

Apple slowing iPhone sales threaten stock outlook

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Apple Inc is testing Wall Street's patience with its slowing iPhone and iPad sales.

Shares of the world's most valuable company have sunk 5.2 percent this year and investors will take cues on the stock's future direction from a quarterly report today. Yet even with Apple set to get a boost from a new partnership to sell iPhones through China's largest wireless carrier, revenue is projected to be flat for the first time in at least a decade, according to data compiled by Bloomberg. Profit is also estimated to decline 5 percent, making it the sixth consecutive period with little to no gains.

The slowdown — driven by stalling iPhone and iPad sales amid a more competitive and saturated mobile-device market — is spurring ever-louder criticism from analysts and investors that Apple lacks the breakthrough ideas it once had when co-founder Steve Jobs was in charge. In total, the company's shares are off 24 percent from their September 2012 all-time high.

"There's incredible potential but how long can you wait?" said Michael Obuchowski, chief investment officer at Merlin Asset Management and portfolio manager at Concert Wealth Management Inc., which together have about \$1.5 billion under management. "I'm getting to the level of frustration that I don't know how much longer I'll be holding on to that company."

With analysts projecting no significant change to Apple's growth curve until new products debut in the second half of 2014, brokerages including Canaccord Genuity, Mizuho Securities USA Inc., Morgan Stanley and others are predicting the company's profit and sales outlook for the June quarter may also be worse than expected.

Pressuring cook

All of this ramps up the pressure on Chief Executive Officer Tim Cook to introduce a new hit product. While Apple remains immensely profitable, with \$37 billion in net income last year, technology investors typically look for companies that are growing

quickly. That has led to gains for other firms such as Facebook Inc. so far this year instead of Apple.

In total, analysts predict Apple sold 37.7 million iPhones for its fiscal second quarter, about even with last year. iPad sales are projected to be 19.7 million, also roughly flat from a year ago. Apple will post net income of \$9.1 billion, or \$10.17 a share, on sales of \$43.5 billion, according to analysts' predictions. In contrast, net income in the second quarter of 2012 was \$11.6 billion.

To reward investors who have stuck with Apple, the Cupertino, California-based company has increased stock buybacks and dividends, heeding calls by activist investors Carl Icahn and David Einhorn to boost shareholder returns. According to Sanford C. Bernstein & Co., Apple may announce today that it's adding \$30 billion to its payout through 2015.

Kristin Huguet, a spokeswoman for Apple, declined to comment.

Next iPhone

Another challenge for Apple is that customers are already waiting for its next iPhone, which in recent years was released in September or October. Consumer expectations that the new models will have bigger screens is holding back sales of handsets that are now on store shelves, said Mike Walkley, an analyst at Canaccord Genuity, who has a buy rating on the stock.

That's weighing on projections for the current quarter's results, yet also points to pent-up demand for a larger-screen handset. An iPhone with a bigger screen would eliminate one of the advantages that other smartphone makers such as Samsung Electronics Co have against Apple and should lead to an upgrade cycle, Walkley said.

"This is one of the most anticipated Apple products in a long time," he said.

Bloomberg News reported on larger-screen iPhones in November.

What next?

It's unclear what happens for Apple after bigger-screen devices. New products like a wearable watch-like gadget that the company could release may not be popular beyond enthusiasts. A preview of what's in store for Apple for the rest of this year

will begin on June 2, when the company holds its annual developer conference in San Francisco and will show the next iteration of its mobile and Mac software.

Even if improved software debuts, it will become increasingly difficult for Apple — which had sales of \$170.9 billion last year — to grow, Walkley said.

That has some shareholders viewing Apple as a value stock instead of a growth stock, with predictable results and a steady dividend. While that's a far cry from when the company's sales and profit were doubling almost every quarter because of demand for the iPhone and iPad, it's the position where Apple may remain for the foreseeable future, Walkley said.

"It's hard to argue how Apple can grow longer term," he said.

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