

Video killed the cellphone star

Oscar Huettner, product manager of BondLend, comments on cellphone trends. How does Nokia's share price and loan values reflect the dynamics of the global cellphone market?

On 18 December, IHS Media Relations reported that for the first time since 1998 Nokia had slipped to number two in worldwide cellphone shipments. In 2012, Nokia was overtaken by Samsung and saw its market share slip from 30 to 24 percent, while Samsung's rose from 24 to 29 percent. While in isolation a loss of market share of this magnitude is cause for significant concern, it is in reality the continuation of a multi-year trend that has seen Nokia's market share fall dramatically from almost 50 percent in 2007 to its current level.

Prior to this slide, RIM was Nokia's closest competitor with a market share of less than 10 percent. In the short span of five years, Nokia has gone from the dominant name in cellphones to a position where it is playing catch up to not one but two adept competitors; Samsung and Apple.

The pivotal date in this saga was on 29 June 2007, which was the day that Apple launched its first iPhone and with it the smartphone revolution. In 2013, smartphones will for the first time comprise a majority of the cellphone market. Apple continues to lead that market at the high end, rolling out successive generations of its signature product, each with previously unimagined electronic wizardry, while Samsung proves a nimble adversary by producing dozens of models that are intended to serve the different needs of various market segments.

The fortunes of Nokia are borne out in its stock price. Ignoring the lofty levels that its shares attained in 2000 when it like all other 'tech' companies was caught up in the internet bubble, Nokia's high water mark was 6 November 2007 when it closed at €28.60 per share. Since then, its shares have been caught in a multi-year decline that reached a price of €1.37 per share on 17 July 2012 before they recovered modestly to a price of 3.16 on 19 December 2012. RIM, which was the first competitor to capture significant market share from Nokia, has seen its fortunes and share price follow Nokia on the same trajectory, from a peak of C\$149.90 per share on 18 June 2008 to a low of C\$6.18 per share on 24 September 2012. Meanwhile, both Samsung's and Apple's charts have shown almost a mirror image of Nokia's and RIM's.

Over this same five-year period, the global securities lending markets have experienced their own dramatic changes. The loss of several large market participants, the contraction of the equity and fixed income securities finance market, record low interest rates, and the specter of increased regulation have dominated the market press and various securities lending conferences. Market movements and the inter-related demand for securities that

these movements cause are often obscured by the challenges lenders and borrowers have confronted in recent years. Meeting these challenges while remaining focused on the ebb and flow of the global securities lending market has been daunting to say the least. So what have we seen from the securities lending market as it relates to the global cellphone market and what conclusions can we draw from it?

Focusing on the cellphone market over the course of the last six months, Nokia has seen a bottoming out of its share price. From mid-July to mid-December, Nokia's shares have more than doubled. During that time we saw the borrowing costs of Nokia shares peak at 554 basis points on 31 October. From there we have seen a steady decline to 231 basis points on 18 December. On loan quantity has fallen from 831 million shares to 632 million shares and utilisation from 92 percent to 86 percent. This reduced level of market shorts and subsequent reduction in lending fees may reflect the modest success of Nokia's new Asha and Lumia products or it may be influenced by Apple's missteps with its map app; it is hard to tell.

We have also noted a significant correlation between Nokia's equity short base and the short base in several of its corporate bonds; most notably the Nokia 5 on 4 February 2014 that has been in consistent demand. For most of the autumn we saw utilisation in the high 90s, peaking at 97 percent on 8 October before coming off dramatically to approximately 37 percent. Despite this reduction in demand the bond remains 'tight', currently trading in the 250 basis point range down from 300 basis points.

Looking at the borrowing costs of other stocks in the cellphone market place, we have seen RIM trade 'tighter' as Nokia has shown a modest recovery. RIM's average fee has moved from general

collateral territory to hot over the past month, increasing from 55 basis points to more than 250 basis points before settling back to the 200 basis point range. On loan quantities have increased from 53.2 million shares to 64.7 million shares with utilisation reaching 87 percent of available inventory. This short interest seems at odds with the company's share price, which has more than doubled over the past 90 days, but the share prices may reflect the upgrade of the stock by several respected analysts. RIM's new line of smartphones will be unveiled this month and we will see whether the bears are right.

Apple's short base is virtually non-existent despite the decline in its share price from \$704 per share to \$526 per share over the last three months. We see utilisation of approximately 0.5 percent. Samsung's is also insignificant at 0.69 percent. Unlike Nokia and RIM, both Apple and Samsung produce a broad range of products beyond cellphones and are somewhat insulated from the dynamics of a single product line. What may be a bit surprising is that the market does not seem to have established any significant short positions around the ongoing patent litigation between Apple and Samsung.

The current opinion of the average consumer on the street seems to be that Apple is poised to continue as the market leader in cellphone gadgetry while Samsung grabs market volume at both the bottom and top of the market by offering a broad spectrum of products to fill various needs. Nokia and RIM appear to have been written off by the general public, but if history is any guide, the cellphone market could look as different in five years' time as it does now when looking back to 2007.

Securities lending figures do not lead the market, but they often can tell a story about broader market movements. Has Nokia turned the corner in the area of product development? The easing of demand for its shares and bonds seems to support its recent price action.

