Japan's Sharp running out of options: analysts

TOKYO, JAPAN: Japan's Sharp Corp. is fast running out of options to repair its disintegrating balance sheet, analysts say, raising fears about its viability as investors bolt for the exit.

The century-old consumer electronics giant suffered a bloodletting this month with its Tokyo-traded shares diving to near 40-year lows after it reported huge quarterly losses and warned of more red ink to come.

On August 3 the shares plunged by about one-third to levels last seen in the early 1970s, shaving more than US$1.0bn off the embattled firm's value.

They staged a recovery towards the end of last week, closing Friday at ¥209, up from ¥181 earlier in the month.

Standard & Poor's quickly cut Sharp's credit rating after the results - making it tougher to raise fresh funds - and the producer of Aquos televisions faces a worrying cash crunch as it scrambles to re-tool its business.

The corporate overhaul includes cutting thousands of jobs from Sharp's global workforce, the first layoffs since 1950, in a bid to chop about US$1.3bn in fixed costs from its dented balance sheet.

"Sharp needs to stop haemorrhaging... Its bad performance casts doubt on cash flow, the lifeblood of a company," said Toshiyuki Kanayama, senior market analyst at Monex Securities.

Investor fears spiked when Sharp said it lost ¥138.4bn (US$1.77bn) in the April to June quarter, nearly three times more than in the same period last year, citing falling demand for liquid crystal display televisions.

Net loss expected

The Osaka-based firm, which began life making belt buckles and invented the mechanical pencil, warned it expected to book a net loss of ¥250bn in the fiscal year through March 2013 - far bigger than an earlier projection for a ¥30bn shortfall.

The share price plunge also casts doubt on the future of a deal that would see Taiwan's Hon Hai Precision - best known as a manufacturer of Apple gadgets such as the iPhone and iPad - inject about US$800m into struggling Sharp and invest in one of its LCD factories.

Hon Hai's founder said he may renegotiate the deal, announced earlier this year, in the wake of the stock's plunging value.

Japan's once mighty electronics giants, including Sharp rivals Sony and Panasonic, have struggled to haul themselves out of the dire straits in which they have languished for several years.

Asian rivals take their toll

Japan Inc has suffered from a loss of manufacturing work to rising Asian rivals, while it has fallen behind American competitors on the cutting edge of gadgets and software.

The strong yen has made their goods more expensive overseas, while they are also beset by Japan's relatively high cost of labour, electricity, imported fuels and raw materials.

"But Sharp's performance is distinctly bad," said Nobuo Kurahashi, analyst at Mizuho Investors Securities.

"And given worsening business conditions such as the high level of the yen, it will be extremely hard for the company to build a business that is globally competitive."

In recent years, Sharp has poured money into liquid crystal displays used for flat-panel televisions, but the investment has not paid off.

"Demand for LCD televisions in developed economies has been saturated while growth in emerging markets is slowing. Falling prices for LCDs is not going to stop," Kurahashi said.

No new cash cow

"The trouble with Sharp is that it cannot find a new cash cow... It is an extremely difficult task to build a new mainstay business which can survive intensifying global competition."

In a bid to stay alive, some Japanese firms are abandoning their traditional corporate structures in which they commit themselves entirely to the development, manufacturing and sale of their products.

"We have tried to do everything by ourselves, but the environment is tough," Sharp's incoming president Takashi Okuda said earlier this year.

In the short term, Sharp might be able to boost sales for medium and small-sized LCD panels used in tablet computers and smartphones, said Shiro Mikoshiba, analyst at Nomura Securities.

"But there is still uncertainty in terms of profitability as the purchasing power of customers is too strong" to negotiate higher prices, Mikoshiba said in a note to clients.

"Only slashing fixed costs is not enough."

Source: *AFP* via I-Net Bridge