

Samsung posts steep drop in Q4 operating profit

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South Korea's Samsung posted an 18 percent drop in operating profit in the fourth quarter as slowing sales of high-end smartphones hit the electronics giant

South Korea's Samsung said Friday operating profit tumbled almost a fifth in the fourth quarter, due to a one-off bonus and slowing sales of the electronic giant's high-end smartphones.

Operating profit stood at 8.3 trillion won (\$7.8 billion), down 18 percent

from the July-September period, marking the company's first quarterly profit decline in two years.

The [fourth quarter](#) figure was also down 6.0 percent from a year ago.

Net profit rose 3.7 percent year on year but slowed significantly from the third quarter's 25.6 percent gain, as healthy margins from the company's chip unit failed to offset flagging profit momentum in the flagship Galaxy series of smartphones.

"Amid macroeconomic uncertainties such as a strong Korean won and increased concerns over possible quantitative easing tapering in the US, our earnings were lower than what the market expected," Robert Yi, head of Samsung's investor relations, said in a statement Friday.

He pointed specifically to a "negative currency impact" of 700 billion won and a one-off 800 billion won employee bonus to mark the 20th anniversary of a marketing strategy by Chairman Lee Kun-Hee that laid the groundwork for the company's recent success.

And the company earnings statement made it clear that it expected no immediate rebound in 2014.

"For the first quarter it will be challenging for Samsung to improve its earnings as the weak seasonality of the IT industry will put pressure on demand for components and TV products," the statement said.

Samsung Electronics earnings

Operating profits, trillion won

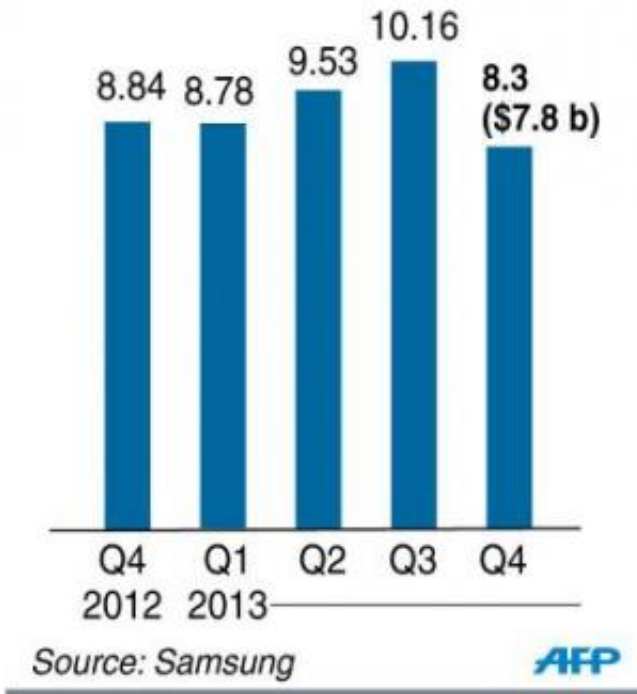


Chart showing Samsung's quarterly operating profit.

The latest earnings result ended the company's long run of record quarterly profits on the back of surging sales of its Galaxy products.

The mobile division posted a quarterly [operating profit](#) of 5.47 trillion won, down 2.8 percent from the third quarter.

Samsung's statement said the division's earnings were down due to seasonally increased marketing costs, as well as the one-off bonus.

The strength of the Korean won against other currencies also weighed on

performance, inflicting foreign-exchange losses and making Samsung less price-competitive in the global market.

"While the number of people buying smartphones is still increasing, its getting harder for Samsung to tap new demand for its high-end handsets," said Nho Gen-Chang, an analyst at HMC Investment Securities.

"So Samsung will have to lower prices to sell them, which will in turn decrease its profit margins," Nho said.

S.H. An of Hanwha Securities said the greatest challenge facing Samsung is how to find a new momentum for further growth at a time when the sales growth of its flagship high-end handsets showed signs of getting into a stalemate.

"Samsung is now shifting its product mix toward middle and low priced handsets. Under these circumstances, we have to wait and see how Samsung will maintain profitability in the future."

Operating profit for the whole of 2013 was 36.8 [trillion won](#), up 27 percent from the previous year.

Samsung had a leading share of 38.8 percent in the global smartphone market as of the third quarter of last year, followed by arch-rival Apple's 13.1 percent, according to the industry research firm IDC survey.

But its bottom line has been hit by competition from budget handset makers, especially from China, and the company faces a fresh challenge this year after Apple struck a distribution deal with China Mobile, the world's biggest carrier by users.

Samsung commanded more than an 18 percent share of China's

smartphone market as of the third quarter last year, according to Chinese consultancy Analysys International, while Apple sat in eighth place with just 3.5 percent.

Samsung's display division, which dominates the global market for LED panels, posted an operating profit of 110 billion won in the fourth quarter, down 90 percent from the previous year.

Slowing Galaxy S4 smartphone sales increased the inventory of unsold displays, while weaker TV sales also impacted the division.

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