Ericsson clinches deals with China duo
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Ericsson, the world's largest telecommunications equipment producer, has signed contracts worth $1.44bn with China's two biggest mobile phone companies.

The deals deepen the Swedish company's roots in China at a time when it is battling to secure lucrative contracts to help supply China's home-grown mobile network.

In a ceremony attended by Fredrik Reinfeldt, Sweden's prime minister, Ericsson signed a $1.3bn deal with China Mobile and a $140m deal with China Unicom to expand their GSM networks.

China is developing its own third-generation technology, called TD-SCMA, alongside other 3G technologies such as GSM, which is used in Europe, and CDMA2000, which is used in the US. TD-SCMA, however, is expected to be the only nationwide technology.

The TD-SCMA contracts promise to be some of the most lucrative in the sector, sparking fierce competition among equipment suppliers.

There is no fixed deadline for when the contracts will be awarded, keeping Ericsson, Alcatel Lucent, Nokia Siemens and local rival Huawei, in a state of limbo.

It had been hoped that the contracts would be awarded ahead of this summer's Olympic Games, but those deadlines appear to have been pushed back after the technology suffered teething problems.

Ericsson is particularly keen to secure the China business as its share price has been depressed since a profit warning last October. It wiped out a quarter of the Swedish company's market capitalisation - about $15bn - in one day after it said third-quarter profitability was far lower than expected.

Ericsson attributed the decline in earnings to "a shortfall in sales in mobile network upgrades and expansions which resulted in an unfavourable business mix that also negatively affected margins".

Despite the warning Ericsson remains the only profitable company in its industry, but its share price has still declined sharply, closing at SEK11.74 yesterday, having traded above SEK25 ahead of October's warning.

The company reports first-quarter results for 2008 on April 25 amid heightened concerns the problems that caused the profit warning in October may have spilled into this financial year.

Research by Citigroup has forecast a 25 per cent quarter-on-quarter decline in revenues to SEK40.7bn ($6.8bn) and a gross margin of 33.7 per cent, under the market's consensus of 35.7 per cent, while the operating margin is forecast to fall to 7 per cent.

Fonte: Financial Times, p. 16, Apr. 15, 2008.