Nokia Doubling Sends Stock to Nine-Year High to Forecasts

By Alexis Xydias - Sep 5, 2012

Nokia Oyj (NOK1V), the mobile-phone maker that lost 95 percent of market value since 2007, is trading at the biggest premium to analyst price forecasts in almost a decade following a record rally.

As the company, based in Espoo, Finland, prepares to unveil new handsets, the stock surged 96 percent from an 18-year low on July 18 through Aug. 27, the steepest advance for any comparable period according to data compiled by Bloomberg starting in 1991. The gains pushed the shares to 2.68 euros, 35 percent above the average prediction of 48 analysts for a price of 1.99 euros, according to data compiled by Bloomberg.

Once the region's biggest company, Nokia avoided being kicked out of the Euro Stoxx 50 Index for the first time in the gauge's 14-year history last week. The company’s market value plunged to as little as 5.1 billion euros ($6.4 billion) in July as it lost market share to Apple Inc. (AAPL)'s iPhone and devices running Google Inc. (GOOG)'s Android. Chief Executive Officer Stephen Elop will release handsets featuring Microsoft Corp. (MSFT)'s Windows Phone 8 operating system at the Nokia World event today.

"You often get a trading rally in Nokia when there is a new product," Lee Simpson, an analyst at Jefferies Group Inc. in London, said in a phone interview on Aug. 31. "The pattern is often you buy into the expectation, but try and avoid on delivery. We said OK, you can trade into this, but beyond Sept. 5, be careful."

Apple Trial

Apple, based in Cupertino, California, won a U.S. patent trial against Samsung Electronics Co. on Aug. 24, leading some analysts to speculate that handset makers using Google's Android software will need to seek an alternative operating system, such as Windows.

Per Lindberg, an analyst at ABG Sundal Collier in London, rates Nokia a buy because the company and Microsoft, its partner, have a group of patents that is "second to none," making them less vulnerable to copyright lawsuits. Property battles among competitors could spur a "stampede of orders" toward Nokia devices running Microsoft software because Apple and Google may face supply constraints, Lindberg wrote in a report on Aug. 28.

Apple will unveil the next version of the iPhone on Sept. 12, according to people with knowledge of the company's plans.

"Nokia smartphones will not be attacked by Apple or Google because the products are different," Lindberg said in a phone interview on Aug. 29. "What will happen now is that Microsoft and Nokia will receive more interest from more operators and more distributors, and they will up their order volumes." The analyst had a sell rating on Nokia between June 28, 2011 and May 6, 2012. The shares tumbled 44 percent over that period.

Index Expulsion

Nokia slumped so far that the stock faced expulsion from the Euro Stoxx 50, according to a July 5 report from Societe Generale SA analyst John Carson. Stoxx Ltd. left the phone maker in the gauge in its review of the index's members on Aug. 31.

Stoxx adjusts its 50-company gauge by keeping the biggest 40 securities and kicking out any of the remaining 10 that are no longer among the 60 biggest stocks by market capitalization in the 17-nation euro area.

"They've bought some extra time," Christophe Wakim, a quantitative analyst at Exane BNP Paribas in Paris, said in a phone interview on Aug. 23. "It's been very good timing and will be beneficial for the company as they won't have this problem for the time being."
Nokia has been a member of the Euro Stoxx 50 since the gauge's inception in February 1998, though the Finnish company is now its smallest component. On Dec. 8, 2000, Nokia accounted for 11.57 percent of the equity benchmark by value. On July 18 this year, it made up just 0.38 percent.

**Forecasts Cut**

The shares have fallen 49 percent since the last Euro Stoxx 50 review in 2011 as the company reported slumping phone sales and shrinking margins. Executives reduced their earnings forecast in June for the second time this year and said they will trim as many as 10,000 jobs and shut production and research sites.

"Eighteen months ago we outlined a deliberate strategy to deliver people great mobile products," said Susan Sheehan, a Nokia spokeswoman in Espoo. "Every day, we are focused on making process against that plan." She declined to talk about the company's shares.

Nokia has teamed up with Walt Disney Co. and DreamWorks Animation SKG Inc. to tackle an application shortage that left its smartphones trailing Apple and Google. The deals are part of a strategy to ensure Nokia has the most popular apps, even if it lags in the total number, said Marco Argenti, who oversees Nokia's relations with developers.

**Estimates Cut**

Analysts have cut estimates for the company's third-quarter sales, citing concern that consumers will defer buying its current phones until the new devices go on sale. The predictions have fallen to 7.04 billion euros from 9.2 billion euros at the start of 2012, according to data compiled by Bloomberg.

"We see no improvement in fundamentals, and see an opportunity to initiate new short positions," Pierre Ferragu, an analyst at Sanford C. Bernstein & Co. in London, wrote in a report on Aug. 29. "The company is set on a long and painful journey in which it will likely have to reduce its current size by a lot before returning to profits."

The amount of Nokia's equity borrowed, an indication of short-sellers' activity, rose to a near-record 16.6 percent on Aug. 13 from 3.3 percent a year earlier, according to Markit. In a short sale, speculators borrow securities to sell them on the expectation they will be able to buy them back at a cheaper price before returning the loan.

**'Fundamental Changes'**

Nokia’s recent rally “doesn’t matter if you take a look at where the stock comes from,” said Mirko Maier, an analyst at LBBW in Stuttgart, Germany. “There is no need to jump into the stock. I haven’t seen any fundamental changes. You need consecutive quarters of higher numbers of smartphone sales.”

The Finnish phone maker’s shares surged 50 percent between Aug. 10 and Oct. 27, 2011, before the last Nokia World event. The shares plunged 73 percent from Oct. 27 to July 18 as shipments of its flagship Lumia handsets disappointed.

“If they don’t come out with a super phone that is really a game changer, we will see a pullback again in the stock,” said Leon Cappaert, who helps oversee $186 billion at KBC Asset Management SA in Brussels. “The company is still in a pretty poor position at the moment and I can’t find any hard evidence that would justify the sharp move.”

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