

## **Samsung posts 2nd straight profit drop on cheaper phones**

**Kinibiz.com**

**Apr 8, 2014**

**By Bloomberg; Jungah Lee**

Samsung Electronics Co, the world's biggest maker of smartphones, posted its second straight decline in quarterly profit as stalling demand lowers prices for Galaxy devices and components.

Operating profit fell to 8.4 trillion won (RM26 billion) in the three months ended March from 8.8 trillion won a year earlier, the Suwon, South Korea-based company said in a statement today. The result compares with the 8.3 trillion-won average of 29 analyst estimates compiled by Bloomberg.

Sales of high-end products are slowing because of market saturation and the debuts of new Apple Inc iPhones, curbing earnings as the company focuses more on lower-priced devices. The marquee Galaxy S5 smartphone and an expanded range of tablet computers are being released to spark demand as competition from Chinese producers hits display-unit income.

"Demand for the S5 will start kicking in from the second quarter, which will also drive sales of chips and displays," Lee Sun Tae, a Seoul-based analyst at NH Investment & Securities, said by phone today. "Samsung has well-diversified line-ups across all categories, so it will fare better than rivals, at least before the bigger iPhone hits the market in the latter half of the year."

Samsung fell 0.2% to close at 1,394,000 won in Seoul trading, trimming its gain this year to 1.6%. The stock dropped 9.9% last year, its first annual decline since 2008.

### **Sales Miss**

Sales were about 53 trillion won in the quarter, the company said today. That compares with the 54 trillion-won average of 33 estimates.

Samsung didn't provide net income or details of divisional earnings. Audited results will be reported later this month.

In the December quarter, earnings fell 7.9% from a year earlier, according to data compiled by Bloomberg.

First-quarter operating profit at the mobile unit, the company's biggest business, was probably 5.9 trillion won on sales of 33 trillion won, according to the median estimates of six analysts surveyed by Bloomberg News. The unit's profit has fallen from a record 6.7 trillion won in the third quarter of 2013.

Samsung unveiled the 5.1-inch S5 smartphone with a fingerprint reader in February and plans to make it available outside South Korea starting Apr 11, 2014, as the company seeks to fight back against the iPhone 5s and 5c, released in September.

### **Content Coupons**

"The significance of the S5 has somewhat dropped compared with its predecessors," said Lee at NH Investment.

To lure global consumers, Samsung will offer 600,000 won worth of content, including music and coupons for mobile commerce, to users who buy the S5, the company said in an e- mailed statement today.

The company's smartphone shipments reached 90 million devices in the first quarter, according to Nomura Holdings Inc. estimates. In the fourth quarter of 2013, Samsung shipped 86 million smartphones worldwide, research firm Strategy Analytics said Jan 27, 2014.

"The first quarter is typically a weak selling season for all technology companies," said Soh Hyun Cheol, a Seoul-based analyst at Shinhan Investment Corp. "High-end smartphone sales may have slightly missed the market consensus because it's no longer a secret that the growth in the premium space is slowing."

### **Large Screens**

Samsung will release its next large-screen Note device in the second half of this year, Lee Young Hee, executive vice president of the mobile business, said in a Jan 6, 2014 interview. The newest Note may use a three-sided display so messages can be read from an angle.

The company's grip on the large-screen market it pioneered with products such as the 5.7-inch Galaxy Note 3 faces new threats from other producers. Apple is developing new iPhone designs including bigger screens, a person familiar with the plans said last year.

Such a move may hurt Samsung's earnings and market share, according to Nomura.

In January, Samsung announced its largest tablet, with a 12.2-inch screen, as it seeks to win more business customers with features that allow users to split the display into four windows running different applications.

Also, Samsung may book as much as US\$290 million (RM951 million) in charges related to its patent dispute with Apple, Seo Won Seok, an analyst at Korea Investment & Securities in Seoul, said in a March 28, 2014 report.

### **New Televisions**

The display unit, which dominates the market for screens using organic light-emitting diodes, probably had operating profit of 100 billion won in the first quarter, down 87% from a year earlier, according to the Bloomberg News survey.

Sales at the unit declined 13% to 6.2 trillion won, according to the six analysts surveyed.

"Samsung's aggressive cost-cutting efforts was already proven by the deteriorating profits at its OLED" business, Hanwha Securities Co said in a March 21, 2014 report. "This suggests a higher possibility of more profit declines from its smartphones well into the second half of the year."

Operating profit at Samsung's consumer-electronics division, which oversees the TV and home-appliance businesses, probably rose to 245 billion won from 230 billion won a year earlier, according to the analyst survey.

### **Chip Prices**

The company introduced a wider range of TVs using ultra high definition screens at the International Consumer Electronics Show in Las Vegas in January to combat weakening sales and stagnating prices.

Ultra-HD, which offers four times the picture resolution of conventional displays, has struggled to gain traction in the market because of a lack of content for the format and higher prices.

Profit at Samsung's chip unit, which supplies its own handsets and also those of rivals such as Apple, nearly doubled to 2 trillion won on sales of 9.8 trillion won, according to the Bloomberg News survey of analyst estimates.

The price of benchmark DDR3 2-gigabit dynamic random-access memory chips was US\$2.04 yesterday after peaking at US\$2.92 on Jan 15, 2014, according to DRAMeXchange, Asia's largest market for the components. That compares with US\$1.60 on Sept 4, 2013, when global supplies were hit by a fire at an SK Hynix Inc factory in China.

"Overall chip prices have recently dropped given the fully restored SK Hynix's Wuxi plant in the first quarter," Lee Min Hee, a Seoul-based analyst at I'M Investment & Securities Co, said. "Memory-chip prices will start to rebound from the end of second-quarter on increasing release of new mobile products, including tablets."

Copyright © 1999-2012 Mkini Dotcom Sdn. Bhd

Source: <http://www.kinibiz.com/story/world-biz/80008/samsung-posts-2nd-straight-profit-drop-on-cheaper-phones.html>