

Informa analyst comments on Nokia's results

LONDON, UK: David McQueen, principal analyst at Informa Telecoms & Media, comments on Nokia's financial results.



Nokia says its financial performance in 4Q12 was better than it had expected because of smartphone sales and overall performance improvements as a result of restructuring. Nokia's Devices & Services unit exceeded the vendor's expectations for performance in 4Q12, with its Lumia portfolio delivering better results than it had thought, while operating expenses were also lower than expected.

Nokia's 4Q12 Devices & Services net sales were €3.85bn (US\$5.1bn), with total device volumes of 86.3 million units. Overall, the Finnish company sold 6.6 million smartphones, of which 4.4 million were Lumia and 2.2 million Symbian, plus 9.3 million Asha phones. Together, they accounted for 15.9 million device sales, which were down from 19.6 million in 4Q11. Nokia's smart devices' average selling price (ASP) increased year-on-year due mostly to a positive shift towards sales of its Lumia devices and away from the cheaper Symbian devices. The ASP of Nokia's Lumia devices in the 4Q12 was €192, up from €160 in 3Q12.

Total handset sales were down 24% for the quarter year-on-year. Much of this decline was due to a collapse in the China market, where a lack of smartphones sales, notably Symbian, and lower volume sales of mobile phones saw volumes fall by 69%. There is some encouragement, albeit from a position of small volumes, to be taken from the fact that sales in North America increased to 0.7 million, 40% more than in 4Q11, helped by sales of Lumia devices.

While Nokia's Asha range is selling significantly better than its smartphones, Lumia sales volumes did grow quarter-on-quarter. However, Symbian is now all but dead with the company announcing that the 808 model will be Symbian's last. Nokia desperately needs to extend the Lumia range across price tiers and move quickly to other mobile operators and markets if it is to achieve critical mass for these devices. It particularly needs to rekindle interest in China, and fight back in the smartphone market against Apple and Samsung.

Nokia's smartphone volumes in 2013 are clearly reliant on Lumia plugging the gap left by the rapidly-decreasing Symbian sales, but the issue is whether the Windows Phone 8 (and the wider Windows 8) platform can prove to consumers quickly enough that it is a viable alternative to iOS and Android. It is the ability to translate this message at the point of sale and prove its value proposition to the consumer that will determine the success of Nokia's WP devices and help grow the platform.

The cost-cutting exercise and strategy overhaul are beginning to translate into positives for the company, but it needs much more to stay competitive including a boost to the Microsoft Windows platform.

Nokia stated that it had "significant supply issues" with its flagship Lumia 920 device during 4Q12, which was partly self-inflicted as it feared a potentially costly stockpile of unsold Lumia handsets but there were also shortages of key components. While this is a worry on one hand, it a positive on the other as Nokia's Windows Phone sales could have grown even faster and perhaps now is the time for the company to take the brake off supplying Lumia devices.

Undoubtedly, Nokia will soon announce new smartphones on WP8 in the lead-up to Mobile World Congress in February. It hopes that the new stand-out features, such quality screens, PureView imaging technology, the impressive optical image stabilization (OIS) and wireless charging, along with its differentiated services will increase sales. Also, with no Win RT tablet yet in its portfolio, this may be the move Nokia needs to help stimulate sales and improve the margins in its devices and services arm. Indeed, the encouraging results from this latest quarter may have signalled that Nokia has finally bottomed out in the smartphone market and is ready to start clawing back market share.

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