

Can Apple maintain its shine?

January 22 2013, by Peter Svensson



For many investors, Apple's best days are behind it. Competitors are catching up, they believe, and the latest iPhone is stumbling. The company's doubters have backed their conviction with billions of dollars. Last week, the stock fell below \$500 for the first time in 11 months. Since Apple's stock peaked at \$705.07 on Sept. 21 —the day of the iPhone 5's release— it has fallen nearly 30 percent, cutting Apple's market capitalization by nearly \$200 billion.

On Wednesday, Apple —still the world's most valuable public company— gets a chance to rebut the skeptics as it reports financial results for the holiday quarter. But the report could also end up confirming beliefs that the company is losing its edge as an arbiter of

innovation and a pacesetter in sales growth.

Apple's perception problem centers on the [iPhone](#). Many investors believe the company has painted itself into a corner with the high-priced gadget. The iPhone is more expensive than other smartphones that do many of the same things. The company created the modern [smartphone](#), but because of its strategy to sell the iPhone at a large premium, it will be unable to capitalize fully as smartphones continue conquering the world. The iPhone seems destined to remain the phone of the elite who can afford it.

In many ways, the iPhone's global battle with phones running [Google's Android](#) operating system is a replay of the Mac-PC battles of the 80s and 90s, when Apple saw its innovative-yet-expensive Mac outflanked by cheaper PCs running Microsoft's DOS and Windows software.

Analyst Michael Morgan at ABI Research believes Apple's share of the global smartphone market will grow from 20.5 percent in 2012 to 22 percent this year and then remain flat. Meanwhile, [South Korea's Samsung Electronics](#) —the world's No. 1 maker of smartphones— is already at 30 percent of the market, and is set to leverage its chip- and display-making capabilities into further dominance, he said.

"Barring an unlikely collapse in Samsung's business, even Apple will be chasing Samsung's technology, software, and device leadership in 2013 —through the foreseeable future," Morgan said.

Investors also see short-term difficulties for Apple. Last week, the Japanese newspaper Nikkei and The Wall Street Journal said the company has slashed its orders for [iPhone 5](#) parts because the device isn't selling as well as hoped. Both publications cited unidentified people familiar with the situation.

Sterne Agee analyst Shaw Wu believes the press reports are misleading. iPhone 5 demand, he says, remains robust. He attributes the reports of lower orders to shifts to other suppliers and an improvement in production, which means fewer components are wasted while building the complicated phone.

Apple usually reports the number of iPhones it sells each quarter, so Wednesday's financial update should give investors some indication of where the company is heading. Analysts on average expect the company to show sales of 48 million iPhones, which compares with the 37 million it sold in the same period a year prior.

The wrinkle is that Apple doesn't break out how many iPhones it sells of each type—it has kept selling the cheaper, two-year-old iPhone 4 and last year's 4S alongside the flagship 5.

A key tenet among investors who remain optimistic about Apple: Although the iPhone 5 is too expensive, buyers will shift their attention to the older Apple phones, which they find "good enough."

Analyst Andy Hargreaves at Pacific Crest Securities says demand for new iPhone models is going to falter. Last week, he downgraded Apple's stock from "Outperform" to "Sector Perform" because he believes consumers aren't going to clamor for new hardware features anymore. They'll hang on to older phones longer, and when they buy, they'll buy cheaper models, he says.

This means the total dollar value of the iPhones sold in the quarter may be more indicative than the number of phones sold. Analysts expect the sales were worth \$30.8 billion in the quarter, or 56 percent of Apple's overall revenue. Deviations from this figure could cause big movements in the stock price.

There is renewed speculation that Apple could make a cheaper iPhone for the developing world, but most analysts believe the company will stick to its practice of keeping older iPhones in production and cutting their prices as new models come out. The problem is that the price cuts are relatively minor. A two-year-old iPhone 4 costs more than many new Android phones.

When reporting results for the July to September quarter three months ago, Apple shocked Wall Street by saying it expected earnings of just \$11.75 per share for the October to December quarter. The company usually lowballs its estimates, but this was unusually far from the \$15.59 per share average analyst estimate at the time. The reason, Apple said, was that it had so many new products coming out—including the iPhone 5 and iPad Mini—and fresh production lines are more expensive to run than mature ones.

Analysts then pulled back sharply on their estimates. Their average forecast is now \$13.45 per share, according to FactSet.

In terms of sales, Apple said it expects to report about \$52 billion in revenue, and analysts have wavered only slightly above that figure—they now expect sales of \$54.9 billion.

While Apple's future prospects are in doubt, the company's supporters have one strong argument in their favor: the stock is cheap compared to current earnings, and even if the iPhone's sales growth slows, Apple will continue to generate plenty of revenue. The stock trades at 11 times the past 12 months of earnings, compared with 15 for Microsoft Corp. and 22 for Google Inc. Those figures don't take into account Apple's enormous cash pile —\$121 billion— which boosts its value even further.

Despite its size, Apple's stock is no stranger to corrections. In 2008, in the midst of recession, Apple's stock fell by more than half, to under

\$100 per share. At the time, the iPhone was a year old and hadn't revealed its full potential.

It was only in early 2012 that its [market capitalization](#) decisively outgrew that of Exxon Mobil Corp., previously the world's most valuable company.

A smaller correction last year, also prompted by speculation about the future of the iPhone, took the stock down 16 percent before it rebounded.

"We believe investors that can look through this noise will be rewarded in 2013," said Brian White at Topeka Capital Markets. "The negative sentiment around the stock has reached epic levels that we haven't seen in recent memory and yet we believe the product portfolio has never been stronger."

Copyright 2013 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Can Apple maintain its shine? (2013, January 22) retrieved 23 April 2024 from <https://phys.org/news/2013-01-apple.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--