

RIM expected to reveal sales surge

High demand for low-end handsets drives result

By Susan Taylor, Reuters March 30, 2010

Research In Motion is expected to report this week it sold a whopping 11 million BlackBerrys in its latest quarter, which may offset the impact of falling prices and narrower profit margins.

As RIM moves further into the broad consumer smartphone market, it has been offering cheaper devices to compete with Apple's iPhone and Motorola's Droid.

Sales and subscriber growth, particularly in international markets, have gone up as a result. But analysts said the brisk demand for low-end devices, which drives down the company's average selling price, may pressure profit when

RIM reports its fourth-quarter results tomorrow.

"That's where everybody's going to be focusing their attention: margins and (average selling prices)," said Ed Snyder, managing director at Charter Equity Research.

"They have to hit a strong unit number because it's been talked about ad nauseam . . . and that's what has caused some of the strength in the stock. If they miss that, they're toast," he said, referring to the company's share price.

Sanford C. Bernstein analyst Pierre Ferragu said RIM's "trading down" strategy will deliver a couple of good quarters. But the growth and margins are not sustainable, and he also expects RIM's handset sales to corporate customers to wane.

What's more, RIM will lose the advantage it has over companies whose phones use more bandwidth as data costs drop and traffic moves from e-mail to images and video.

But not everyone agrees lower prices mean leaner profits.

"What we think you're going to see is that units and subscribers are going to show considerable growth. And we think you're going to see ASPs (average selling prices) will have eroded, but gross margins will have improved," said Canaccord Adams analyst Peter Misek.

"Some of their lower-cost devices are actually their higher margin products."

He estimates the Curve 8520 phone has a gross margin that is 100 to 200 basis points above the rest of RIM's product line.

Other analysts say RIM can withstand competitive pressure. They point to its strong third-quarter results as proof RIM's loyal customers and the BlackBerry's strong security features protect it from a scrappy consumer market.

"IT (information technology) departments still look at BlackBerry as a best of breed," said Research Capital analyst Nick Agostino.

For its fourth quarter ended Feb. 28, RIM estimated it would sell between 10.6 million and 11.2 million phones at an average price of \$320 for a gross margin of 43.5 per cent.

It forecast earnings per share of \$1.23 to \$1.31 and revenue of \$4.2 billion to \$4.3 billion while adding 4.4 million to 4.7 million new subscribers.

"I would not bet against RIM this quarter; it seems like the whole handset industry is doing well," Snyder said. "We haven't seen a big erosion in pricing yet."

Analysts say their sales checks show brisk demand, partly driven by the lower-end 8520 model and new Bold 9700 handset, in a December-February quarter that straddles Christmas, end-of-year corporate budget spending and Valentine's Day.

On average, analysts expect profit of \$1.27 per share and revenue of \$4.3 billion, according to Thomson Reuters. RIM shares have gained roughly four per cent over the past week.