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# LED's Bright Prospects Could Dim

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By JAMES SIMMS

A light goes off in someone's head.

Then a few years later a dozen or even more companies pile into the market for the latest electronic item, leaving only a tiny handful to make money on a commoditized product.

This pattern's already starting to repeat itself in the market for light-emitting diodes—key electronic parts used in the latest flat-panel-television backlighting and commercial and home illumination.

Compelling technology it is: LEDs allow thinner liquid-crystal displays and consume significantly less power than conventional lighting sources.

But there are now some dozen manufacturers of LED chips, including several Japanese firms like Nichia and [Toyoda Gosei](#), and more are expected to join. [Sharp](#) plans to kick off LED production this year and Taiwan Semiconductor Manufacturing, the world's largest contract chip maker by revenue, expects to start in the first quarter.

At the moment, there's money to be made. U.S. LED-maker Cree had an operating profit margin of 21.4% in the nine months through March. And Toyoda Gosei's nonautomotive business, which is mainly LEDs and lifted its overall profitability, had a margin of 12.4% in the year ended in March.

But this is a fleeting victory. Manufacturing capacity is expected to increase over the next year and the material and production-equipment shortage is slowing. Indeed, CLSA says that there will be an oversupply late this year or early in the next, leading to a sudden drop in prices.

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Even in Japan, which is a bright spot because of government incentives for LED bulbs and expensive lighting bills, prices are expected to drop for the bulbs. LEDs accounted for 62% of light-bulb sales revenue in May, says GfK Marketing Services Japan. And the average price has already plunged by nearly two-thirds to \$32 between the start of 2009 and May.



Some are being cautious.

**Toshiba**, which now makes only LED lighting after ending incandescent bulb production in April, says a stable operating-profit margin is key for the business and has concerns about possible commoditization.

Investors aren't showing quite the same caution though. Cree, for example, trades at 30.5 times earnings, according to Factset, and Seoul Semiconductor is at 24.2 times.

But not everyone can make money off of bright ideas.

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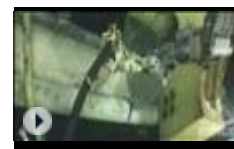
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