

Mossberg's Investor Digest

Best Idea Profile: Nokia Corporation (NYSE:NOK)

DESCRIPTION:

Headquartered in Espoo, Finland; Nokia Corporation manufactures mobile devices and provides Internet, digital mapping and navigation services internationally. Nokia also offers Internet services focusing on music, navigation, media, and messaging along with tools that enable developers to create applications under the Ovi brand name. NOK's NAVTEQ segment provides various digital map information and related location-based content and services to mobile device and handset manufacturers, automobile manufacturers, navigation systems manufacturers, software developers, Internet portals, parcel and overnight delivery services companies, and governmental entities. The company has facilities in 9 countries and sells products in over 160 countries.

KEY INVESTMENT CONSIDERATIONS:

New Strategic Alliance – The emergence of the smartphone and platform driven services, along with new innovative competitors (iPhone & Google), has left Nokia lagging in market share in recent years. However, Nokia still has a major worldwide telecom franchise. NOK sells more than 1-in-3 smart phones globally and more than 1.3 billion people connect to one another with a Nokia device. To address its market share loss, NOK has established a broad-based partnership with Microsoft. The agreement pairs Microsoft's operating systems and browser with Nokia's installed device and service base. NOK intends to ramp up its capacity for the development of Nokia smartphones based on the Windows Phone platform, combined with NOK's broad range of mobile phones and its services portfolio. By combining NAVTEQ's capabilities with Microsoft's BING browser, Nokia may have some new and unique monetization possibilities on the horizon. The new alliance will also allow Nokia to leverage Microsoft's applications such as office solutions, gaming and productivity tools. Therefore, Nokia will now have a bundled solution that can compete with Google (Gmail and navigation) and Apple (iPhone and iTunes).

Restructuring efforts to restore returns – Nokia has announced plans to consolidate site operations, reduce its global workforce and more clearly delineate its global R&D efforts. Over the next couple of years, these measures will save the company more than \$1 billion in annual operating expenses. The alliance with Microsoft, will also allow the company to jettison its own costly operating system development efforts. These combined moves will lower costs significantly, position the company to more effectively compete and, return the company to its history profitability/ return levels.

New Leadership – Nokia appointed Stephen Elop as the Company's new CEO last September. A veteran of Silicon Valley as a technology executive his last position was as President of Microsoft's Business Division. His intimate knowledge of Nokia's new partner should prove most helpful and the company develops and expands a new smartphone platform.

Transitioning to Smartphones – For the First Quarter of FY2011 the company reported total mobile device volumes of 108.5 million units in Q1 2011, up 1% year-on-year basis. Yet the company reported converged mobile device (smartphone and mobile computer) volume of 24.2 million units in Q1 2011, an increase of 13% on a year-over-year basis.

VALUATION:

For a dominant player in the mobile communications space, 4x EV/EBITDA appears to be a bargain. While it may be a while before the positive results from the new Microsoft alliance are realized, expense reduction efforts should be apparent relatively soon. In addition, the company pays an attractive 5% yield, which should provide a nice return while investors wait to see signs that the new strategic alliance is working. Based on historical returns in excess of 20% and net profit levels north of 10%, the company has \$2.00 per share in earnings power and should easily be able to command a multiple in the high teens.

(Nokia Corp: NYSE)

Investment Data (as of 4/29/11)

Recent Price	\$9.23
52-Week Range	\$7.73 - \$12.28
Fiscal Year End	Dec
Dividend	\$0.46
Yield	5.0%
Shares Outstanding	3.7B
Average Trading Volume (3 mos)	30MM
Market Capitalization	\$34B
Cash	\$17B
Long Term Debt	\$7B
Enterprise Value (EV)	\$24B
BV/ Share	\$5.67
TTM Revenue	\$64B
P/ Revenue	0.5x
TTM EPS	\$0.74
P/ EPS	12x
TTM EBITDA	\$5.7B
EV/ EBITDA	4x

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