

Moody's downgrades Nokia to junk status

MATTI HUUHTANEN - Associated Press - Associated Press

Moody's ratings agency on Friday downgraded Nokia's debt grade to junk status, citing greater than anticipated pressure on the struggling cellphone maker's earnings after it announced plans for major cuts and global layoffs. It kept the outlook negative, meaning it could downgrade it again.

The agency lowered the Finnish company's long-term senior unsecured ratings to Ba1 from Baa3, saying that Nokia's restructuring plan involved "drastically downsizing its infrastructure," an indication its problems were greater than expected.

Moody's said Nokia Corp.'s plans to focus "its direct marketing on fewer markets, streamlining support functions and reducing investments in certain R&D projects ... delineates a scale of earnings pressure and cash consumption that is larger than we had previously assumed."

The agency's downgrade — the second in two months — came after Nokia stock plunged 18 percent on Thursday following its announcement to close production and research plants, with 10,000 job cuts by the end of 2013. Nokia also sounded pessimistic about its outlook, saying that heavy competition would continue to hit its smartphone sector in the second and third quarters more than previously expected.

The measures were aimed at additional cost savings of €1.6 billion (\$2 billion) by the end of next year, in addition to last year's announced plans to cut 10,000 jobs to save €1 billion by 2013.

Despite the latest downgrade, Nokia shares were up 4 percent at €1.91 (\$2.41) in afternoon trading after falling to their lowest level ever in Helsinki on Thursday.

Moody's, which previously lowered the cellphone maker's debt rate on April 16, said that despite its decision on Friday, it considers "Nokia's commitment to decisive restructuring as positive and necessary to return the group to profitability."

"A return to profitability also depends on Nokia successfully transitioning its range of smartphones to the new Windows operating system and stabilizing its feature phone business," Moody's said.

Nokia has been fighting fierce competition from Apple Inc.'s iPhone and other makers using Google Inc.'s popular Android software, including Samsung Electronics Co. and HTC of Taiwan, and is also being squeezed in the low-end by Asian manufacturers making cheaper phones, such as China's ZTE.

The former bellwether of the mobile industry had one of its worst results in the first

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quarter with a €929 million net loss as sales plunged, especially in the smartphone market. In 2011, it was still the world's top cellphone maker with annual unit sales of some 419 million devices, but in the last quarter of the year posted a net loss of €1.07 billion, a marked reverse from the 745 million profit a year earlier.

Having held the top spot for 14 years, with a 40 percent market share in 2008, Nokia seemed to have run out of steam.

It had hoped to remedy the situation with the new Windows Phone 7, launched in October, eight months after CEO Stephen Elop announced a partnership with Microsoft Corp. and has launched several versions of the Windows-based Lumia phones, including cheaper models for Asian markets.

"For Nokia to return to growth in this segment, it will primarily require the Lumia smartphones, which are selling in several versions and many markets, to gain traction in the smartphone market," Moody's said. "Indeed, in Moody's view, the attractiveness of the Lumia range should be boosted by the introduction of the Windows 8 operating system for mobile devices, to be launched in the second half of 2012."

Bucking the trend, two Wall Street analysts on Friday upgraded Nokia.

Oppenheimer analyst Ittai Kidron upgraded the company to "Perform" from "Underperform," saying that the cuts will buy Nokia some time, but its long-term success will depend on new products like the Windows 8 phones — and he can't predict how that phone will fare. He said 2012 will be tough, but 2013 is an "unknown path."

Citi analyst Zahid Hussein also upgraded the company to "Neutral" from "Sell," calling the company's moves "painful but necessary." He said that if Nokia can successfully cut costs, it could return to break-even as early as the third quarter of 2012, quicker than expected.

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