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Maturing Global Smartphone Market Is Ramping Up Competition And Shrinking Profits, Says S&P Report

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HONG KONG (Standard & Poor's) Nov. 16, 2015--Chinese smartphone manufacturers have gained significant market share over the past two years, pressuring profits and credit metrics for more established companies, according to a report published today by Standard & Poor's Ratings Services.

The report, titled "Will Commoditization Dent Profits In The Global Smartphone Industry?
," projects that smartphone demand in China slowed by 1% in the first half of 2015 and is likely to remain sluggish over the next one to two years. While the growth in global smartphone shipments is expected to slow to approximately 10% in 2015 from 30% in 2014, newer entrants like Huawei and Xiaomi are claiming a larger portion of this shrinking market.

These companies, and an increasing number of other smartphone makers, now offer good-quality smartphones at affordable prices, benefiting from cheaper application processors, display panels, and other key smartphone components. The report concludes that these factors have led to stiffer competition and accelerating commoditization of devices.

"We've observed similar trends in the personal computer (PC) and TV markets, but believe they may be even more intense in the smartphone industry," said

JunHong Park, a credit analyst at Standard & Poor's and author of the report. "This is due to smartphones' shorter product life cycle, and the trend could threaten smartphone makers' profits over time," he added.

While U.S.-based Apple Inc. (AA+/Stable/A-1+) has kept its reign in the premium smartphone market, Standard & Poor's expects Chinese manufacturers to keep gaining overall share and increasing revenues, albeit with thin margins. Korea-based Samsung Electronics Co. Ltd. (A+/Stable/A-1+) will likely remain in the middle ground between Apple and the smaller Chinese players.

Given the falling entry barriers and intense competition, Standard & Poor's anticipates that Samsung, the top player by global shipments, will find it more challenging to maintain over 20% of market share in coming years.

A breakthrough in improving profitability will become even more elusive for second-tier smartphone players, like Korea-based LG Electronics Inc. (LG; BBB/Negative/--). Meanwhile, Japanese smartphone manufacturers, including Sony Corp. (BBB-/Stable/A-3), are restructuring to focus on other business lines and the domestic smartphone market in light of tough global markets.

Analysts expect smartphone demand to stagnate over the next several years in developed markets such as the U.S. and Western Europe. With the high penetration rate in these markets, smartphone replacements rather than first-time purchases will likely account for the bulk of demand.

Standard & Poor's Ratings Services will host a live webcast on Tuesday, November 17, to discuss the findings of this commentary. Click here to register (http://event.on24.com/wcc/r/1093316/9208B568C9F3FA9764E6A535CFF0835B).

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. Ratings information can also be found on Standard & Poor's public website at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating. Members of the media may request a copy by e-mail at seoul.pressroom@standardandpoors.com or by phone at (82) 2-2022-2344. A Korean-language version of this media release is available via spratings.co.kr or via Standard & Poor's CreditWire Korea on Bloomberg Professional at SPCK <GO>.