

# Samsung forecasts steep drop in earnings

SEOUL, SOUTH KOREA: South Korea's Samsung said on Tuesday (7 January) it expected a steep drop in its operating profit for the fourth quarter of 2013, as slowing sales of high-end smartphones and a strong won hit the world's top technology firm.



Samsung has reported its worst quarterly results since 2012 amid forecasts that the smartphone market is becoming saturated. Image: Samsung

The company forecast an operating profit of 8.3trn won (US\$7.8bn) for December quarter, down 18.3% from the third quarter and 6.1% lower than a year ago.

Sales will likely reach 59trn won, down 0.1% from the third quarter but up 5.24% from a year earlier, according to earnings forecast released by the firm.

It would mark the first drop in Samsung's operating profit since the first three months of 2013 and would be the lowest figure since July to September quarter in 2012. It is also the first year-on-year drop in the firm's operating profit for more than two years.

Samsung -- the world's top manufacturer of mobile phones and TVs -- posted record net profits for the first three quarters of last year, largely fuelled by robust sales of its popular smartphones. It did not disclose net profit estimates for the fourth quarter.

The latest earnings forecast showed the firm's annual sales and operating profit for 2013 hit record highs of 228.4trn won and 36.7trn won.

## Market getting saturated

But the company - which has dethroned US rival Apple as the world's top smartphone manufacturer in the past two years - saw sales of high-end devices slow as the market becomes increasingly saturated.

"Samsung has constantly expanded sales, but now the (handset) market demand appears to have reached a limit," said Kim Ji-Woong, an analyst at E\* trade Securities in Seoul.

The earnings forecast relates to overall sales and profits for the entire company, which produces a range of products from memory chips to TVs. Kim said the operating profit at the firm's mobile unit is likely to have dropped significantly.

However, Lee Sun-Tae, an analyst at NH Investment & Securities, said profits had been hit by one-off spending on marketing and bonuses for workers - estimated to be worth at least 700bn won - to mark the 20th anniversary of its key management objectives.

"Samsung spent hugely on marketing to clear inventory during the year-end shopping season," he said.

"I see big potential for improved profits in the first quarter of this year once these costs decrease," Lee added, saying the firm's memory chip unit also showed signs of improvement.

Intensifying competition from budget handset makers has raised questions over whether Samsung can sustain its ever-growing profits in its mobile unit.

Consumers gave its much-heralded Galaxy Gear smartwatch, launched in September, a relatively cool reception.

And the steady strengthening of the Korean won against the US dollar and Japanese yen have dealt a blow to major South Korean exporters as a stronger currency hits competitiveness and hurts repatriated earnings.

Hyundai - the world's fifth-largest car manufacturer - said last week it expected sales this year to grow at their lowest pace in more than a decade.

Samsung's final earnings results are due to be released later this month.

Source: AFP via I-Net Bridge

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