

LG's profit falls on weak TV demand, handset costs

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LG Electronics' latest quarterly report underlined challenges facing global electronics makers as weak TV demand and stiffer competition in smartphones undermine profit.

The results Wednesday showed an 8 percent decline in April-June net profit to 155.5 billion won (\$140 million) even as LG's revenue rose 10 percent from a year earlier to 15.2 trillion won (\$13.6 billion). Operating profit fell 9 percent from a year earlier to 479 billion won.

LG's TV sales improved a bit and smartphone sales hit a quarterly high of 12.1 million handsets. The smartphone shipment figure was more than double from the year-earlier quarter.

But that was not enough to create bigger profits as consumers snapped up cheaper devices that have lower margins for manufacturers. LG said sales of LCD TVs rose but soft TV demand combined with competition from rivals depressed TV prices.

Even though LG turned around its loss-making mobile unit to the world's No. 3 smartphone supplier, its handset business is not a cash cow like Samsung and Apple's, which dominate the high-tier smartphone market. LG's cheaper smartphones are popular but also burden the company with heavy marketing costs.

To improve its bottom line, LG is rolling out high-end models for its core TV and handset businesses in the current quarter.

Earlier this week, LG began sales in the U.S. market of curved TVs that cost \$15,000.

LG and Samsung Electronics Co., the world's two largest TV makers, have invested billions of dollars to make giant TVs with OLED screens, or organic light-emitting diodes, hoping to outclass the crispness and color saturation of other TVs. But there are still challenges to successful OLED mass production, accounting for their high price.

On the smartphone side, LG is set to introduce the latest iteration of its flagship Optimus G series phone globally by October. LG has not launched a new smartphone in the second quarter.

The G2 smartphone will be its first smartphone to have a debut event at Apple's home market. On Aug. 7, LG is announcing the G2 smartphone at the Lincoln Center in New York City.

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LG said the G2 smartphone secured contracts with more global wireless carriers than its predecessors, including Verizon Wireless, which will help expand sales. Chief financial officer Jung Do Hyun said the company plans to spend big on marketing in the third quarter to promote the new phone as LG struggles to build premium brand in the mobile market.

The company needs a "mega hit smartphone to dramatically raise its profit," said So Hyun-chul, an analyst at Shinhan Investment Corp.

That is the same challenge facing other top smartphone makers.

While Apple and Samsung Electronics cashed in on the initial explosive growth in smartphone use, impressing consumers with new smartphones has become harder as top handset makers offer similar hardware features. Growth is stalling in developed countries where smartphone use has reached saturation point. Emerging markets are still growing but the demand is for cheaper phones that are less profitable for the handset makers.

LG said its second-quarter smartphone sales increased thanks to demand for middle-tier smartphones.

On Tuesday, Apple reported lower quarterly earnings for the second straight quarter as it increased sales of older, less expensive models of the iPhone instead of the latest version.

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