

Moody's downgrades Nokia debt to near junk

MATTI HUUHTANEN - Associated Press - Associated Press

Moody's ratings agency downgraded Nokia's debt grade to near junk status on Monday, citing a sharp decline in first-quarter cellphone sales that led to a 35 percent fall in revenue.

The agency lowered Nokia Corp.'s long-term credit rating by one notch to Baa3 — just a step above non-investment grade — following last week's profit warning which had caused Nokia's shares to plunge by more than 20 percent.

It left a negative outlook on the ratings, meaning it could downgrade Nokia to junk status if the new smartphones don't sell well and revenue fails to recover later this year.

Moody's noted that Nokia's cellphone volumes dropped 16 percent in the first quarter due to increasing competition from makers of low-end phones or new phone promotions by Chinese carriers.

"While volatility by quarters is not uncommon, Moody's believes that the structural challenges facing Nokia's mobile phones segment may not be easy to address," the rating agency said.

Reacting to the downgrade, Nokia said its financial position remains strong, with its investment grade rating "backed by Nokia's strong liquidity position and capital structure."

Chief Financial Officer Timo Ihamuotila said Nokia is "quickly taking action" to improve its financial position.

"Nokia will continue to increase its focus on lowering the company's cost structure, improving cash flow and maintaining a strong financial position," Ihamuotila said.

The Finnish company has increasingly been losing out to competitors in the lucrative top-end smartphone sector, against Apple Inc.'s iPhone and brands using Google Inc.'s popular Android software, including Samsung Electronics Co. But it's also been squeezed in the low-end by Asian manufacturers making cheaper phones, such as China's ZTE.

Last week, Nokia said multiple factors had hurt sales in the first quarter, particularly in the fast-growing markets of India, the Middle East, and Africa and China, and that it expected no improvement in the second quarter.

It announced that operating margins in the first quarter were "approximately negative 3 percent" when previously it had expected them "around break-even, ranging either above or below by approximately 2 percentage points."

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It also said it sold 71 million mobile phones in the quarter — down from 108 million in 2011 — with net sales of €2.3 billion (\$3 billion), while smartphone sales halved to 12 million units from a year earlier.

Its share price plummeted 14 percent after the warning and has continued to fall — to a 15-year low of €2.98 (\$3.88) in Monday afternoon trading in Helsinki.

Nokia is due to report first-quarter earnings results on April 19, with some analysts predicting that Samsung has overtaken it in cellphone volumes in the quarter.

Last year, it was overtaken in the second quarter in smartphone volumes by its chief rival, Apple, whose iPhones sold more than all Nokia smartphone models combined.

Online:

www.nokia.com

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