Mixed Views on Samsung After Stellar 2013

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SEOUL, South Korea (AP) — For Samsung Electronics and its 270,000 employees across the globe, 2013 was the best year.

One in every three smartphones sold carried the Samsung brand, with the company shipping more than 300 million of the devices. South Korea's best known company on the world stage rounded off the year with record annual revenue and profit. Employees celebrated bonuses totaling more than $740 million.

Already selling more smartphones than any other company, Samsung is set to ship even more this year. Its smartphone sales will jump over 20 percent to nearly 400 million units, according to Counterpoint Technology Market Research.

But that probably won't translate into another year of record earnings, a scenario anticipated by investors with Samsung's share price down 17 percent since the start of 2013.

For the first time in more than two years, Samsung's quarterly net profit declined from the previous quarter, its latest result showed Friday. The maker of Galaxy smartphones said its net profit for the October-December period fell 11 percent from the third quarter to 7.3 trillion won ($6.8 billion).

The mobile business, which generally contributes about 70 percent of Samsung's earnings, posted its smallest profit in a year after sales decreased slightly from the

previous three months. TVs, long a mainstay product for Samsung, also disappointed.

Samsung hinted that the earnings decline may not be temporary.

"It will be challenging for us to improve our earnings in the first quarter," Robert Yi, head of investor relations, said on a conference call.

Shareholders have constantly fretted that Samsung's cash cow, smartphones, will become less profitable since sales have reached saturation in developed nations and premium phones don't sell as well in developing countries.

Analysts forecast that Samsung's mobile division will suffer a slight decline in profit in 2014, adding to investor jitters that the company has become too reliant on smartphones. The mobile division's earnings in one quarter now exceed what it would previously make in one year.

Samsung's smartphone sales will not grow much in Western Europe or North America and most of its sales growth will come from Africa, Eastern Europe and India where average prices of smartphones are lower, said Thomas Kang, a director at Counterpoint.

One hope for shareholders is that Samsung's chip business, which supplies companies such as rival Apple Inc., may pick up some of the slack.

At its earnings conference call, a Samsung executive said the company expects its smartphone shipments to increase by 4 to 6 percent during the first three months of 2014 while tablet sales will grow less than 5 percent from the previous quarter.

Analysts said Samsung will likely unveil a new iteration of the Galaxy smartphone next month in Barcelona. The company unveiled new tablet computers at the Consumer Electronics Show in Las Vegas, hoping to narrow its tablet market share gap with Apple.

But Nokia's fall from world's top mobile phone maker to an also-ran is a reminder that no tech company can stay on top forever.

A key source of concern for Samsung is China.

Chinese companies that sell TVs and mobile phones are quickly catching up with cheaper products and improved quality.

Chinese firms such as Lenovo, Skyworth and Huawei may rival South Korean companies more quickly than expected, said Son Jae-kwon, author of "Disruptors," a book on Silicon Valley tech firms.

"People did not expect innovation to come from China, but now it's different," Son said. He compared Chinese smartphone and TV makers that innovate with quick delivery of cheap and solid products to fast fashion firms such as Zara and H&M.

Competition in the Chinese smartphone market will become "somewhat more intense," said a senior Samsung executive, Kim Hyunjoon, as Apple has begun selling iPhones through China Mobile Ltd. which has 750 million subscribers.

But Kim said Samsung sees a business opportunity in China where it leads in smartphones.

"With the spread of LTE wireless service, there will be more demand for high-end" devices, he said.

Chinese TV makers, while they lag in overall TV sales to Samsung, are manufacturing more ultra-HD TVs at cheaper costs. Known as "4K," those TVs are in huge demand among the Chinese.

In the last few years, Samsung invested heavily in OLED TVs, believing they would be a hit. But OLEDs remain unaffordable while ultra-HD TV sales are forecast to surge. This misstep has created opportunities for companies such as Sony Corp., which is getting an additional boost from a weak yen.

Samsung plans to boost its ultra-HD TV lineup this year but market forecasts are not so favorable for the Korean firm.

Samsung is also seeking a breakthrough in its appliance business with its "smart home" vision, a household where mobile devices, refrigerators, TVs and air conditioners talk to each other.

In his new year's speech, Samsung chairman Lee Kun-hee urged employees to "change once again" and to discard business strategies from five or 10 years ago.

In its search for a new cash cow that could replace Galaxy devices, Samsung has been investing in medical devices, solar batteries, health care and other new businesses. But they have not yet generated meaningful results.

"Samsung wants to be a conglomerate in the tech industry," said Marcello Ahn, a fund manager at Quad Investment Management. "It is trying to do it all."

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