

LG Electronics' profit falls as mobile loses money

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A boy watches a 3D animation movie at a display for LG Electronics products inside the COEX Mall in Seoul, South Korea, Wednesday, July 25, 2012. LG Electronics reported a lower quarterly profit as its mobile phone division sank to a loss, underlining the challenges for its smartphone business as it struggles with competition from Apple and Samsung. (AP Photo/Hye Soo Nah)

(AP) — LG Electronics reported a lower quarterly profit as its mobile phone division sank to a loss and forecast its earnings to deteriorate further, underlining the challenges for its smartphone business as it struggles with competition from Apple and Samsung.

The South Korean company said Wednesday its April-June net income totaled 159 billion won (\$138 million) on revenue of 12.9 trillion won.

Quarterly income was up nearly 50 percent from a year earlier but fell

35 percent from the previous three months.

The quarter-on-quarter drop was a source of concern for investors as sales of consumer electronics are usually stronger in the second quarter. Shares of LG Electronics Inc. fell 2.1 percent in Seoul, compared with the benchmark Kospi's 1.4 percent decline.

LG, which was unseated by Apple Inc. in 2011 as the world's No. 3 mobile phone maker by sales, blamed its lower profit on the mobile division's 57 billion won quarterly operating loss. That partly offset profit from LG's TV business.

Basic handset sales declined while expenses to promote its new smartphones went up, LG said.



Children watch a 3D advertisement at a display for LG Electronics products inside the COEX Mall in Seoul, South Korea, Wednesday, July 25, 2012. LG Electronics reported a lower quarterly profit as its mobile phone division sank to a loss, underlining the challenges for its smartphone business as it struggles with competition from Apple and Samsung. (AP Photo/Hye Soo Nah)

The mobile business of LG Electronics is being squeezed in both the premium and low-end markets. Chinese handset makers ZTE and

Huawei are aggressively increasing low-cost smartphone sales while Apple and Samsung Electronics Co. leave little room for a third player in the top-end market.

The second-quarter mobile loss comes after the division briefly enjoyed two consecutive quarters of profit. LG's mobile division lost nearly 1 trillion won in 2010 and 2011 combined as its Optimus smartphone series failed to compete with Samsung's Galaxy phone and Apple's iPhone.

LG said its third-quarter operating profit will moderately decrease from the second quarter, even as sales go up by a small margin.

"Seasonal demand for home appliances and air conditioners goes down in the third quarter, while sales of TVs and smartphones are expected to rise," David Jung, LG's chief financial officer, told investors.

Jung said profitability at the mobile communication business will not be too bad for the rest of the year with new high-end mobile device launches due in North America and Japan.

But he stopped short of guiding investors on when the company can fully turn around its mobile business, which contributed about half of the company's profit during its heyday.

Even as LG plans to expand its mobile market share with its Android-powered smartphones running on a fourth-generation wireless service, analysts are skeptical about its outlook.

Sales could falter if mobile chip shortages continue and the launch of the new iPhone, expected in the third quarter, could steal the spotlight from LG's new handset release.

"It is tough to be sure about the recovery in LG's mobile phone business," said Eugene Kim, an analyst at Taurus Securities who has a hold rating on shares of LG Electronics.

Quarterly operating profit from LG's TV business more than doubled from the previous year to 216 billion won. But the amount changed little from the previous quarter.

LG is betting on the release of a high-end television that uses an advanced display panel to boost TV profit. The company said TV markets in advanced countries will expand in the second half of this year despite a weak outlook for the global economy.

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