

Apple CEO defies skeptics with sales surge, boosts buyback

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By Adam Satariano, Bloomberg

Apple Inc chief executive officer Tim Cook just bought himself more time to prove doubters wrong over the company's growth prospects.

Cook yesterday took dual steps to reassure investors who have raised questions about whether the company's most robust gains are behind it. Apple reported surging sales of iPhones, with 43.7 million purchased in the fiscal second quarter after the handset became available through the world's largest wireless carrier, China Mobile Ltd. Apple also said it will increase its share repurchase authorization by US\$30 billion (RM96 billion), boost its dividend and split its stock seven for one.

The actions are the strongest retort yet from Cook, who has been under pressure to reignite growth in the absence of any new hit products. The skittishness showed itself in the stock declining 6.5% for the year and 25% from its all-time high in 2012. Cook said on a conference call yesterday that the current stock price doesn't reflect the company's proper value.

"Apple has created tremendous value for shareholders by developing great products that enrich people's lives and that will always be our top priority and driving force," he said. "The size of the share buyback increase is a signal of the board and the management team's strong confidence in the future of Apple."

New Products

Cook also reiterated there are new products in the pipeline. The Cupertino, California-based company is said to be readying bigger-screen iPhones, a watch-like wearable device and a new Apple TV set-top box.

"The possibility is out there that in the next several months, they will have a string of new devices so that by the time Christmas time comes around, they will be ready to sell them all," said Giri Cherukuri, head trader at OakBrook Investments LLC, which has about US\$3.2 billion under management.

Apple's shares rose 7.9% to US\$566.15 in extended trading. They fell 1.3% to close at US\$524.75 before results were announced.

For the quarter, net income increased 7% to US\$10.2 billion and sales rose 4.7% to US\$45.6 billion. Analysts had estimated net income of US\$9.1 billion, or US\$10.17 a share, on sales of US\$43.5 billion.

Gross margin, a measure of Apple's profitability, was 39.3%, up from 37.5% a year ago. Revenue from what Apple calls the greater China region rose 13% to US\$9.3 billion from US\$8.2 billion a year ago.

iPad Struggles

Yet while iPhone sales increased 17% from a year ago, iPad sales fell 16%, its steepest drop on record. As lower-cost tablets flood the market, the iPad isn't the growth driver for Apple that it once was. Cook attributed the decline to smaller inventory and tough comparisons to last year when backlogged iPad mini sales from the holiday were pushed to the beginning of the year.

Apple has been struggling with growth in recent quarters as the iPhone and iPad, which together account for about three-quarters of total revenue, face stiffer competition from rivals such as Samsung Electronics Co and other lower-cost device makers using Google Inc's Android operating system.

Meanwhile, the biggest locations of mobile device growth are in emerging markets such as China, where inexpensive and bigger-screen models are popular. Many customers in the US and Europe also already own an adequate smartphone or tablet, leading to less frequent upgrades.

June Forecast

For the June quarter, Apple forecast sales in line with analysts' estimates. The company said revenue would be between US\$36 billion and US\$38 billion, with gross margin at 37% to 38%.

Yet part of Apple's future success will hinge on its next batch of products.

"When you're as big a company as Apple, you need to start adding some next big things," said Gene Munster, an analyst with Piper Jaffray Cos.

Without providing details, Cook said Apple would debut products that go beyond the current lineup.

“We currently feel comfortable in expanding the number of things we’re working on and so we’ve been doing that in the background and we’re not ready yet to pull the string on the curtain,” he said. “But we’ve got some great things that we’re working on that I’m very, very proud of and very, very excited about.”

He also highlighted the performance of the Apple TV set-top box that streams online video from iTunes and services from Hulu LLC and Netflix Inc. Apple has now sold more than 20 million units of the device since its 2007 debut. Last year, sales of Apple TV and purchases of movies and other content through the box generated more than US\$1 billion.

Apple holds its annual developer conference in June 2014, when it is anticipated to unveil new software for the iPhone, iPad and Mac.

Breaking Away

With the expanded buyback program and stock split, Cook is breaking from his predecessor, Steve Jobs, who dismissed calls for Apple to do more with its cash hoard. Cook, who has faced calls from activists including David Einhorn and Carl Icahn to return more in shareholder payouts, had in April 2013 announced a plan for a total of US\$100 billion in dividends and buybacks.

With yesterday’s announcement, the program increases by another US\$30 billion. The company will boost its quarterly dividend about 8%. Apple said it plans to use the debt markets to fund the program.

Cash Hoard

The company’s cash and equivalents stood at US\$150.6 billion as of the end of March 2014, down from US\$158.8 billion in the prior quarter and the first sequential decline since early 2006.

Apple said it was doing the seven-for-one stock split so shares would be available to a wider pool of investors, paving the way for it to potentially join the Dow Jones Industrial Average. With the split, each investor on June 2, 2014 will receive six additional shares. Those split-adjusted shares will begin trading on June 9, 2014.

The company may have other uses for its cash. Apple isn’t averse to making acquisitions to augment its business and bought 24 companies over the past 18 months, Cook said. The deals have tended to be small compared with the

multibillion-dollar tie-ups that companies like Facebook Inc and Google have done in recent months.

“We are not in the race to spend the most or acquire the most,” Cook said.

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