

# Samsung posts first annual profit decline in three years

January 29 2015, by Jung Ha-Won

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Samsung Electronics, the world's largest smartphone maker, posts its first drop in annual net profit in three years, on January 29, 2015

Samsung Electronics posted its first drop in annual net profit in three years on Thursday and saw resurgent arch-rival Apple barge in on its pole position as the world's top smartphone maker.

The South Korean firm, whose key mobile phone operations have struggled in the face of intense competition from cut-price Chinese

rivals, also warned that it expected 2015's "business environment... to be as challenging as 2014."

The tech giant said Thursday it recorded a net profit of 23.4 trillion won (\$21.45 billion) in 2014, down 23.2 percent from a year ago and the first decline since 2011.

Operating profit fell 11.7 percent to 25 trillion won in the year and sales also tumbled 10 percent to 206 trillion won.

Under growing pressure to boost shareholder returns, the company still managed to announce an increased dividend of 19,500 won a share, up from 13,800 won a year earlier.

The Samsung results contrasted sharply with the triumphant surge in the fortunes of California tech titan Apple, which reported a fourth quarter net profit of \$18 billion—the largest ever made by a public company.

Apple's performance was driven by the sale of 74.5 million iPhones, which included a doubling of sales volume in the crucial Greater China region.

Samsung's fourth quarter [net profit](#), meanwhile, was down 27 percent at 5.3 trillion won.

## **Chip cushion**

The fall was cushioned by a boom in high-margin chip sales that helped offset the downturn in the key mobile sector, with operating profit in the semi-conductor division rising 35.7 percent to 2.7 trillion won in the October-December period from a year earlier.

Samsung shares closed the day down 1.31 percent at 1,360,000 won.

## Samsung Electronics earnings

Net profits, trillion won

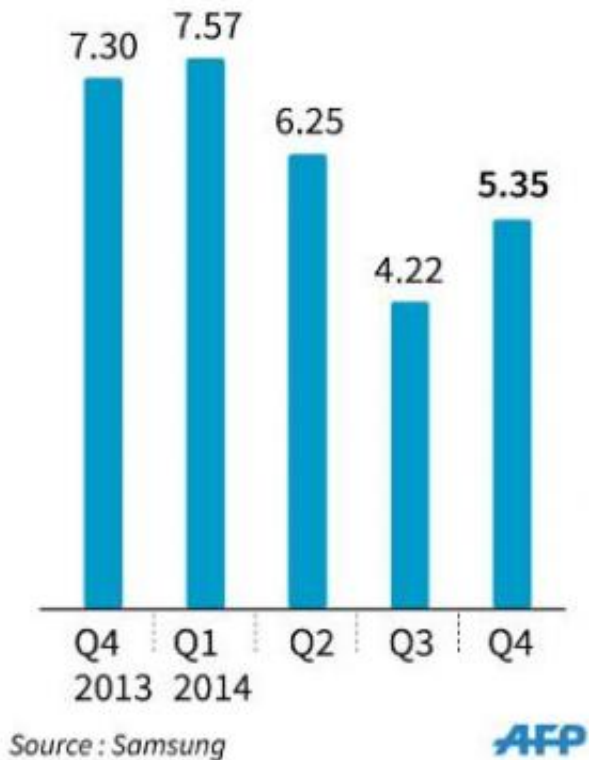


Chart showing quarterly net profits for Samsung Electronics

The annual profit figure marked a dramatic reversal for the company, which is also facing a once-in-a-generation leadership change after several years of stellar growth, driven by the once all-conquering mobile division.

The popularity of the iPhone 6 helped Apple catch up with Samsung to share the title of world's top smartphone vendor, market researcher

Strategy Analytics said Thursday.

Apple shipped 74.5 million handsets in the fourth quarter of last year with a market share of 19.6 percent—on a par with Samsung, whose shipments and market share slipped markedly from a year ago.

Samsung had held the global smartphone vendor crown on its own since dethroning Apple in 2011.

Samsung's flagship Galaxy phones have suffered in the high-end market thanks to the popularity of the iPhone 6, while its dominance of the middle- and low-end handset segment has been challenged by Chinese firms such as Huawei, Xiaomi and Lenovo.

## **New strategy**

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 Chinese rivals.

Streamlining the product mix should increase sales in the current quarter, Samsung's head of investor relations Robert Yi predicted, while nevertheless warning of a tough year ahead.

"When we look at 2015 as a whole, we fully expect the business environment... to be as challenging as 2014," Yi said.



An advert for Samsung Galaxy Note 4 is seen outside a shop in Seoul, on January 8, 2015

Handset sales will be driven by growth in emerging markets including China and India, said Park Jin-Young, vice president of Samsung's mobile unit.

Sales of tablet computers are expected to grow, largely boosted by sales of mid-priced and low-end products, Park said.

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.



Samsung's Z910F smartphone (R) and the SM-R380 smartwatch are seen on display at the Tizen Developer Conference in San Francisco, California, on June 3, 2014

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

Thursday's dividend increase will help appease disgruntled shareholders who watched Samsung's stock price take a battering last year.

The company is currently in the middle of a \$2.0 billion share buyback process announced in November.

With a market capitalisation of about \$185 billion, Samsung accounts for nearly 17 percent of the weighting on South Korea's benchmark Kospi composite index.

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