

Chip sales cushion Samsung Q4 profit decline

January 8 2015, by Giles Hewitt



Samsung flags a lighter than expected profit decline in the 4th quarter, with memory chip sales cushioning a slump in mobile revenue

Samsung Electronics, the world's largest smartphone maker, flagged a lighter than expected profit decline in the fourth quarter Thursday, with memory chip sales cushioning a continued slump in mobile revenue.

Operating profit for the October-December period was estimated at 5.2

trillion won (\$4.7 billion), down 37.4 percent from the fourth quarter of 2013, the company said.

The performance nevertheless beat analyst forecasts with profits from high-margin chip sales helping to offset the downturn in the key mobile sector which has struggled in the face of intense competition from cut-price Chinese rivals.

"This is much better than expected," said Greg Roh of HMC Investment Securities, who said sales of Samsung's recently launched outsized Galaxy Note [smartphone](#) had helped prop up the faltering mobile division.

"At the same time semi-conductor sales have benefited from a weaker won and TV sets sold well during the peak season," Roh said.

Business had picked up from the preceding quarter with the estimated [operating profit](#) up 28 percent on the July-September figure.

The estimate offered no net profit forecast or details of divisional earnings, which will be provided in an audited earnings report later this month.

Samsung's share price, which has taken a battering over the past year, closed up 0.54 percent on Thursday.

Samsung Electronics earnings

Operating profits, trillion won

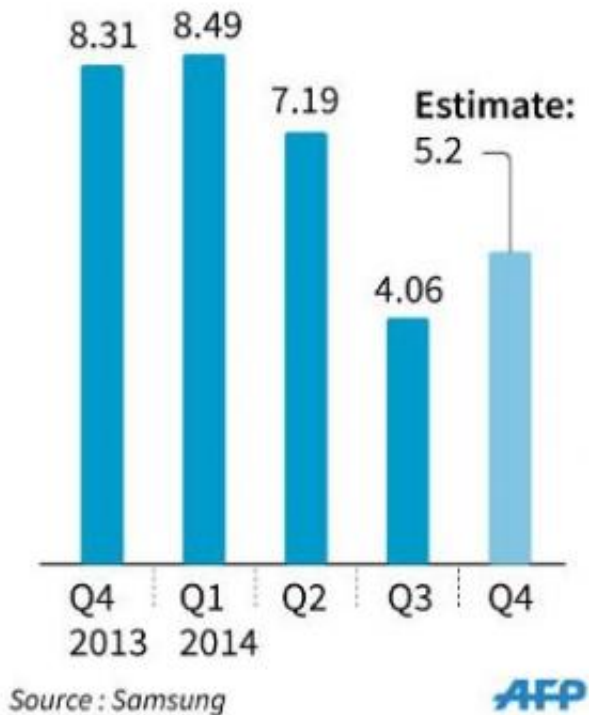


Chart showing quarterly operating profits for Samsung Electronics, including estimates for fourth quarter of 2014

The South Korean behemoth, which is also facing a once-in-a-generation leadership change, had reported a 20 and 50 percent net-profit decline in the second and third quarters of 2014 respectively.

It has been a dramatic reversal after several years of stellar growth, driven by the once all-conquering mobile division.

The company's flagship Galaxy phones have suffered in the high-end market from the popularity of arch-rival Apple's iPhone 6, while dominance of the middle- and low-end handset segment has been challenged by Chinese firms such as Huawei, Xiaomi and Lenovo.

Xiaomi ousts Samsung

Mainland China is the world's largest smartphone market, and Xiaomi's cheap, feature-packed handsets had already ousted Samsung as the top seller there in the second quarter of 2014.

For the moment, Samsung is still the comfortable leader in global sales volume, but its share of the smartphone market has fallen from 35 percent a year ago to less than 25 percent, according to Strategy Analytics.

Samsung plans to slash the number of smartphone models it issues in 2015, while boosting production of remaining models that can be sold more cheaply to compete with cut-price Chinese rivals.



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A more fundamental restructuring is assumed to be in the pipeline, with control of the family-run conglomerate's main business expected to pass from ailing patriarch Lee Kun-Hee to only son Lee Jae-Yong.

Needing cash to pay for what will be a massive inheritance tax bill, Lee and his siblings are expected to pare down and simplify the byzantine system of cross-holdings that link the many branches of the Samsung empire.

The anticipated reforms have helped keep Samsung on the "buy" list of many analysts, despite the recent profit downturn.

The far-flung, multi-headed entities that make up Samsung earn a collective revenue equal to around 20 percent of South Korea's annual

economic output, and the company's diversity is seen a key strength.

Unlike Nokia or Blackberry, there is a life after smartphones for a company that is also the world's largest maker of flat-screen TVs and memory chips.

The mobile division had been the most profitable since 2011, but the recent slump saw that position retaken in the third quarter of last year by Samsung's semiconductor business, which logged 10 percent profit growth thanks to brisk sales of NAND flash memory and DRAM chips.

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