Analyst press memo (translation)

June 30, 2006

Transaction valuation No. T06-110

ACE Investment Research Center

PHOENIX Electric Co., Ltd.

(JQ: 6927)

Valuation/judgment:
Good buy →**Good buy**

Press coverage: June 30, 2006

Person in charge: Hideki Yasuda

[Consolidated]

(yen in million, %, yen: adjusted reflecting ex rights)

Fiscal year		Net sales	Growth	Operating income	Growth	Recurring profit	Growth	Net income	Growth	EPS	Dividend
Sep. '05	interim	6,065	15	1,518	22	1,576	25	887	19		5.00
Sep. '06	est.	5,750	(5)	1,060	(30)	1,060	(33)	630	(29)		5.00
Mar '06		11,792	7	2,674	2	2,757	9	1,354	(11)	59.4	12.00
Mar '07	est.	12,500	6	2,400	(10)	2,400	(13)	1,450	7	63.6	10.00
Mar '08	est.	14,000	12	2,900	21	2,900	21	1,750	21	76.7	10.00

[Division information]	Mar '06
Projector lamps	63%
Rear-projection lamps	16%
Other halogen lamps	11%
Products	10%

[PER]		
Mar '05		12.2
Mar '06		13.6
Mar '07	est.	12.7
Mar '08	est.	10.6

[Finance index]			End of Mar '06
BPS	410 yen	Share price (at closing price June 29)	810 yen
Equity capital	9.4 bn yen	Trading stock unit	100 shares
Total assets	12.4 bn yen	No. of outstanding shares	22.81 mn shares

Note: also listed to the TSE

Slow down in H2 2005, hit by Dutch buyer, Philips' low pricing campaign

Results for fiscal 2005 ended March 2006: net sales up 7% on a YoY basis to Y11.7 bn, operating income up 2% to Y2.6bn and recurring profit up 9% to Y2.7bn, but net income down 11% to Y1.3 bn. In H1, robust sale of lamps for projectors and rear-projection televisions (RPTVs) resulted in double-digit growth of both sales and profit. But in H2, Royal Philips Electronics, a leading projector lamp maker, launched a low pricing campaign because of overstock, and Philips' share dropped in projector lamp supplies from Phoenix. In addition, market growth of RPTVs came short of the pre-year expectation due to lower prices of PDPs. Consequently, the product line was forced to considerably drop both sales and profit, and also together with a Y383 mn expense of defective projector lamps supplied to a certain maker that were replaced free of payment, net sales fell.

H1 2006 outlook revised upward owing to buyer's hit product

Since early fiscal 2006, the projector lamp orders are running above the plan because a good-selling projector produced by Sharp, one of Phoenix's major buyers. Also in terms of respective makers other than Sharp, sales are generally growing better than the plan, originally formulated based on conservative estimation. As a result, the H1 forecast was revised upwards, with net sales from Y5.3 bn to Y5.7 bn and recurring profit from Y939 mn to Y1,061 mn.

In respect of full year outlook, although Phoenix keeps the original forecast unrevised with net sales down 3% on a YoY basis to Y11.4bn, recurring profit down 17% to Y2.0 bn, an upward revision is deemed likely without any particular reason for slowdown in H2.

We at Ace Securities forecast, based on the current situation, that H1 results will be Y5.75 bn in net sales and Y1.06bn in recurring profit, roughly same as Phoenix's figures. In terms of full year outlook, we anticipate results will be Y12.5 bn in net sales and Y2.4 bn in recurring profit, higher than Phoenix's plan. However, recurring profit will drop in our forecast, taking into account of the about-20% price discount on lamp supplies offered pre-year to Philips. In fiscal 2007, overstock at Phillips will have been cleared, and price trend of the items will return to a usual falling course. Net sales and recurring profit will rise 12% and 21%, respectively, compared to our fiscal 2006 forecasts.

Phoenix's projected price-earnings ratio for fiscal 2006 stands at 12.9, relatively lower than Ushio's 21 and Iwasaki Electric's 30, therefore our investment rating on Phoenix remains undervalued.