yen in semiconductor manufacturing facilities in fiscal 2007, the year ending March 2008. Although the figure is lower than it was in fiscal 2006, it is still the third highest over the years. Japan's semiconductor manufacturers are stepping up investment to cope with demand for semiconductors going into mobile phones, digital consumer appliances and personal computers. Toshiba (Stock code: 6502) and Elpida Memory (Stock code: 6665), the two Japanese semiconductor manufacturers reported strong profit in FY2006, after having drawn up particularly aggressive investment plans.

### **Japan's Machine Tool Demands Peaks Out**

While machine tool exports, underpinned by strong demand from emerging markets like India, have shown strong growth, demand from the domestic market seems to be peaking. Domestic demand in Japan slipped 2% year-on-year in fiscal 2006 to 731 billion yen, the first drop in seven year. On the contrary, overseas demand has been rising at about 20%. Assuming that

export demand remains strong and that domestic demand from the auto sector will revive, industry experts expect total demand to reach 1.5 trillion yen in fiscal 2007.

### **RFID/Non-contact IC Cards Coming into Their Own**

RFID and non-contact IC cards are entering the rapid growth phase, with RFID showing explosive growth. Following a strong FY2006, when RFID card demand surged 12.9% or 36.4 billion yen, industry experts expect another surge in demand in FY2007, when the market is expected to grow 10.9% to 280.7 billion.

## **Earnings Roundup**

### **Pre-tax Profits of Publicly Traded Firms up in FY2006**

Pre-tax profits of publicly traded companies hit record highs for the fourth consecutive year in fiscal 2006, increasing 12.2%, according to data compiled Nikkei, a leading Japanese economic daily. The data covered 665 listed non-financial companies with March book-closings, excluding those listed on the markets for start-ups. Manufacturers of machinery and nonferrous metal, as well as trading houses, saw 20-30% gains in pretax profit. A weaker yen boosted profits of the five major automakers by a combined 541.2 billion yen. Electronics manufacturers posted 21% growth in pre-tax profit as the flat-panel television market expanded. For the year ending March 2008, the 665 firms projected their pre-tax profits will increase an average of 1.1%, reflecting their concerns about the U.S. economy and a possible strengthening of the yen. Projections tend to be conservative at the beginning of a fiscal year.

### **Tokyo Electron (8035 TSE1) Posts Stonr Profit Growth**

Tokyo Electron (Stock code: 8035) said on Friday that its net profit in the fourth quarter rose to Y27.0 billion, from Y13.8 billion a year earlier on consolidated sales of 251.3 billion, up 28.6% YoY. For the full fiscal year through March, Tokyo Electron said its group net profit rose 90% to a record high of Y91.26 billion from Y48.00 billion a year earlier. Sales also hit a new record, up 26.5% to Y851.98 billion from Y673.69 billion. For the current fiscal year, Tokyo Electron forecasts Y104 billion in group net profit and Y900 billion in sales.

### **Mori Seiki (6141 OSE1) Posts Strong Profit Gains**

Mori Seiki (Stock code: 6141) reported consolidated pre-tax profit of 24.7 billion yen for the year ended March 31, up 55% on strong demand for its machine tools, which lifted sales by 19% to 172.2 billion yen. Its overseas sales increased 25% as demand grew for machine tools used to build power plants and produce oil drilling equipment. Foreign exchange gains contributed 6 billion yen to the gain. The company's net profit rose 17% to 16.1 billion yen, with its annual dividend increasing from 4 yen to 44 yen. For the year ending March 2008, sales are expected to climb 9% to 188 billion yen, boosting its pre-tax profit by 13% to 28 billion yen. The company plans to raise its annual dividend payout by 6 yen to 50 yen.

### **Sega Sammy (6460 TSE1) Reports Lower Net Income**

Sega Sammy Holdings (Stick code: 6460) said on Friday that its net income fell 34% for the year ended March as weak sales of *pachinko* machines took their toll on profitability. Sega Sammy posted a consolidated net income of Y43.46 billion for last fiscal 2006, down from a net profit of Y66.2 billion during the previous year. Group sales declined 4.5% to Y528.24 billion from Y553.24 billion. The company is predicting a group net income of Y35 billion in FY2007, despite higher revenue of Y670 billion.

