

# Samsung expects lowest profit in over three years

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Middle school students try out Samsung Electronics' Galaxy Note 4 at the company's showroom in Seoul, South Korea, Tuesday, Oct. 7, 2014. Samsung Electronics Co. said Tuesday its third-quarter operating profit is estimated to have fallen to the lowest level in more than three years, as Galaxy handsets sales slow. (AP Photo/Ahn Young-joon)

The world's biggest smartphone maker is suffering a financial decline in the face of intense competition from Apple Inc. and upstart Chinese

brands.

In a preview to earnings due out this month, Samsung Electronics Co. said Tuesday that its quarterly profit is estimated to have fallen to its lowest level in more than three years, dragged down by weak sales of its flagship Galaxy phones.

Samsung became the biggest smartphone brand on the popularity of earlier Galaxy models. But Apple's release of larger-screen iPhones last month neutralized a key advantage Samsung had. Although Samsung's phones are still slightly larger than the iPhone 6 and iPhone 6 Plus, the gap has narrowed enough for Apple to lure many Americans who liked the bigger Galaxy phones.

Meanwhile, in emerging markets such as India and China, local brands are making inroads into Samsung's business, analysts say.

Analysts have repeatedly cut forecasts of Samsung's profit this year as Galaxy sales lagged expectations. They say earnings in the quarter ending in September could suffer their biggest decline in Samsung's recent history.

In Tuesday's report, Samsung said the median forecast of July-September operating income was 4.1 trillion won (\$3.8 billion). That was below the median of analysts' expectations of 5.2 trillion won, according to FactSet, a financial data provider. It would be a 60 percent plunge from record-high 10.2 trillion won a year earlier.

The decline in Galaxy sales has hurt demand for Samsung components such as an advanced display called OLED. High marketing costs are undermining profits.



A man visits the Samsung Electronics Co.'s showroom in Seoul, South Korea, Tuesday, Oct. 7, 2014. Samsung Electronics Co. said Tuesday its third-quarter operating profit is estimated to have fallen to the lowest level in more than three years, as Galaxy handsets sales slow. (AP Photo/Ahn Young-joon)

"The operating margin declined due to increased marketing expenditure and lowered average selling price," Samsung said in a statement. The company said it "cautiously expects increased shipments of new smartphones and strong seasonal demand for TV products."

Samsung estimated sales for the July-September period declined 20 percent from a year earlier to 47 trillion won (\$44.2 billion). That was

slightly below analysts' expectations of 50.4 trillion won.

In January, analysts estimated Samsung's third-quarter operating income would exceed 10 trillion won. That expectation has been steadily lowered to about half this month.

Quarterly profit from its mobile business, which reached 6.7 trillion a year earlier, is forecast to be a little over 2 trillion won.

The company needs to revamp its handset designs, said Lee Seung-woo, an analyst at IBK Securities Co.

"Rather than seeking stability, Samsung should seek to distinguish (its phones) with Galaxy's design policies," he said. "The iPhone 6 will be a significant threat to Samsung."



A middle student tries out a Samsung Electronics' Gear VR powered by Oculus as others flock around him at the company's showroom in Seoul, South Korea,

Tuesday, Oct. 7, 2014. Samsung Electronics Co. said Tuesday its third-quarter operating profit is estimated to have fallen to the lowest level in more than three years, as Galaxy handsets sales slow. (AP Photo/Ahn Young-joon)

The company moved the launch of the Galaxy Note 4, a large smartphone with a stylus, to late September from October after Apple unveiled the iPhone 6 Plus. It also began sales of the Galaxy Note 4 in China last month, getting a few weeks' head start over Apple in the world's most populous country.

Last month, Samsung also received upbeat initial responses to its Galaxy Note Edge smartphone, a smartphone with a curved side screen that can display weather, news, apps and other information. But the supply volume for the Edge smartphone will be limited, likely not giving a big boost to its earnings, analysts said.

With growth momentum in smartphones sagging, Samsung is moving to step up its presence in the semiconductor business.

This week, Samsung announced a 15.6 trillion won (\$14.7 billion) investment plan to build a new semiconductor fabrication plant in the South Korean city of Pyeongtaek. The construction will begin before the summer next year and begin operations during the second half of 2017.

Samsung did not disclose net income or divisional earnings in its quarterly earnings preview.

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