Samsung Emphasizes Components as Smartphones Peak

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Seoul, South Korea (AP) — Samsung plans to plow a record pile of cash into its semiconductor and display panel businesses, hoping to reduce reliance on sales of high-end Galaxy smartphones that are poised to peak after two years of blistering growth.

Samsung Electronics Co., the world's largest smartphone maker, reported record profit for a sixth straight quarter on Friday. But the result still disappointed investors who expected Samsung to book even higher earnings after the Galaxy S4, its latest iteration of the flagship smartphone, was launched in April. The handset scored 10 million sales in the month after its launch.

Samsung's division that makes and sells handsets, smartphones and tablet computers has been the motive force behind the South Korea company's run of bumper profits, with Galaxy smartphone shipments jumping every quarter. In the three months ended June 30, the division contributed two-thirds of the company's entire operating profit.

Samsung, which does not disclose its smartphone sales figures, is estimated by research firm IDC to have shipped 72.4 million smartphones in the April-June quarter, compared with Apple's 31.2 million iPhone sales. Samsung's second quarter smartphone sales were double what it sold in the final quarter of 2011, an indication of how fast the company expanded its business and outpaced rivals.

But investors who once cheered the explosive sales growth now fret that consumer appetite for top-of-the-range smartphones is close to being sated. Cutting-edge features have lost some of their luster as there is now a wide choice of new devices with equivalently fast processors, powerful cameras and crisp roomy displays.

Emerging markets remain a source of growth but the middle classes in such countries flock to cheaper smartphones that are less profitable for manufacturers such as Samsung and Apple Inc. They also face additional competition from Chinese companies that specialize in affordable handsets.

Samsung's share price has dropped 14 percent since January, cutting $30 billion from its market value. Robert Yi, senior vice president of investor relations at Samsung, blamed global economic conditions that prompted foreign investors to pull funds from Asian financial markets including South Korea.

But many analysts said weaker-than-expected sales and profit from Galaxy smartphones is the key factor behind the tumbling share price. Analysts including those at JP Morgan Chase cut their sales forecasts for the Galaxy S4 by more than 20 percent in June, predicting shipments would weaken after the first quarter it was on sale.

Samsung said it expected a higher profit contribution from its components businesses in the future.

It plans record-high capital expenditure this year, which will help ramp up production of its mainstay memory chips and strengthen its expansion in the mobile processor market. Out of 24 trillion won ($21.6 billion) of annual capital spending, it allocated 13 trillion won to the semiconductor business and 6.5 trillion won to its display panel business.

"It's a move to seek all-around growth and balance out what is now centered on sets," which include mobile handsets, said Lee Sei-chul, an analyst at Meritz Securities.

In the latest quarter, Samsung's display panel business posted a higher profit over a year earlier thanks to demand for advanced displays called OLED, primarily used in Galaxy smartphones. Even as PC shipments fell in the spring quarter, demand for tablet PCs and data servers propped up prices of memory chips accounting for larger semiconductor profit.

In smartphones, Samsung is also facing a similar challenge to Apple in that consumers are increasingly buying its older less expensive models rather than the latest version.

IDC said discounted prices of the Galaxy S III, a predecessor of the S4, renewed consumer interest during the second quarter and contributed to Samsung's shipment growth. Yet it also likely dragged on earnings from handsets.

Samsung's mobile business posted a lower profit in the three months ending June compared with the previous quarter because of higher marketing costs after the S4 launch. It was first time in a year that the mobile division did not report an increase in profit from the previous quarter.

Samsung said the average selling price of handsets will moderately decline in

coming quarters as the proportion of mid-tier smartphone sales increase. It also released variations of the Galaxy series to offer cheaper handsets and fend off competition from Chinese rivals.

Many analysts also expect Samsung to mark down the Galaxy S4's price in the fall and winter quarters as rivals, including Apple, will release new models.

They said that will result in earnings from the mobile business being flat in the third quarter versus the April-June quarter. Components businesses that sell semiconductors and display panels will report a higher profit, driving another record quarter for the South Korean tech titan.

"Entering into a typically strong season for the IT industry, we expect earnings to continue to increase. However, we cannot overlook delayed economic recovery in Europe and risks from increased competition for smartphone and other set products," Yi, Samsung's executive vice president, said.

Samsung's April-June net profit jumped 50 percent over a year earlier to 7.77 trillion won ($6.9 billion), below the market forecast of 7.96 trillion won, according to a survey of analysts by FactSet, a financial data provider.

Operating profit was also at a record high of 9.53 trillion won, up 48 percent. Sales rose 21 percent to 57.46 trillion won.

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