

Samsung flags big jump in profit on strong S7 sales

Samsung Electronics on Thursday flagged its biggest operating profit in more than two years, boosted by cost-cutting efforts and solid sales of its latest flagship smartphone.



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The South Korean electronics giant - also the world's top handset maker - predicted an operating profit of 8.1 trillion won (\$7 billion) in April to June, up 17% from 6.9 trillion won a year ago. It is the company's biggest operating profit since the first quarter of 2014 and beat the average estimate of 7.4 trillion won from analysts surveyed by Bloomberg News.

S7 sales

Analysts attributed the better-than-expected figures to the firm's aggressive cost-cutting efforts and brisk sales of the Galaxy S7, the latest version of its high-end, flagship smartphone.

"Samsung's mobile unit is believed to have performed well thanks to robust sales of Galaxy S7s as well as an overhaul of its low- and mid-end handset line-up," said Peter Lee, analyst at NH Investment & Securities. He estimated that in the second quarter the firm had sold more than 16 million units of the S7, which was introduced in March ahead of new launches by competitors, including Apple.

Samsung's mobile business accounts for the lion's share of the firm's overall profit, which has been increasingly squeezed

by competition both from Apple's iPhone and by lower-end devices from Chinese rivals like Huawei. Samsung shares rose 1.8% to about 1.45 million won in early afternoon trade.

Samsung has bolstered its mid- to low-end smartphone line-ups in a bid to expand in emerging markets, which are growing faster than the largely saturated high-end markets.

The firm's aggressive cost-cutting in marketing played a key role in the strong profit forecast, Greg Roh of HMC Investment said, warning of more competition from Apple later this year. "With Apple releasing new products in the latter half of the year... I think (Samsung's) earnings may drop in the second-half," he said.

Semiconductor unit

But the firm's semiconductor business, which produces memory chips for Samsung gadgets as well as clients including Apple, is likely to help offset a slump in the mobile business, Lee said. The semiconductor unit has helped buttress Samsung's profit margins, with its operating profit largely outpacing the mobile business since late 2014. It racked up operating profit of 12.8 trillion won last year, beating the 10.1 trillion won earned by the mobile unit.

The world's number two chipmaker has dominated production of faster, larger-capacity chips using a technology called 3D NAND. Samsung was the first to mass produce chips using the technology and is producing the high-margin chips - used in mobile gadgets and hard drives for servers - at its factories at home and in China.

"Competitors are trying to increase their 3D NAND production capacity... but Samsung is expected to lead the market for a while given the technological gap," said Kwong Sung-Ryul, analyst at Dongbu Investment and Securities.

Thursday's forecast, which comes ahead of audited results to be released this month, did not provide a net income figure or breakdown of divisional earnings for the company's mobile, TV, semiconductor and display units. It predicted second-quarter sales of 50 trillion won, up from 48.5 trillion won a year ago.

Source: AFP

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