Samsung tips record-high profit for 2nd quarter

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Smartphones powered Samsung Electronics Co. to record quarterly earnings, but its shares fell Friday as lower-than-expected overall sales underlined the threat from Europe's economic malaise.

The world's largest maker of memory chips, mobile phones and flat-screen panels estimated its second-quarter operating profit at between 6.5 trillion won and 6.9 trillion won ($5.7 billion and $6.1 billion), a 79 percent jump from a year earlier based on the midpoint of that range. It will release a detailed earnings report later this month.

Analysts said the sharp rise in operating profit was driven by Galaxy smartphone sales. Although Samsung did not break out figures for each division, analysts believe about 4.4 trillion won of its second-quarter profit is from its mobile communications division, accounting for about 65 percent of its operating earnings.

But the South Korean company's guidance for second quarter revenue of between 46 trillion won and 48 trillion won was below the average market forecast of around 50 trillion won. Samsung shares fell 2.2 percent in Seoul.

The revenue figure "means that global demand for information and technology products during the second quarter was weaker than expected," said Song Myung-sub, an analyst at Hi Investment and Securities.

The chronic European debt crisis is taking a toll on demand in Europe, North America and China, which are key markets for manufacturers of personal computers, televisions, mobile phones and home appliances. Consumers and PC and TV makers are primary revenue sources for Samsung, which supplies chips and flat-screen panels for global PC and TV makers, in addition to selling its own finished products.

The global television market shrank from a year earlier during the first half of this year, Yoon Boo-keun, president of Samsung's television and home appliance division, said at a media event Wednesday. The company is preparing for a possible crisis with a contingency scenario for each region, Yoon said.

Growth in the mobile phone industry's handset shipments this year will be the slowest in three years at just 4 percent because of uncertain economic conditions, market researcher International Data Corp. said last month.

Analysts including Lee Sun-tae at NH Securities and Investment said Samsung's low-end smartphone sales in China were less than expected in the second quarter due to competition from Chinese handset makers and slowing demand there.

While brisk demand for high-end mobile phones is helping Samsung offset weaker profit growth in its semiconductor and other consumer electronics businesses, its heavy reliance on smartphones is a source of concern, some say.

Samsung's shares have been under pressure since hitting a record high on May 2. The company failed to keep up with demand for the Galaxy S III smartphone which was released in May 29, causing delays in sales. Analysts cut estimates of Samsung's Galaxy S III sales in the second quarter to around 6 million smartphones from 7 million.

Shin Jong-kyun, Samsung's president of mobile business, promised last month that Galaxy component shortages would be resolved soon but the remarks failed to boost the company's share price.

"There are concerns about the economic situation for the rest of the year as well as views looking at Samsung's lawsuits with Apple as a risk," said Lee Seung-woo, an analyst at IBK Securities.

Samsung also lost in two legal bids to lift preliminary U.S. sales bans imposed on one of its Galaxy Tab tablet computers and the Galaxy Nexus smartphone. A California court last month accepted Apple's requests to block sales of Samsung's mobile devices that are allegedly infringing the company's intellectual property.

Although the direct impact from the temporary sales ban in the U.S. will be limited because the products are not a big part of Samsung's mobile sales in the U.S., the court decision stoked concerns about the prospects of Galaxy S III sales in North America, experts said.

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