Apple bruised as analysts predict slower growth

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Customers are seen in the Hong Kong Apple store on September 20, 2012. Apple shares plunged at the US open as markets reacted to a disappointing outlook from the US tech giant despite its record quarterly profits.

Apple took a fresh bruising on Thursday after a gloomy forecast accompanying its record quarterly profits prompted pessimism over the tech giant's slowing growth trajectory.

Apple shares tumbled 12.35 percent to close at $450.50, extending their decline from record highs above $700 last year.

"We don't think the Apple growth story is over, but shares will likely languish until confidence is restored," said Sterne Agee analyst Shaw Wu.

Apple on Wednesday announced a profit of $13.1 billion on revenue of $54.5 billion in the fiscal quarter that ended on December 29, with sales of iPhones and iPads setting quarterly highs.

The California-based company said it had sold 47.8 million iPhones and 22.9 million iPad tablet computers in the closing months of 2012.

But despite those figures, investors soured on Apple after it forecast that revenue for the current quarter would range from $41-43 billion and that it would have a gross margin of 37.5 to 39.5 percent.

Apple has been long known for a high margin, the difference between what it charges for products and the cost of making them.

"Apple's profit did go up; it just didn't go up that much," said analyst Rob Enderle of Enderle Group in Silicon Valley.

"They had a really high increase in sales, but their high margin is coming apart at the edges... They are making less per gadget."

BTIG Research's Walter Piecyk said Apple's outlook implies a contraction in earnings per share of as much as 25 percent.

Apple's results "were not terrible, although they were below our estimates," Piecyk said.

"We believe Apple could have sold more than 50 million phones had operators in the United States not tightened their upgrade policies."

But he noted that a bigger worry for Apple is sales outside the United States, "likely a reflection of Apple's phones being too expensive for what is predominantly a non-subsidized, pre-paid market globally."

The analyst said Apple, which has been a pioneer in smartphones and tablets, now needs to consider competition from lower-cost rivals.

"Apple needs a cheaper phone. Period," he said in a note to clients.

Others remained upbeat about Apple's prospects, saying the company is still innovating and remains the standard for the high end of the market.

"We are buyers of Apple on the pullback," said Gene Muster at Piper Jaffray, arguing that "investors will return to the stock once the potential of new products comes into focus over the next three to six months."

But Munster nonetheless scaled back his expectations for Apple shares, saying that profit margins will be squeezed as consumers shift to lower-cost devices.

This situation "highlights the importance of Apple launching a lower priced iPhone," Munster said in a note to clients, adding that he expects Apple to release a television in 2013, which should add around five percent to revenues and "give a product for investors to anticipate."

Michael Walkley, an analyst at Canaccord Genuity, maintained his buy rating but lowered his price target for Apple.

"We believe the soft March quarter guidance was due to Apple ramping supply of the iPhone 5 during the December quarter," he said.

"We maintain our belief Apple has a strong product pipeline that should result in reaccelerating year-over-year earnings growth during the June quarter."

Apple chief executive Tim Cook offered no reason for pessimism during the company's earnings call.

"The most important thing is that our customers love our products," Cook said. "Not just buy them; love them."

Apple's stock has been in a downward spiral since hitting a record above $700 last year, amid concerns that it is losing its edge in innovation and that rivals are catching up or surpassing Apple in key segments.

The iPhone 5 recently made a lackluster debut in China and an analyst reported that Apple had cut orders for smartphone parts.

Apple remains the world's most valuable company by market capitalization but its image has suffered recently, perhaps most notably with the embarrassing release of its glitch-ridden maps program for the new iPhone.

An IDC research firm survey last month showed Google's Android operating system will power more than two-thirds of smartphones sold worldwide in 2012 and will remain the dominant platform for at least the next four years.

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