## **Initial Public Offerings**

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

**Trust Works (2154 JAQ)**

Trust Works Inc., a staffing agency, will list on the JASDAQ Securities Exchange on June 6. The company will offer 3,500 shares to the public in its initial public offering. Of those, 1,000 are newly issued shares and 2,500 are shares currently held in private. Daiwa Securities SMBC, the lead underwriter of the offer, has a green shoe option to offer an additional 525 shares currently held in private in case of exceptional demand. The tentative price range will be announced on May 17. For the current fiscal year through June 2007, the company forecasts a consolidated pre-tax income of Y 544.7 million and net income of Y348.9 million on revenue of Y9.16 billion and earnings per share of Y 18,411.

**NTT DATA Intramart (3850 MTH)**

NTT Data Intramart Corp., a developer of software for web-based system, will list on the Mothers Market of the Tokyo Stock Exchange on June 7. The company will offer 4,500 shares to the public in its initial public offering. Of those, 3,200 are newly issued shares. The remaining 1,300 are shares currently held in private, including 700 shares to be offered by NTT Data Corp. Daiwa Securities SMBC, the lead underwriter of the offer, has a green shoe option to offer additional 675 shares in the event of exceptional demand. The tentative price range will be announced on May 18. The company expects to net 577.2 million yen from the IPO. For the current fiscal year through March 2008, the company forecasts a non-consolidated pre-tax profit of 300 million yen, and net income of 169 million yen on revenue of Y2.53 billion.

**Takagi Seiko (4242 JAQ)**

Japan's Takagi Seiko Co., a plastic product manufacturing and marketing company, will list on the JASDAQ Securities Exchange on June 8. The company will offer 2.2 million shares to the public in its initial public offering. Of those, 1.7 million are newly issued shares and 500,000 are shares currently held in private. An additional offering of 300,000 new shares is expected under an over-allotment arrangement in the event of exceptional demand. The tentative price range will be announced on May 21. The fixed offering price will be announced on May 30. The company expects to net Y1.06 billion from the IPO. Of the IPO proceeds, it plans to use Y198 million for capital expenditure. For the current fiscal year through March 2008, the company forecasts a group pre-tax income of Y1.79 billion and net income of Y858 million on sales of Y55.84 billion. Daiwa Securities is the lead underwriter of the offer.

**Carview (2155 MTH)**

Japan's Carview Corp., an automobile information Web site operator, will list on the Tokyo Stock Exchange's Mothers market on June 12. The company will offer 6,050 shares to the public in its initial public offering. Of those, 2,500 are newly issued shares and 3,550 are shares currently held in private. The tentative price range will be announced on May 22. The offering price will be announced on May 31. The company expects to net Y3.42 billion from the IPO. For the current fiscal year through March 2008, the company forecasts a consolidated pretax profit of Y1.01 billion; net profit of Y594 million and revenue of Y5.83 billion. Shinko Securities is the lead underwriter of the offer.

**Nippon Ichi Software (3851 JAQ)**

Nippon Ichi Software Inc., a company engaged in planning, developing and marketing game software, will list on the JASDAQ Securities Exchange on June 13. The company will offer 3,600 shares to the public in its initial public offering. Of those, 2,000 are newly issued shares. The remaining 1,600 are shares currently held in private. Daiwa Securities SMBC, the lead underwriter of the offer, has a green shoe option to offer additional 540 shares in the event of exceptional demand. The tentative price range will be announced on 24. The fixed offering price will be announced on June 4. The company will use the funds raised through the IPO as working capital, mainly for the development of game software for the consumer market.

## Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
<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>	110.4	117.4	84.0	89.4	2,507	1,463	16,648	2,070	6,535	8,043	3,539	177
<b>Mar</b>	101.5#	111.2#	78.9#									213
<b>YoY</b>	0.1	1.4	-3.1	2.6	2.7	-2.5	-0.7	1.1	-2.5	-0.5	-0.9	-5.4

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