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Motorola: What If They Just Shut The Handset Unit Down?

Posted by Eric Savitz

Now, here’s a shocking theory: Could Motorola (MOT) eventually conclude that the only real option for its handset business is to simply shut it down?

Charter Equity Research analyst Ed Snyder thinks so. In a provocative report, Snyder asserts that the company’s exit from the phone business now seems inevitable. “Like Ericsson in 2001 and Siemens in 2005, we believe Motorola is caught in a tightening spiral of losses, layoffs and declining traction in phones that will culminate in management closing or giving away the handset business,” he writes. “The chances of saving Mobile Devices through restructuring are exceedingly slim. It takes two to four years to revamp a product line and with $300 million in losses each quarter, it is unlikely the company would last long enough to break-even in phones.”

Snyder contends the company’s plan to spin-off the handset business is “more political maneuvering than a serious plan to address Motorola’s problems.” He notes that the unit had $1.2 billion in losses last year, and is consuming most of the cash generated by Motorola’s other businesses. He thinks it would take $4 billion to $6 billion to reach break-even as a stand-alone business: without a large source of capital, he says, the company “would never survive” as a stand-alone business.

The stock, Snyder contends, “will decline through a series of new lows punctuated by spikes of short-lived optimism that a quick fix is at hand.” He says the stock is headed down to book value - $6.70 a share - as cash consumption increases to fund the deficits in the hand set business and management struggles to find a solution. Once they get rid of handsets, he says, the stock could sink further, to the $4-$5 range.

Snyder has a Market Underperform rating on the stock.

Motorola today is down 32 cents, or 3.4%, at $8.99.