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High-tech Sector

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Japan's IT Outsourcing Market Expanding

Japan's domestic IT outsourcing market is projected to expand at an annual average rate of 5.8% and reach ¥2.33 trillion by 2010, according to IDC, a high-tech market research firm. The market expanded by 6.7% in 2005 to ¥1.7 trillion. Currently, growth is being driven by factors such as cost reduction and shortages of qualified IT engineers at client firms. Outsourcing is expected to move to what is called multi-sourcing, a business model that combines multiple services.

Japan's IT Companies Outsourcing More to India

Offshore outsourcing of IT services by Japanese companies increased 8% in 2004 to ¥52.6 billion. Although China won much of the work, Japanese companies are looking more closely to India, the Philippines and Vietnam also. Fujitsu (Stock code: 6702) plans to employ 2,000 software engineers in India by fiscal 2009, while NEC (Stock code: 6701) plans to increase its software engineering staff in India to 4,000.

2Q PC Shipments Decline in Japan

Personal computer shipments in Japan in the July-September quarter declined 4% to 3.01 million units, according to JETIA, a trade body. Aggregate shipments, including exports, fell 3% to 3.31 million units. In terms of value, both domestic and total shipments were down 7% each. Shipments of desktop PCs fell 4% but those of notebook PCs were flat.

PC Shipments in Asia (excluding Japan) Up in 2Q

Shipments of personal computers in the Asia-Pacific region in the second quarter (July-September) of the current fiscal year rose 15% to 12.6 million units, according to IDC, a high-tech market research firm. China's Lenovo was the largest vendor, with a market share of 21.0%. HP ranked second with a market share of 12.9%. The third largest vendor, Dell, accounted for 9.0% of all shipments in the region.

LCD TV Shipments Double in September

Shipments of LCD televisions in September rose 109.6% to ¥234.8 billion in Japan, according to JEITA, a trade body. Shipments in the year to September were also up 108.7% to ¥1.8 trillion. Shipments of LCD televisions larger than 30" were particularly strong, rising 192.8%. Shipments of plasma televisions were also up, rising 145.8%.

DG Ratio Unchanged in August

The August DG ratio for orders was 1.10 and that for sales stood at 1.40. Both figures were unchanged from the previous month, according to Data Garage, a market research firm.

Orders and shipments are showing signs of improving, reflecting an improved operating environment. In the PC market, orders in August were unchanged from July but manufacturers who had expected gains in excess of 10% in 2006 have started scaling down their previous forecasts. In the mobile phone market, orders in August were lower compared with the previous month. In the consumer electronics category, demand for FPD TV-related components seems to have touched bottom. Demand for video game machines is likely to be strong, with no correction expected at least until the end of the year. Overall, orders seem to have touched bottom and headed toward recovery as inventory adjustment is largely complete and demand remains strong in BRICKs.

Earnings Roundup

2Q Profit Surge at Yahoo Japan (4689 TSE1)

Yahoo Japan (Stock Code: 4689) said Monday that its consolidated net income in the second quarter of the current fiscal year rose 22% to ¥13.6 billion on a sales gain of 25% to ¥51.2 billion. Yahoo Japan reported a 36% increase in advertising revenue to ¥21.3 billion. Revenue from auction services was also up. In the first half of the current fiscal year ended September consolidated net income was up 25% to ¥26.8 billion on a revenue gain of 26% to ¥100.47 billion.

Elpida (6665 TSE1) Returns to Profitability on Strong DRAM Demand

Elpida Memory, Inc. (Stock code: 6665) said Tuesday that its consolidated net income for the first half ended September 2006 rose to a record ¥19.5 billion, a dramatic turn around from the ¥6.3 billion net loss in the same period a year earlier, on sales of ¥203.2 billion, a 93% year-on-year gain. Elpida's share of the global DRAM market rose 3.1 percentage points to 10.1% in the April-June quarter. Elpida's financial position also improved after the recent public offering in July. Elpida's DRAM sales in the current fiscal year are likely to increase 2.35 times from the previous fiscal year, a growth rate higher than the 2.3 times projected earlier.

