Apple juggernaut gets little investor respect

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In this March 25, 2011 file photo, customers wait outside the Apple store in Munich before the start of sales of the iPad2. Apple has again surpassed Exxon Wednesday, Jan. 25, 2012, as the most valuable U.S. company after a huge fiscal first quarter. (AP Photo/dapd, Lukas Barth, File)

(AP) -- Apple is worth $415 billion, putting it neck and neck with Exxon Mobil as the world's most valuable company. But by standard Wall Street measures, its stock is a bargain.

Why aren't investors giving the company full credit for its enormous profits and staggering growth?

There's a big discrepancy between Apple's earnings and its stock price, and it became even more glaring on Tuesday, when the company reported results for its latest quarter. The well-managed launch of the iPhone 4S and the ever growing popularity of Apple products around the world conspired to send earnings and sales zooming past analyst estimates.

Apple's sales were $46.3 billion in the quarter that ended Dec. 31, up 73 percent from a year ago. That's more than twice the revenue of its old nemesis, Microsoft Corp.

Net income grew 118 percent to $13.06 billion. That's more than Google Inc.'s revenue for the quarter.

Investors cheered -sort of. Apple's stock rose 6 percent Wednesday, hitting a new all-time high of $454.45.

But analysts who do the math find that, based on the earnings expected this year, the stock should be trading much higher. Before the earnings report, 45 Wall Street analysts who follow the company believed, on average, that Apple should be worth about $556 per share. After the report, the analysts rushed to raise their estimates, some as high as $650.

That means Apple shares trade at a discount of 25 percent to 50 percent compared to its projected earnings for the coming year.

"This isn't supposed to be happening to a company of this size," said David Rolfe, chief investment officer at Wedgewood Partners Inc., manages a $150 million fund where Apple is the largest component. "In our collective investment experience, none of us have ever seen this before."

There are two main reasons for the missing hundred-dollar bills in Apple's stock price.

One is Apple's policy of hoarding the cash it makes, like a dragon resting on a pile of gold. It doesn't share any with investors through dividends or buybacks, like many other companies do. The policy is all the more striking when you consider the size of the cash pile: $97.6 billion. That's enough for a $100 special dividend for every Apple share.

For years, analysts have been pressing Apple for a plan to do something with the cash. The company's standard response has been that the cash gives it flexibility to buy other companies and strike long-term supply deals.

But on a post-report conference call with analysts on Tuesday, chief financial officer Peter Oppenheimer hinted that a change might be in the air, saying the board is in "active" discussions about what to do with the cash.

"I'd be surprised if there wasn't a dividend by the end of calendar-2012," said Michael Walkley, an analyst with Canaccord Genuity.

The dividend would be important, not so much because it would directly reward shareholders, he said, but because it might vastly expand the number of investment funds that would be allowed to buy Apple stock.

Growth-oriented funds already own a lot of Apple shares, and can't stomach any more. Apple has "run out of room," in the words of analyst Toni Sacconaghi at Sanford Bernstein.

Meanwhile, value-oriented funds have rules against buying companies that don't pay dividends, and own few Apple shares, he said. He, too, thinks it's likely that Apple will institute a dividend, which would raise the stock price by broadening the range of funds that will own Apple.

The other main reason for the low stock price appears to be that Apple has grown so big, so fast. Investors and analysts have refused to believe that a company of that size can grow at an annual rate of 73 percent, like it did in the latest quarter.

Wall Street analysts have been "woefully conservative on Apple," Rolfe said. "The mantra has been: Hey, a company this size just cannot keep growing at these unbelievable rates."

Scott Sutherland, an analyst at Wedbush Morgan, does believe Apple's earnings growth will slow. But even if today's breakneck pace can't hold up, and growth moderates to 21 percent per year, the shares are still worth $585, he said.

There's no sign of growth slowing this year, however. Apple is expected to launch the iPad 3 in a few months, and perhaps a TV set some time this year. This summer, analysts expect an iPhone with a new look and the ability to use Verizon Wireless' and AT&T Inc.'s new high-speed "LTE" data networks. That would be the biggest iPhone launch in years, Sutherland said.

"It will crush the iPhone 4S launch," he said.