Sharp shares hit by reports of Hon Hai deal rethink

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Customers watch televisions under a Sharp logo at an electrical shop in Tokyo in February 2012. Shares in Japan's Sharp, which slumped 28 percent at the end of last week after a poor earnings report, fell further Monday after Taiwan's Hon Hai Precision said it would renegotiate a deal to invest in it.

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The electronics giant closed down 5.72 percent at 181 yen, its lowest level in four decades, after Friday's tumble caused by the announcement Thursday that it lost $1.77 billion in April-June and warned of a bigger full-year shortfall than first expected.

Hon Hai, parent company of manufacturing giant Foxconn which builds gadgets for Apple, said Friday it would seek to change a deal agreed in March that would see it take a 10 percent stake in Sharp for 550 yen per share.

The firm's share price reached 570 yen days after the investment plan was unveiled.

In a media interview in Taiwan aired Sunday, Hon Hai chairman Terry Gou said: "I had not expected the huge loss of Sharp."

But he also said he has been assured by Sharp that "the price is renegotiable", boosting Hon Hai shares Monday.

Gou said he hoped to complete the investment in Sharp by March 31 2013, a deal he said will be a win-win situation as Sharp had the technological expertise while Hon Hai had access to huge markets.

Sharp on Friday denied news reports that the deal was being reviewed, confusing the market and forcing investors to the sidelines, traders said.

"Investors are saying 'I don't care about the fine details, I just want out'," CLSA equity strategist Nicholas Smith said.

"Nobody doubts that Sharp has great technology, but the capital alliance with Hon Hai could very well mean that a lower cost-base firm will just walk away with Sharp's bread-and-butter. Buying on the dip is OK for cyclical stocks, but this isn't a cycle," he said.

The deal between Hon Hai and Sharp came as Japan's once mighty electronics sector struggles to haul itself out of the dire straits in which it has languished for several years.

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, while the strong yen has made their goods more expensive overseas.

Bank of America-Merrill Lynch said: "Given the lack of clarity over the pricing of this deal, one can expect the stock price to be volatile.

"And while we can see the stock pop on the back of belief for a re-pricing, any gain here could evaporate if the latter belief is negated.".

-- Dow Jones Newswires contributed to this report --