

Nokia sees drop in Q1 earnings, gives cautious outlook (Update)

May 10 2016, by By Matti Huuhtanen

Nokia reported Tuesday a first-quarter net loss of 513 million euros (\$584 million) due to lower demand in mobile networks and a drop in overall revenue despite its acquisition of Alcatel-Lucent. It warned of a further decline in earnings, causing the shares to plunge 7 percent.

In the company's first earnings report since the 15.6-billion-euro acquisition, Nokia said the loss compared with a profit of 177 million euros a year earlier. The two figures are not directly comparable because Nokia's acquisition of the French-American networks operator was not completed until January.

Net sales were 5.5 billion euros for the combined company, compared with the 2.9 billion euros it reported a year earlier. Combined net sales in the period in 2015 would have come in at 6.1 billion euros, Nokia said, meaning that its total comparable revenue fell 9 percent in the period.

Describing 2016 as a "year of transition" for Nokia, CEO Rajeev Suri said he was disappointed in the decline and added that the climate remained "challenging" in mobile networks. He told analysts that Nokia's hardships would continue during the "extensive improvement activities" following the integration of the two companies.

"This is particularly true for the first half of the year where we do not expect the typically seasonal pattern of a weak Q1 followed by a stronger Q2," he said. Warning of further cuts, he said that layoffs had begun globally, including in the United States, but gave no figures.

Shares in Nokia slumped 7 percent to close at 4.65 euros.

Hannu Rauhala, senior analyst at Pohjola Bank, said the report contained "good and bad."

"Nokia's profitability was good and the gross margins were good, but the outlook was poorer than market expectations," Rauhala said. "The integration process with Alcatel is still ongoing and it's always difficult to predict how that is going to progress."

Sales in Nokia's main networks sector dropped 8 percent in the period, mainly because of a 12 percent decline in Ultra Broadband Networks, Nokia said. Its networks operations in North America, which became its largest market with the acquisition of Alcatel-Lucent, fell by 17 percent to 1.58 billion euros. Europe, its second biggest market, saw a decline of 3 percent to 1.2 billion euros. Only the small Latin American segment showed a slight improvement of 6 percent.

The Finnish company's other sector, Nokia Technologies, which controls the company's huge portfolio of patents, saw sales fall 27 percent from a year earlier to 198 million euros.

Suri updated Nokia's earlier outlook of 900 million euros in synergy savings, saying that they now expected them to be above that figure by 2018.

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