Struggling Ericsson takes huge hit on Q1 accounts

STOCKHOLM, Sweden: Ericsson took a huge hit on its first-quarter accounts in a bid by its new chief executive to turn the beleaguered telecoms giant around.

Ericsson, which is struggling to fend off stiff competition from rivals such as China's Huawei, said in a statement it would book up to 15 billion kronor (€1.6bn, $1.71bn) in restructuring costs, write-downs and provisions in the first quarter.

New chief executive, Borje Ekholm, who took over in January after having served on Ericsson's board for 10 years, has announced plans to slim down the company.

Challenged on tech, market leadership

"For some time Ericsson has been challenged on both technology and market leadership and the group strategy has not yielded expected returns," Ekholm said in a statement.

"Ericsson will pursue a more focused business strategy to revitalise technology and market leadership, improve group profitability and enable customer success," he said.

He said Ericsson's improvement needed to come primarily from better internal efficiency and said he expected the group's operating margin to improve as of next year.

2016: Annus horribilis

Last year was an annus horribilis for Ericsson, during which it fired its previous chief executive Hans Vestberg, slashed 5,000 jobs, and posted an 86% plunge in net profit for the whole of 2016.

A pioneer in mobile telephony, the group has since the early 2000s been fighting off rivals such as Nokia, Alcatel-Lucent, Siemens, Huawei and ZTE to cling to its position as world leader in mobile networks.

Ericsson said it planned to reorganise to have three main business areas: networks, digital services and managed services. It also planned to restructure or sell its media and cloud divisions.

"Ericsson is doing the worst on an already weak market. And it seems as though Nokia is gaining market share. And the Chinese are tough rivals," said Nordnet analyst Joakim Bornold.

Possible capital hike

Some observers are speculating about a possible capital hike.

"Ericsson has a really tough period ahead. There will probably be more savings programmes, and they may need more money from owners," the analyst told news agency TT.

"Until now it has felt like a new share issue has been far off, but it's coming ever closer now," he said.

"You definitely can't exclude the possibility that Ericsson may have to launch a new share issue before this is all over," one unnamed analyst told financial daily Dagens Industri.

But CEO Ekholm rejected the idea. "We have a strong balance sheet right now, we see no problem with that," he said Tuesday, referring to the 31.2 billion kronor cash flow booked at the end of December.

After the announcement, Ericsson's share price was down around 1.3% on the Stockholm exchange at 1400 GMT, trading for 58 kronor, compared to around 80 kronor a year ago.

The company is scheduled to present its first quarter earnings report on 25 April 2017.

Source: AFP