

RIM outshines Palm but fails to dispel all doubts.

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- * Analysts cautious on RIM despite strong results
- * Competition seen intensifying in smartphone market
- * Palm outlook disappoints, plans marketing blitz
- * RIM shares soar 10 pct, Palm slumps 13.8 pct (Figures in U.S. dollars unless noted)

OTTAWA, Dec 18 (Reuters) - BlackBerry maker Research In Motion may have zipped past expectations for its quarterly results and forecast, but it hasn't dispelled all doubts about its staying power to lead the race.

By contrast, Palm Inc reported disappointing results on Thursday on weaker consumer demand, and analysts said it looks likely to focus on boosting sales rather than profit in the near term.

In an increasingly competitive smartphone market, RIM more than held its ground in its third quarter, boasting particularly strong growth in consumer and international markets. It also surpassed analyst expectations for the current fourth quarter.

Even as RIM's stock jumped 10 percent on Friday, analysts were questioning the company's ability to maintain profit margins as it battles for market share with rival products, such as Apple's iPhone and Motorola's Droid.

Round one in the smartphone battle goes to RIM, said UBS analysts Phillip Huang and Maynard Um, but the second round looks like a tougher fight.

"Handset industry competition is set to increase with both traditional and non-traditional vendors ... (which) may use price as an incentive to drive units," they wrote in a report which raises their earnings estimates and stock target price.

RIM shipped a record-breaking 10.1 million phones in the third quarter and expects to ship 10.6-11.2 million phones in the current quarter at an average selling price of \$320.

The company reported after markets on Thursday a third-quarter profit of \$1.10 a share and revenue \$3.92 billion, well ahead of analysts' expectations for a profit of \$1.04 a share and \$3.78 billion in sales.

But strong international sales masked a string of structural weaknesses, said Sanford C. Bernstein analyst Pierre Ferragu.

As it pushes into the consumer market to diversify its business and fuel growth, RIM will likely sell more low-end phones, which squeezes the average selling price and, in turn, profit margins.

Ferragu also said that RIM faces an increasingly tough fight for market share in North America, where Motorola's Droid phone had a meaningful impact for only a few weeks.

Analysts agreed that Palm, which gave a disappointing earnings outlook, faced even greater challenges in an increasingly competitive market that including devices based on Google Inc's Android software.

Palm said on Thursday that its partner Sprint Nextel was selling fewer Pre and Pixi devices than expected. And while it reaffirmed its fiscal 2010 forecast for revenue of \$1.6 billion to \$1.8 billion, it plans to spend aggressively on a marketing blitz to achieve that.

"There was not a lot of encouraging news in Palm's guidance," said CL King analyst Lawrence Harris, adding that the results showed the Palm webOS user interface may be less popular than the Android and iPhone browsers.

REASONS FOR OPTIMISM

To be sure, the response to RIM's performance and outlook was not uniformly cautious.

Its fourth-quarter forecasts led many analysts to hoist profit estimates and stock targets. They say RIM has proven its ability to march into the mainstream market while protecting profits.

Allaying fears for the future are RIM's manufacturing efficiencies, well-received product launches, technology advantages and increasingly attractive brand, analysts say.

"The long term thesis for growth remains intact with international expansion, aggressive carrier promotions, new consumer awareness, economies of scale and steady new product introductions." said Paradigm Capital analyst Barry Richards in a note.

That said, Charter Equity Research analyst Ed Snyder thinks Waterloo, Ontario-based RIM is still behind the curve. He said the BlackBerry maker will face "a difficult period ahead as it reaches further down the value chain to fuel its growth."

RIM has cornered the corporate market, but it has not yet launched a touchscreen, media-centric phone that captures consumer imagination, he said.

"We think that it will be a full design cycle (12 months) before RIM regains its hero status at a North American carrier," he wrote.

Shares in Palm fell 13.6 percent to \$10.11. Shares of Research In Motion jumped 10 percent to \$69.80. (\$1=\$1.06 Canadian) (Reporting by Susan Taylor and Ritsuko Ando in New York; Editing by Frank McGurty)