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High-tech Sector

Week ended April 16, 2006

Machinery Orders Surge in February

Machinery orders, a leading indicator of medium-term economic trends, in February rose 38.4% year-on-year to ¥464.2 billion. Domestic orders were down 0.1% to ¥253.9 billion mainly because of the high levels in recent months. Overseas orders increased 2.5 times to ¥210.2 billion on the strength of strong demand for boilers, power sources and mining machinery. By type of machinery, orders for boilers and power sources were up 44.7% and those for chemical machinery rose 69.8%. Mining machinery orders saw the largest gain, rising 2.4-fold from the same month a year earlier.

Production of Circuit Parts Rising Sharply

Demand for circuit parts is experiencing explosive growth, propelled by expanding sales of cell phones and the continuing shift to multi-functional models. This has boosted demand for miniature chip components and high-performance modules. At the same time, the market for high-frequency noise suppression components and that for components used for protection from static electricity are also benefiting. According to government statistics, production of chip resistors in 2005 was 194.4 billion units. Forecasts see production reaching 210 billion units in 2006.

Semiconductor Photo Mask Market Set for Solid Growth – Japanese Firms Have Domineering Presence

Demand for semiconductor photo masks in 2005 increased 5% year-on-year to ¥307.1 billion, according to an industry report. The main growth drivers were the state-of-the-art photo masks used in 90/65nm design rule applications. Growth will continue to be driven in 2006 by photo masks for deep micron applications and should stay strong through 2008, the year of the next Olympic Games. This is an area where Japanese companies have clear competitive advantages. The leading vendors Toppan Printing (Stock code: 7911) and Dainippon Printing (Stock code: 7912) are locked in brutal competition for the top spot. Together with Hoya (Stock code: 7741), the three companies account for more than half of the total market.

SPE Orders Up Sharply at Tokyo Electron (8035 TSE1)

Tokyo Electron (Stock code: 8035) in the first quarter of 2006 (January – March) received orders worth ¥195 billion, up 25% from the previous quarter and approaching the levels during the IT bubble period. Orders were up 49% from the same period a year earlier. The figure is ¥35-¥40 billion higher than previous forecast and shows that the company is clearly benefiting from a pickup in capital investment by semiconductor manufacturers. Orders for semiconductor production equipment increased 39% but those for LCD manufacturing equipment fell 22.2%.

Production of Crystal Devices Up Sharply in February

According to QIAJ, production of crystal devices in February rose 14% year-on-year to ¥19.5 billion. Production volume was also up, rising 14.4% to 567 devices. Of particular note was the 75% increase in the production of crystal devices for industrial applications. The bullish trend is here to stay for sometime, the association said.

Earnings Roundup

Core Earnings Likely to Turn Up at Japan's Leading Consumer Electronic Manufacturers

The consolidated business results are likely to pickup at Hitachi (Stock code: 6501) and Toshiba (Stock code: 6502), the two laggards in the present economic recovery, in the current fiscal year ending March 2007. Losses in the flat panel TV division at Hitachi are likely to shrink, lifting divisional operating income, the indicator of core profit, by 20% to ¥300 billion. Toshiba should also see its operating income jump by a double-digit figure, driven by favorable results in its core semiconductor business.

Konica-Minolta (4902 TSE1) Returning to Profitability

Konica-Minolta Holdings (Stock code: 4902) is expected to return to profitability in the current fiscal year ending March 2007 as its consolidated net income surges to ¥35 billion, from an estimated loss of ¥47 billion in the previous fiscal year ended March 2006. In view of the expected rebound in earnings, the company is widely believed to be considering resumption of dividend payments. Strong sales of multi-functional color copiers are lifting sales in the IT Equipment Division. But consolidated net sales are likely to fall 8% from the estimates for the previous fiscal year to ¥970.0 billion, due mainly to the continual scaling down of its photography-related business.

Citizen Set for Strong Profit Growth in Current Fiscal Year

Citizen (Stock code: 7762) in the current fiscal year ending March 2007 is likely to report a 19% increase in its consolidated net income to an estimated ¥19,000 million on a sales gain of 3% to approximately ¥350,000 million. Rising sales of watches and a solid rebound in electronic devices should lift sales and profit. Consolidated operating income is expected to jump 5% to ¥35,000 million, as the operating profit margin in the watches and industrial machinery divisions rises to 15% and the electronic devices division starts to contribute earnestly to the bottom line. In the previous fiscal year ended March 2006, the company is expected to report operating income of ¥28,500 million, down 23% year-on-year, on sales of ¥339,000 million, a drop of 5%.

[http://www.tokyoipo.com/top/en/index.php?id=&seqid=\)](http://www.tokyoipo.com/top/en/index.php?id=&seqid=)

No new initial public offerings were approved in the week ended April 9.

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)
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	214
May	101.3	106.2	85.7	103.3	1,977	1,723	13,948	1,969	4,965	7,014	3,226	208
June	106.5	113.4	86.7	123.3	2,409	2,040	16,111	2,134	6,215	7,762	3,440	233
July	102.1	106.8	87.8	110.2	2,270	1,804	15,145	2,028	5,545	7,572	3,370	268
Aug	110.8	113.1	88.5	74.1	2,180	1,249	15,156	1,985	5,439	7,733	3,522	224
Sept	104.0	109.0	86.1	79.0	2,762	1,331	17,721	2,394	6,937	8,390	3,701	206
Oct	107.4	113.0	86.4	80.1	2,261	1,432	15,800	2,450	5,196	8,154	3,573	224
Nov	109.4	115.7	85.5	84.6	2,376	1,472	16,973	2,728	5,919	8,326	3,614	252
Dec	108.2	114.5	82.7	83.9	2,490	1,438	16,787	2,326	6,438	8,023	3,465	336
Jan	110.7	116.5	82.4	80.7	2,197	1,291	14,977	1,754	5,420	7,803	3,521	282
YoY	9.6	8.7	3.9	13.0	4.7	10.4	5.9	16.3	-2.3	10.2	12.3	-6.4

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