

Samsung Profit at Record High on Smartphone Boost

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SEOUL, South Korea (AP) — Samsung Electronics Co. said Friday its first quarter profit jumped to a record high as smartphone sales remained strong despite the April launch of an updated version of its flagship Galaxy phone.

Sales of consumer electronics usually slow in the first three months of the year after the holiday shopping season, an effect that analysts thought would be compounded by this month's release of the Galaxy S4 smartphone since many delay buying until the newest model is available. Apple Inc. has cited the upcoming release of a new iPhone as a reason for a slowdown in sales of older models.

Samsung began sales of the S4 in its home South Korean market Friday and starts U.S. sales on Saturday. Analysts expect Samsung's profits to reach new highs in the second and third quarters if S4 sales are strong. Lee Don-Joo, head of sales and marketing at Samsung's mobile division, said sales of the S4 will outdo its predecessor, the Galaxy S III.

Samsung said January-March net profit surged 42 percent to 7.2 trillion won (\$6.5 billion) from 5 trillion won a year earlier. That increase was despite booking a one-time charge against earnings related to settlement of its intellectual property battle with Apple. Analysts estimated the charge at \$600 million.

Sales rose 17 percent to 52.9 trillion won. Operating profit was up 54 percent to 8.8 trillion won, in line with its preliminary results released earlier this month.

Profit was up 2 percent from the previous quarter's result, beating market expectations for a fall. Sales of the S III smartphone and the oversized handset called the Galaxy Note remained strong and shored up profit, Samsung said. It also spent less on marketing its mobile devices than it did in the previous quarter when competition heated up.

Samsung's IT and Mobile Communications division that makes smartphones,

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tablets, PCs and cameras reported 6.51 trillion won in operating income for the first quarter, up 56 percent from a year earlier and its highest since Samsung reorganized the division to merge PC and handset departments.

Samsung capitalized on global demand for smartphones with a range of mobile devices that come in a variety of screen sizes and prices, outpacing rivals including Apple Inc. and Nokia Corp.

As the S4 goes on sales several months before rival Apple introduces a new version of iPhone, analysts said Samsung's streak of record-setting profit will not stop any time soon.

"You can say it is like a snowball is rolling," said James Song, head of technology at Daewoo Securities. Song forecast Samsung's second quarter operating income to surpass 10 trillion won (\$9 billion).

Market research firm IDC estimated that Samsung shipped 70.7 million smartphones during the first quarter, up 61 percent over a year earlier and capturing 33 percent market share. Apple, the second-largest smartphone maker, sold 37.4 million iPhones. Its market share fell to 17 percent from 23 percent a year earlier, IDC said.

Samsung, based in Suwon, South Korea, is also the world's largest maker of memory chips, televisions, mobile handsets and liquid crystal display panels.

The company's strong performance in the mobile market helped offset sluggish demand for TVs and a still weak recovery in display panel sales.

For the first time in recent years, Samsung refrained from increasing its annual capital expenditure on semiconductor and display panel production lines, a sign that it sees slower growth in demand for memory chips and display panels. Its annual capital expenditure for 2013 will be capped at 22.9 trillion won (\$20.5 billion).

But Samsung said it will boost its spending on research and development even though it is already one of the largest R&D spenders. Its R&D expense was \$2.97 billion during the first three months of this year, nearly three times more than Apple's \$1.12 billion, according to financial information provider FactSet.

"Although market uncertainties from the European crisis and the slow global economic recovery are still lingering, we expect to increase R&D spending for strengthening our competitiveness ahead of planned new product launches," said Robert Yi, head of investor relations at Samsung.

Seo Won-seok, an analyst at Korea Investment & Securities, said Samsung's businesses require heavy spending on research and development for future products, especially divisions that make electronic components.

At a Las Vegas trade show in January, Samsung showcased mobile handsets that

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use curved glasses, a first stage in what would eventually become flexible displays. Adopting more advanced technology is also crucial to lowering memory chip manufacturing costs.

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