

Nokia revival hopes fade as analysts cut targets

Tarmo Virki, Reuters

Analysts cut their price targets on Nokia to little more than the value of its cash and patents on Friday as hopes fade that phones using new Microsoft software can revive the ailing mobile company anytime soon.

The launch of new Lumia smartphones, expected to start in September, has turned into a make-or-break event for Nokia boss Stephen Elop, the architect of a tie-up with Microsoft which has so far done little to resurrect the firm's challenge to the dominance of Apple's iPhone and Samsung's Galaxy models.

But confidence is low after Nokia reported a thumping quarterly loss on Thursday and warned of another big splash of red ink for its phone business in the third quarter.

On Friday, credit ratings agency Fitch downgraded Nokia, having previously warned it would do so if it was not convinced the firm could stabilize revenue declines and revive margins.

"The release of Nokia's Q2 results indicate that the company is currently not near this position and Fitch is not convinced that this can be attained anytime soon," it said.

Nokia's shares, down about 80 percent since February 2011 when Elop announced the shift to the largely untried Microsoft Windows phone operating system, jumped 12 percent on Thursday as investors breathed a sigh of relief that the Finnish group was not burning through its cash pile as quickly as feared.

But the stock fell back 5 percent on Friday, as analysts mostly took a more cautious view on a recovery plan being implemented amid economic uncertainty and stiff competition.

Many set their price targets for the shares at around 1-3 euros, at best little more than the estimated value of its cash and patent portfolio.

Nokia's net cash position at the end of the year is seen at around 3 billion euros, or about 0.80 euro per share, compared with the 1.12 euros per share it had at the end of June.

The patent portfolio, one of the largest in the mobile industry, is estimated to be worth 0.5-1.0 euro per share.

In the second quarter, Nokia used its strength in patents to boost its cash, booking a 400-million-euro prepayment from a licensing deal. It refused to say who made the payment, but analysts and patent experts say it came either from Apple or

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Microsoft.

Last roll of the dice

Sales of Nokia's Lumia phones, which run the Microsoft software, have yet to grab share back from Apple and Samsung Electronics smartphones in the most profitable part of the mobile market.

The Microsoft platform had only a 2 percent market share in the first quarter of 2012, compared with 23 percent for Apple and 56 percent for Google's Android platform, which is used by multiple mobile phone firms including Samsung.

Some analysts think new Lumia models using Windows Phone 8 (WP8) software could still change that, with local banks Nordea and Pohjola upgrading Nokia shares to "buy" on Friday.

But for most, the jury is out.

"Nokia's recovery story has paused ... We conclude that the next phase of improvement requires the launch of the Windows Phone 8 units. Nokia's story remains theoretical pending consumer adoption of WP8," Barclays analysts said.

Nomura analyst Stuart Jeffrey said Microsoft's Windows 8 software for computers - which will have a similar look and feel to the Windows version for smartphones - might eventually help Nokia, but it would take time.

"We thus believe that Nokia's traction may prove muted in H1 2013 even if the Windows Phone does take off, with H2 perhaps showing greater strength," he said in a note.

Some investors said patience may soon run out. Juha Varis, who holds Nokia shares as part of the Danske Invest Finnish Equity Fund, said Elop was likely to come under pressure if there was no breakthrough by the end of the year.

"If Windows Phones stay at current levels, I think they have to do a Plan B. They would need to do something drastic, and I think the view is that Elop is not that guy," he said on Thursday as he read through the results.

Nokia remained defiant in the face of the Fitch downgrade.

"We have a strong focus on cash conservation as we continue our transition," a spokesman said.

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