Smartphones power record Samsung profit of $5.9 billion during Apple lull

Miyoung Kim, Reuters

Samsung Electronics Co, the world's top technology firm by revenue, reported on Friday a record operating profit of $5.9 billion for the June quarter, as rampant Galaxy S handset sales helped stretch its lead over Apple Inc.

September quarter mobile profits are expected to forge further ahead as the latest Galaxy model enjoys a sales boom before the next iPhone launch, widely expected in October, driving Samsung's profit to a record of nearly 8 trillion won ($7 billion). The mobile business brings in around 60 percent of Samsung's earnings.

Profits of the handset division more than doubled from a year earlier and the flat-screen business swung to a profit as LCD prices stabilized.

Shares in Samsung, which also makes TVs and other appliances, flat-screens, and chips, jumped as much as 4.7 percent to a five-week high after the results, outperforming the wider market.

"Solid results from the TV division show its resilience to the euro zone crisis, while the mobile division has become a strong cash cow on the back of strong Galaxy sales," said Seo Won-seok, an analyst at Korea Investment & Securities.

"Weak memory chip prices remain the biggest concern for Samsung in the third quarter, but it will again fare better than rivals as its reliance on Apple, which tends to squeeze suppliers quite a bit, is small compared to the likes of Hynix and Toshiba. It'll have less margin pressure."

JK Shin, head of Samsung's telecoms business, told Reuters on Sunday that sales of the Galaxy S III, the most aggressive competitor to the iPhone, were better than his initial forecast of at least 10 million units in the first two months after its launch in late May.

It is also preparing a sequel to the popular phone-cum-tablet Galaxy Note later this year to counter Apple's new product releases.

Samsung, which earlier this year ended Nokia's 14-year reign as the top global handset maker, is estimated to have increased smartphone shipments to 50.5 million in the June quarter, nearly double the 26 million iPhones sold.

Apple shipments in the June quarter tumbled 26 percent sequentially as the European economy sagged and consumers held off on buying ahead of the release of the iPhone 5.

"Regardless of Apple's performance, Samsung will be strong in the third quarter," said Byun Han-joon, an analyst at KB Investment & Securities. "Actually, for Samsung, Apple's stumble is a chance."

Analysts estimated that Samsung, which now controls more than a third of the global smartphone market, will sell 15 million to 20 million of its Galaxy S III in the September quarter.

Patent Battle

Samsung, valued at $160 billion and the world's leading maker of TVs, said April-June operating profit totaled 6.72 trillion won ($5.9 billion), in line with guidance it issued earlier this month.

That is up 79 percent from a year ago and 15 percent from the previous record - 5.85 trillion won in the March quarter.

Still, its net profit of 5.2 trillion won ($4.5 billion) is only half of the $8.8 billion Apple returned in the last quarter from its iPhone, iPad and Mac computer sales.

Samsung's gross margin of 37 percent also lags Apple's 43 percent.

The two technology giants, locked in bruising patent battle globally, will begin a jury trial in federal court in San Jose, California on Monday. Apple seeks roughly $2.5 billion in damages, plus permanent injunctions on some Samsung phones and tablets, while Samsung is demanding patent royalty payments.

Samsung said it expected its third quarter - July to September - to be marginally positive as demand for consumer electronic goods, including smartphones and tablets remains strong.

However, it said it expected weak demand for PC DRAM to continue in the third quarter.

Song Myung-sub, a senior analyst at HI Investment & Securities, said chip earnings might pull back slightly in the third quarter.

"But the increase in demand for its products from Microsoft Windows 8 release in September and the iPhone in October will bring demand higher than supply," Song said.

Profit from the telecoms division more than doubled to 4.19 trillion won from a year earlier 1.71 trillion won, with sales of 50.5 million smartphones - or 380 every minute.

Its semiconductor business showed a small decline in profit to 1.1 trillion won from 1.79 trillion won, following weak demand for NAND memory chips and computer memory chips.

Prices of NAND flash memory chips tumbled 46 percent in the first half of this year following a 34 percent plunge last year, forcing Toshiba Corp to cut output by 30 percent.

The flat screen division swung to a small profit of 750 billion won from a year earlier loss of 210 billion won after a global fall in LCD (liquid crystal display) prices stabilized.

The TV and home appliances business returned 760 billion won, up from 470 billion won. Analysts have said the business has been buoyed by solid sales of high-end TV models with 3D and Internet connectivity features.

While the next iPhone will likely slow Samsung's handset earnings growth, it will boost the Korean firm's semiconductor earnings as Samsung is the sole producer of processing chips used to power the iPhone and iPad, and also supplies Apple with mobile memory chips, NAND flash and display screens.

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