Sprint investors look for green shoots in first quarter

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Sprint Nextel Corp. is expected to show another sharp decline in wireless customers when it reports quarterly results Wednesday, but investors might also see signs that the company's turnaround effort is setting roots.

The Overland Park, Kan.-based carrier is forecast to lose nearly 300,000 customers in the first quarter, mainly in its Nextel division that Sprint bought in 2005. Nextel caters to mobile workers and unlike the company's namesake network uses a different one, called iDen.

The decline could include the loss of as many as 600,000 postpaid customers, who sign annual contracts and are the most profitable in the wireless industry. The loss in that category would be offset by a net increase of roughly 300,000 in the less-profitable prepaid category, analysts calculate.

Buried in the numbers, some Wall Street analysts say, is the possibility that Sprint could show its first net gain in CDMA customers since the 2007 fourth quarter. The CDMA network serves the bulk of the company's most-valuable postpaid customers, or those on annual contracts.

Such a scenario "would be viewed by investors as a very encouraging sign as it would suggest that Sprint's efforts to stabilize its postpaid business were finally taking hold," analyst Brett Feldman of Deutsche Bank wrote in a report.

Analysts say the surprisingly weak first-quarter gains by AT&T Inc. (T) and Verizon Wireless in the postpaid market bodes well for Sprint. Both companies reported results last week.

Growing optimism about improvements at Sprint, in turn, have fueled a 15.6 percent jump in the company's stock so far in 2010. Shares of Sprint closed Monday at $4.23

While the company's prepaid business is expected to post another net gain, the increase is likely to fall well short of the 435,000 subscribers added in the last three months of 2009. Prepaid subscribers buy minutes up front, but they spend less money and can cancel service anytime without penalty, making them less lucrative.

The company's weakness in the postpaid category and rise in prepaid customers partly explains the lack of profitability. Sprint is forecast to lose 17 cents a share in the first quarter on sales of $8.04 billion, according to analysts surveyed by FactSet Research

Adjusted for one-time items, Sprint is expected to lost 10 cents a share.

A year earlier, Sprint lost 21 cents a share on sales of $8.21 billion.

(EDITORS: STORY CAN END HERE)

The nation's third-largest wireless operator, Sprint has been losing customers since mid-2007, mostly to larger rivals AT&T and Verizon, a joint venture owned by Verizon Communications Inc. and Vodafone Group PLC. Its subscriber count fell to 48.1 million at the end of last year compared with Sprint's all-time peak of 54 million three years ago.

Chief Executive Dan Hesse, who took over a few years ago, has sought to resuscitate Sprint's fortunes by cutting prices, introducing better phones and improving customer service. He's also slashed costs to offset the decline in revenue.

While Sprint dramatically has slowed the outflow of customers, the exodus continues and Hesse acknowledges that more progress is required.

Later this year, the company plans to introduce its first "4G" phone for its fastest wireless network yet, beating AT&T and Verizon to the punch. Sprint hopes its new 4G service will lure premium subscribers to its network, while its cheaper monthly plans bring in a broader range of customers.

One potential obstacle: stiffer competition in the prepaid business.

Verizon has made a big push with its Straight Talk service, which goes head to head with Sprint in Wal-Mart stores. In addition, discount carriers such as Leap Wireless International Inc. and MetroPCS Communications Inc. have expanded their networks and aggressively cut prices to counter Sprint.

In the first quarter, for example, Verizon added 1.3 million customers who signed up with resellers such as TracFone, which offers the Straight Talk plan. A year ago, Verizon hardly signed up any customers through third parties.

Sprint has long pushed its prepaid service to offset declines in more profitable postpaid subscribers. The company operates Boost, which runs on the iDen network, and it now owns Virgin Mobile, a service that uses CDMA. Tougher competition and a saturated U.S. mobile market could curtail prepaid gains in the future.

"The prepaid space has become increasingly competitive," analyst David

Dixon of FBR Research wrote in a note.