Apple Earnings Need To Overcome Technical Malaise

Reuters

To those who study technical stock charts, Apple Inc looks broken.

Even though it is widely viewed to be undervalued after hitting an 11-month low this week and nine out of 10 brokerages recommend that investors buy or hold the stock, Apple shareholders could still be in for more rough times if technical strategists are right.

They note that trading charts show few price points where investors can expect clusters of buying to support Apple's shares. For example, the stock's medium-term momentum, based on its 50-day rate of acceleration, has been on a downward slope since March, but has not hit over-sold levels.

Ryan Detrick, senior technical strategist at Schaeffer's Investment Research, said it is hard to find an entry point at current levels, calling the stock "broken."

"There's been a lot of technical damage, but at the same time it still looks like it's in a downtrend," Detrick said. "This could still be a name you want to avoid and could very well still underperform in our opinion."

Apple has a chance to turn things around when it reports results for the December quarter on January 23. Investors are unusually nervous because of reports that Apple might be curtailing purchases of screens for its iPhone and iPad, which together account for over 70 percent of revenue.

If Apple can substantially beat Wall Street's subdued expectations, that would go a long way towards restoring confidence in the near term. It is not enough for Apple to just meet targets - that could cause shares to fall further in the short term, some analysts say. Apple has only missed analysts' profit forecasts four times in the last 10 years, two of those in the most recent reporting periods.

"If you have a 10 percent to 15 percent beat on estimates, it will be enough to have people say, 'Oh my gosh, Apple has its game back,'" said Chris Bertelsen, chief investment officer of Global Financial Private Capital, a Sarasota-based wealth manager with $1.7 billion assets under management.

The fund had cut back its holdings in Apple to less than 1 percent of its portfolio from about 5 to 6 percent last fall, but Bertelsen said it is now adding again. He likes Apple's longer-term prospects as the global smartphone market grows, particularly in developing countries such as India and Brazil.

Analysts on average estimate Apple's fiscal first-quarter earnings per share at

$13.41, down slightly from $13.87 in the year-earlier quarter. Revenue is seen up 18 percent at $54.7 billion, according to Thomson Reuters I/B/E/S.

The December quarter is typically the strongest one of the year for consumer electronics sales and Apple had a new product, the iPad mini, in its holiday season line-up.

Wall Street estimates Apple sold between 47.5 million and 53 million iPhones, up considerably from the 26.9 million sold in the previous quarter, when the iPhone 5 had not made it to all markets. IPad sales are expected at 23 million to 25 million.

BULLS OUTNUMBER BEARS

Apple shares have fallen nearly 30 percent after hitting a record high in September, in part on worries that its mobile devices are no longer as popular as they were. As competition intensifies from Samsung Electronics Co Ltd and others using Google Inc's Android software, investors are wondering if Apple's days of hyper growth are over.

There are still plenty of Apple bulls on Wall Street. Forty-eight out of 58 equity analysts who cover the stock rate it a "buy" or "strong buy" and another seven say it is a "hold," according to Thomson Reuters data. Only three recommend that investors sell the stock.

The median price target is $745, which is roughly 50 percent above Apple's Friday close of $500.

The company is expected to continue to post double-digit revenue growth into at least 2015 and a StarMine analysis of its expected growth over the next decade puts the stock's intrinsic value at about $708 a share.

"We still expect iPhone growth. They are still pointing to a strong December quarter and, if you think there's any momentum left, that they can grow on the high end (of the smart phone market) or find growth in other sectors, this is a buying opportunity," said Morningstar analyst Brian Colello, who has a fair value call on Apple at $770.

Investors also expect Apple to follow through on a promised $10 billion stock buy-back program.

"If the company is not buying back at this level, I think it's absurd and suggests that something is seriously wrong with the company," said Mark Mulholland, manager of the Matthew 25 fund, which has about 17 percent of its holdings in Apple.

Last year, the fund posted a considerable 29 percent gain, although it lost 2.8 percent in the last quarter as Apple slumped. (Apple shares gained 31 percent over 2012)

Mulholland values Apple at more than $1,000 per share, based on its growth

prospects and cash level. Apple had cash and securities of $121.25 billion at the end of September, or about $129 per share.

Still, he agrees with technical analysts who say there is little momentum behind the stock. Some point to support near $425 per share, which means there is room for the stock to fall another 15 percent from current levels.

"Three things influence a stock price: growth, value and momentum. The growth and value are there, but you've completely lost your momentum," said Mulholland.

Apple shares are trading at 15.4 times projected 12-month earnings, a level that analysts say is unusually inexpensive for a company with its growth profile.

Samsung trades at a forward P/E of 7.6, while Nokia trades at 92.3 times.

Sandy Villere, portfolio manager of the $356 million Villere Balanced Fund, said the fund has been scooping up more shares as the price fell, but notes it is more fashionable to be down on the iPhone, iPad and Mac computer maker these days.

"It's becoming almost a contrarian thing to want to buy Apple shares," Villere added. It's "a great buying opportunity."

(Additional reporting by David Randall and Angela Moon; Editing by Tiffany Wu and Andre Grenon)

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