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High-tech Sector

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Chip Resistor Production Shows Solid Growth

Production of chip resistors is surging in Japan. Production volume in 2006 grew 18.9% from the previous fiscal year to 231.1 billion pieces and the value of production rose 16.2% to ¥50.5 billion, according to government statistics. The production growth started to accelerate from late 2005, propelled by demand for use in high-tech products such as personal computers, mobile phones and automotive electronics. Production of general-purpose chip resistors has largely moved overseas but Japanese companies largely dominate that of the state-of-the-art chip resistors. Production in 2007 is forecast to increase to 250 billion pieces and the growth is likely to continue in 2008 as well. This will be supported by rising demand for consumer electronics and other products due to the Beijing Olympic Games.

Medium-term Outlook for Fiber Optics Cable

Production of fiber optic cables in Japan is projected to grow at an average annual rate of 2.1% through fiscal year 2010, according to Japan Electric Cable Manufacturers Association. Output in fiscal 2006 will increase 9.3%, the trade body added. The trade body revised production forecasts for fiscal 2006 to 9.3% year-on-year. Demand for optical fiber cables used in telephone lines is expected to increase at an average annual rate of 2.0% due to rapidly increasing subscriptions for FFTH connections. Private sector demand is likely to grow at 3.1% during the period.

IT Service Sales Surge In January

IT service sector's sales in January 2007 rose 7.2% compared to January last year. This was the fourth month of strong consecutive growth starting October 2006 when sales increased 10.7%, according to government data. Sales in 2006 were up 4.5% to ¥10.9 trillion. The momentum seems to have continued in 2007, although statistics are not available yet. Sales of system integration services rose 10.9%, to register 12 months of uninterrupted growth. Software products sales, led by game software, were up 51.3%. Revenue from outsourcing services, such as system operations and maintenance, increased 5.5%.

Canon (7751 TSE1) Recaptures Leading Position in Domestic Printer Market

Canon (Stock code: 7751) with a market share of 38.8% overtook Seiko Epson to retake the lead in the printer market in 2006. The market share of Seiko Epson (Stock code: 6724) was 37.2%, according to Gartner Japan, a research firm. Other major players in Japan's printer market are HP, Japan (market share 7.4%), Brother Industries (market share 4.1%) and Ricoh (Stock code: 7752, market share 2.9%).

Consumer Electronics Global Demand Forecasts

Global demand for FDP televisions through 2001 is expected to increase at an annual average rate of 13%, according to JEITA, the trade body of the electronic sector. Demand for PDP televisions is expected to increase at an annual rate of approximately 18%; that for DVD decks at 14% and for car navigation systems 9%.

Demand for Electronic Components to Stay Strong in First Half of 2007

Japan's electronic component manufacturers are bullish in their outlook for the first half of 2007. Orders for electronic components are likely to continue to increase in the first half of 2007, according to a survey of major manufacturers conducted by a leading industrial daily. Slightly more than half of the respondents in the survey (54%) expect sales to continue to increase moderately, 30% expect prices to rise by single-digit figures and 38% are projecting single-digit gains in consolidated operating income.

Moves Toward a Single Wireless Software Device Gain Momentum

Focus is shifting toward the development and commercialization of next-generation network devices (software for wireless devices designed for three major applications—broadcasting, communications and information access) in order to enable consumers to access all types of information anywhere. The mobile phone will take on added importance as ubiquitous networks proliferate. Software defined radio, which is a programmable chip designed to be compatible with multiple protocols, developed by IMEC, is likely to become the standard.

Electrical Machinery Production to Show Healthy Growth in FY2006

Production of electrical machinery in Japan in fiscal 2006 (the year ending March 31, 2007) is expected to increase 4.5% year-on-year to 5.4 trillion yen, according to the Japan Electrical Machinery Association (JEMA). This will be the third consecutive year-on-year gain in Japan's electrical machinery production. The production gain was supported by strong domestic capital investment and brisk exports, which drove up the output of heavy electrical machinery by 8.1% to 3.5 trillion yen. Output of industrial machinery was underpinned by strong growth in the output of power generation equipment, servomotors and programmable controllers. On the other hand, production of consumer electrical goods was down 2% to 1.8 trillion yen. The trade body has forecast a 0.7% YoY decrease in total electrical machinery production to 5.37 trillion.

Earnings Roundup

Nipro (8086 TSE1) To See 14% Increase in Consolidated Pre-tax Income

Nipro (Stock code: 8086), a leading manufacturer of medical equipment, is expected to post a 14% jump in pre-tax profit to 12 billion yen in the year through March 2008 even though its sales dropped by 9% to 165 billion yen as a result the sale of its food and drug chain subsidiary. Strong sales of lucrative dialysis machines and other medical equipment are expected to lift profit. Without a 12.7 billion yen profit from the sale of the subsidiary, its net profit is projected to plunge 21% to about 6.5 billion yen. With profit expected to drop, its annual dividend will be lowered by about 28.5 yen to roughly 50 yen. Nipro's dividend payout policy sets the dividend payout ratio at 50% of non-consolidated net profit.

SUMCO's (3436 TSE1) FY06 Net Profit Up 250% To Y72bn On 300mm Wafer Demand

SUMCO (Stock code: 3436) reported net profit of 72 billion yen, up 250% year-on-year, for the year ended Jan. 31 due to robust demand for its 300mm silicon wafers. Sales of the company rose 45% to 319.3 billion yen as its 300mm wafer output rose from 350,000 units a month to 630,000. In addition, sales of 200mm wafers and chips for solar cells rose. Acquisition of Sumco Techxiv Corp. (Stock code: 5977) contributed 34 billion yen. For the year to January 2008, Sumco has forecast 470 billion yen in sales, up 47%, and 120 billion yen in operating profit, which is a 42% gain. But its net profit is likely to decline by 10% to 65 billion yen.

Seiko Epson (6724 TSE1) Expects Net Loss On Display Ops Reform

Seiko Epson (Stock code: 6724) has forecast a net loss 18 billion yen for the year ending March 31, reversing its January outlook which saw net profit of 14 billion yen. The company blamed the loss on expenses related to the restructuring of its display business. Seiko Epson will book an extraordinary loss of 40.6 billion yen from asset impairment of its display-related production. The company now estimates consolidated net sales of 1.414 trillion yen, compared with 1.411 trillion yen it previously forecast.

Initial Public Offerings

No new initial public offerings were approved this week.

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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	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
Sept	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
Oct	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
Nov	112.9	118.2	85.0	82.9	2,507	1,545	17,643	2,939	5,972	8,731	3,823	238
Dec	111.6	116.0	83.6	85.4	2,568	1,771	16,809	2,468	6,005	8,337	3,544	306
Jan	110.8	116.8	82.9	76.4								258
YoY	0.1	0.3	0.6	-5.8	3.6	22.5	0.4	6.3	-6.7	4.5	2.3	-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