

# Down the Apple food chain, profits and some worry

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(AP) -- If you like Apple's stock, you're going to love its suppliers.

The companies that make iPhone casings, chips for the iPad and other components are attracting so many investors, they're making the stock of the beloved tech juggernaut look like it's gathering dust.

Many are virtual unknowns, sporting names like TriQuint Semiconductor, Aphenol and the hopeful-sounding Skyworks Solutions, but that may be why they're doing so well. [Apple](#) has risen 10 percent this year, but these companies are up two or three times more.

Investors apparently are hoping supplier anonymity means bargains, and they're scooping up shares with gusto - maybe too much gusto.

"People are thinking the Apple goodies aren't baked into the stock yet," says Pacific Crest analyst Nathan Johnsen, referring to TriQuint, which he thinks is no bargain after its 24 percent jump so far this year.

Fueling the latest spurt higher was Apple's announcement Tuesday that it sold 37 million iPhones in the last three months of 2011, trouncing analysts' already high expectations. It turned a record \$13 billion profit for the quarter.

Apple stock, which traded at \$100 as recently as March 2009 and at \$200 as recently as February 2010, closed at \$446 on Wednesday.

Apple is set to regain its position as the world's largest maker of smartphones. For parts makers, it is unchallenged as their most sought-after customer.

Part of the difficulty of investing in Apple suppliers is the mystery surrounding them. Apple's notorious secrecy means it's tough knowing even whom they're buying from, much less for how much.

Hence the enthusiasm when analysts and bloggers crack open iPhones, a process called teardowns, and write tell-alls.

In a recent report following a teardown of the iPhone 4S, research firm IHS Inc. touted a component it uncovered that allows the phone to work on different wireless systems worldwide. It fingered Avago Technologies as the supplier.

"We believe this is one of the unsung heroes of the [iPhone 4S](#)," Vijay Rakesh, an analyst for broker Sterne Agee, wrote in a report Wednesday.

Avago is up 18 percent this year.

Other suppliers rising fast include Jabil Circuit Inc., up 17 percent this year, and audio chip maker Cirrus Logic Inc., up 39 percent.

One Cirrus fan, Tore Svanberg, an analyst at Stifel Nicolaus, published a report Jan. 10 noting that the semiconductor maker was trading at 11 times its expected per share earnings for the coming year, a bargain next to its rivals' 21 times.

The stock has risen more than a third since, but Svanberg still thinks it's worth buying because of its close ties to Apple. "The stock has been trading like it's a problem," he adds.

Perhaps for good reason. Professional investors like to buy suppliers with many customers so that if one cancels a contract, profits will still roll in. In Cirrus' latest quarterly report filed with regulators, Apple accounted for 59 percent of its sales.

Another danger for suppliers is becoming Apple-obsessed - so worried over losing their contract with the big guys that they neglect other buyers.

Before it shot up recently, the stock of TriQuint, a supplier of power amplifiers that help iPhones communicate with cell towers, was falling fast. It was down 58 percent in 2011.

A big reason: The company turned over so much of its factories to churning out parts for Apple, it couldn't keep up with orders from rivals making Android phones, according to Pacific Crest's Johnsen.

Things got so bad, he says, that at one point the company had to help Android makers find new suppliers.

He says investors might be making a mistake bidding up TriQuint [stock](#).

"They've held on to Apple, but outside of that company, they'll be suffering," Johnsen predicts. "Supplying Apple is a double-edged sword."

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