Fujitsu's (6702 TSE1) 2Q Consolidated Net Income Doubles

Fujitsu Ltd. (Stock code: 6702) said Thursday that its consolidated net income for the second quarter (July-Sept) more than doubled to ¥14.1 billion as sales were up 8% year-on-year to ¥1.25 trillion. Growth was driven by IT outsourcing services, system integration and solutions services.

Advantest (6857 TSE1) reports Strong 1H Profit

Advantest (Stock code: 6857) reported a consolidated net income gain of 51.9% to ¥22.2 billion in the first half of the current fiscal year on a sales gain of 12.5% to ¥120.5 billion. However, the company cut its full-year forecast. The company scaled back its consolidated net income forecast to ¥43 billion from ¥44 billion and the sales forecast to ¥255 billion from ¥265 billion as it remained cautious about the outlook for demand and competition.

Fanuc (6954 TSE1) Set to Post Strong Profit Growth

For the first half ended September 2006, Fanuc (Stock code: 6954) reported a consolidated sales gain of 10% to ¥200.4 billion. Consolidated net income was up 18% to ¥51.6 billion. Fanuc forecast consolidated net income of ¥103 billion, a year-on-year increase of 14%, for the current fiscal year to March 2007 on a sales gain of 9% to ¥415.6 billion. If the projections hold, it will be the fourth consecutive record high income and the first time it has topped ¥100 billion. There is strong demand for CNCs both in Japan and overseas from companies in the electronics, precision machinery and construction machinery sectors.

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

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

Remixpoint (3825 MTH)

Remixpoint, Inc., a computer software developer, will list on the Tokyo Stock Exchange's Mothers market on December 1. The company will offer 1,500 newly issued shares in its initial public offering. Nikko Citigroup, the lead underwriter of the offer, also has a green shoe option to offer an additional 225 shares in the event of exceptional demand. The tentative price range was announced on November 13. The fixed offering price will be announced on November 22. The company expects to net ¥510 million from the IPO. It plans to use the proceeds for capital expenditures and debt repayment. For the current fiscal year through March 2007, the company forecasts non-consolidated net income of ¥115 million on sales of ¥971 million, earnings per share of ¥14,350.19 and a dividend of ¥2,870.

j-Project (3063 MTH)

j-Project Corp, a restaurant chain operator, will list on the Tokyo Stock Exchange's Mothers market on November 30. The company will offer 3,200 shares in its initial public offering. Of those 1,600 are newly issued shares and 1,600 are shares currently held in private. The tentative price range was announced on November 8. The fixed offering price will be announced on November 17. The company expects to net ¥210.2 million from the IPO. It plans to use the proceeds for opening new restaurants. For the current fiscal year through March 2007, the company forecasts consolidated net income of ¥149 million on sales of ¥7.5 billion and earnings per share of ¥5,505.88.

KFE Japan (3061 NSE)

KFE Japan, Co., Ltd., a purchasing representative for electronic components, also engaged in the design, outsourcing and marketing of digital electronic products, will list on the Nagoya Stock Exchange on November 20. The company will offer 3,100 shares in its initial public offering. Of those 2,400 are newly issued shares and 700 are shares currently held in private. The tentative price range was announced on October 31. The fixed offering price will be announced on November 9. Toyo 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)
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	81.1	2,197	1,291	14,977	1,754	5,420	7,803	3,521	282
Feb	108.2	112.3	81.8	94.8	2,440	1,500	16,763	2,055	6,704	8,005	3,572	181
Mar	101.4	109.7	81.4	103.4	3,440	1,549	20,718	2,305	9,447	8,967	4,103	225
Apr	106.9	110.1	86.9	101.6	2,244	1,698	15,977	2,308	5,655	8,014	3,586	214
May	105.6	113.5	85.6	98.6	2,118	1,585	15,650	2,300	5,218	8,132	3,681	205
June	109.6	115.6	86.7	116.7	2,523	1,902	17,173	2,370	6,292	8,810	3,780	227
July	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
Aug	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
YoY	3.2	3.3	-7.5	-3.4	6.2	1.1	5.0	0.3	-2.9	11.8	11.2	-7.4

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