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# Samsung and HTC report contrasting smartphone fortunes

Taiwanese HTC reports its first quarterly loss since 2002 as South Korean Samsung forecasts record quarterly profits

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Samsung Galaxy S4 smartphones. Analysts estimate that sales of its top-end model fell to 16m in July-September, compared with 20m in the two months after April. Photograph: Lee Jin-Man/AP

The smartphone market is continuing to polarise as South Korean manufacturer **Samsung** forecast it was heading for record quarterly profits while Taiwanese rival **HTC** reported its first quarterly loss since 2002.

As HTC made an operating loss of 3.5bn Taiwanese dollars (£73m) after sales fell a third to NT\$47.05bn (approximately £1bn), analysts warned that the company needs to find a partnership or merger as it is squeezed out of the high-end market by Samsung and Apple and sees margins hit by low-end Chinese handset makers.

Samsung Electronics, which makes memory chips, hard drives, cameras and TVs as well as smartphones and tablets, said it expects to record an operating profit of 10.1tn won (£5.9bn), up 25% from 2012. It didn't offer a preliminary revenue figure.

Samsung's profit was helped by sales of memory chips, which were boosted after a fire at the factory of Chinese rival SK Hynix, the world's second-largest chipmaker. That drove would-be customers to Samsung, which has a substantial lead in the field, according to Lee Seung-woo of broker IBK Investment and Securities. He told Reuters that Samsung "could post considerable operating profits throughout this year and next year, even if demand flags". Short-term prices for memory chips jumped by 37% in the second half of September after the Hynix fire.

Analysts said the high end of Samsung's smartphone business is slowing. Barclays estimated that sales of its top-end Galaxy S4 smartphone fell to 16m in the July-September period, compared with 20m in the two months after its April debut, and forecast a further fall to 13m in the current quarter. Even so analysts reckon Samsung sold between 86m and 88m smartphones in the quarter just completed. Samsung does not release audited figures for handset sales.

"Memory [chips], not handsets, is driving Samsung's next leg of profit growth," Mark Newman, an analyst at Bernstein, wrote in a client note.

HTC meanwhile is reckoned to have seen its smartphone shipments dwindle to just 6m handsets during the quarter, according to a preliminary estimate by Francisco Jeronimo of the research company IDC. That would give it a market share of around 2.3% in a world market of 260m smartphones for the quarter. Its shipments are sliding: in the second quarter HTC shipped an estimated 6.6m units, and a year ago 8.6m units.

Peter Chou, HTC's chief executive, had warned of the loss during the previous quarter. But the company's problems appear to be multiplying, with rumours that suppliers are demanding earlier payment than before, putting pressure on HTC's cash position. The company recently sold mobile video business Saffron Digital for \$48m – the same price it acquired the business for in February 2011 – and will sell its remaining 25% stake in headphones company Beats for \$285m, which will bring in an \$85m profit two years after it spent \$300m for a 51% stake in the company.

Dennis Chan, an analyst at Yuanta Securities in Taipei, told Reuters HTC has been hurt by its insistence on using more expensive components, particularly chips, for low-end markets like China, hitting profits.

HTC's fall into loss suggests it will find it impossible to recover its former position in the smartphone market, where it was the biggest Android handset supplier to the US in 2010, said Horace Dediu, who runs the Asymco consultancy.

The smartphone business is going through rapid change. Nokia, which once dominated, agreed in August to sell its handset business to Microsoft after seeing its smartphone sales dwindle. Meanwhile BlackBerry says it will exit the consumer smartphone business altogether. HTC is seen as next in line: no independent phone company that has made a

quarterly loss has managed to recover, according to Dediu.

"The phone business is the biggest technology business and one of the fastest growing. And yet the paradox is that the rising tide does not lift all boats. In fact, the rising tide seems to be sinking small boats while rocking the largest, and foundering some," Dediu said.

Dediu estimates that HTC will be bought, merged or broken up before mid-2015. The company's latest quarterly revenues are comparable to those of BlackBerry – though half of the latter came from services.

"Fundamentally there are a lot of things that need to be fixed [at HTC]," Laura Chen at BNP Paribas told Reuters, adding that HTC needed to work on marketing, supply chain management and streamlining its product line. "No sign of recovery anytime soon."

But Cher Wang, HTC's low-profile chairwoman and co-founder who owns 3.8% of the business, has repeatedly ruled out selling the company and has said a low share price did not bother her.

Questions have been raised over the management style of Chou. The company told Reuters: "HTC's board and broad employee base remain committed to Peter Chou's leadership. The [flagship] HTC One product family – which has been met with accolades by media and consumers alike – was a result of Peter's vision and leadership, and speaks for itself."



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