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CIO NEXT 4/19/2012 @ 5:50PM | 9,185 views

Nokia: Demand Still Falling, The Worst Is Still To Come

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Think things are going badly for Nokia?

Well, just wait. Conditions could still get worse.

Maybe a lot worse.

In a research note this afternoon, Charter Equity Research analyst Edward Snyder laid out the problem Nokia faces.

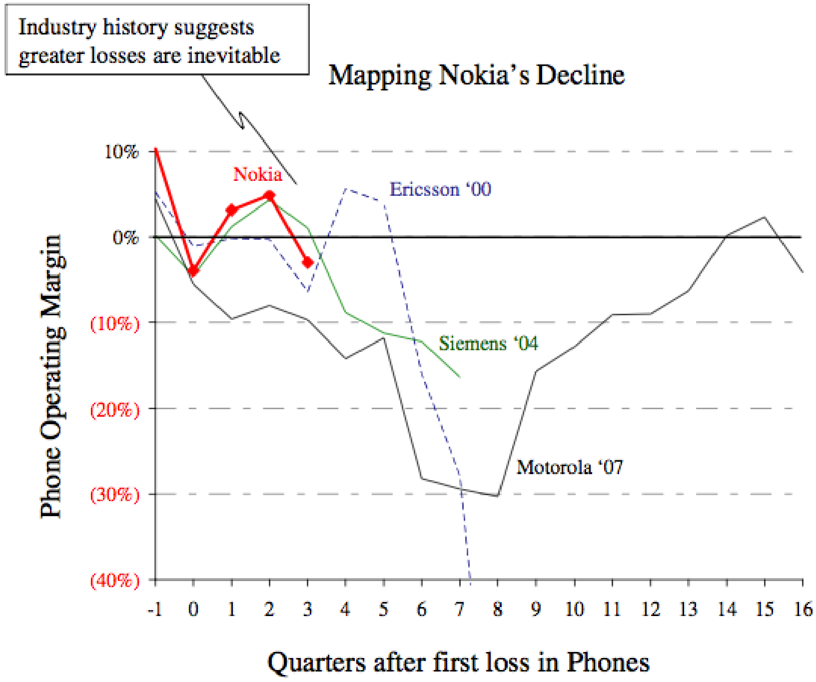
"Having launched its formal restructuring a year ago, Nokia is now facing the most difficult stretch where legacy products fall off before new platforms gain traction and competitors attack in each of Nokia's markets," he writes in a note following the company's Q1 financial report this morning, which basically was in line with its recently reduced guidance.

"This has happened to all the other large OEMs that attempted big turn-arounds and has always lead to much larger losses and, in many cases, an exit from mobile phones," he writes.

Ye gads, could Nokia actually stop making phones altogether?

"The key differentiator between survival and failure is how quickly the company can restructure," he writes in the report. "Labor laws put European firms at a distinct disadvantage to North American and Asian firms, which was largely responsible for Siemens failure and Ericsson's exit from phones. Nokia's phone business is stronger than either of them at their peak but it faces similar impediments that will virtually guarantee greater losses in 2012. Indeed, mapping Nokia against the history of handset OEM failures suggests the largest losses are still to come. So while CEO Elop has made admirable progress, we don't believe Nokia has turned the corner and would not recommend the stock at $4."

Take a look at this sobering graphic on what the company could face in the quarters ahead:



Things could still get worse. A lot worse. (Source: Charter Equity Research)

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