Apple Expected to Report First Fall in Profits in a Decade

The Guardian

Apple [1] is forecast to report the first fall in profits since its financial turnaround a decade ago, as its period of "hyper growth" comes to an end.

Wall Street analysts believe demand for the iPhone 5 [2] has been lower than expected, and are forecasting on average that net income will have slipped 2% to $12.8bn (£8.1bn) during the last quarter compared with the same period last year.

Apple, which reveals its first quarter results, which includes the Christmas period on Wednesday, has a track record of beating forecasts and could prove analysts wrong. It has not seen profits fall since its last loss making spell in 2003, before the company's success with music players set it on a massive growth trajectory.

The iPad [3] mini could also be taking a bite out of profits. It is selling well but brings in less profit a unit than the larger version of Apple's tablet device and may be suppressing demand for the original iPad.

Revenues from October to December are projected to have risen 18% to $54.8bn, according to a Bloomberg poll of analysts, a growth rate which would satisfy investors in most other companies but marks the slowest increase at Apple since 2009.

"It will no longer be the hyper-growth company of the last five years, but rather a premium, branded consumer company, along the lines of Nike, Louis Vuitton and Saks," said Toni Sacconaghi at broker firm Sanford C Bernstein.

He calculates that if Apple's continued expanding at its current pace for another five years, its annual revenues would reach $1.2 trillion, nearly the size of the Australia's GDP.

The iPhone 5 is likely to have been the world's best selling phone in the last quarter. But as Apple's most profitable gadget and lower sales would impact margins.

The device generates a hefty 55% margin, according to an estimate by Nomura. The bank is forecasting net income profits of $12.2bn for Apple, down from $13.1bn a year ago, and has cut its overall iPhone sales estimate by 2m to 48m for the three months from October to December.

"iPhone margins are unsustainably high and will fall," said Stuart Jeffrey at Nomura. He added that LG Display, which makes screens Apple, was expected to see a 50% fall in orders from its largest customer in the first three months of 2013. Apple is transferring business from LG to Sharp, but Jeffrey says half of the decline is owing to disappointing sale trends.

The smaller iPad may not only be suppressing demand for Apple's bigger tablet, but could also be taking spending power away from the iPhone, said Neil Mawston at the research firm Strategy Analytics. "One of the key things we will be looking for is whether the iPad mini [4] has canibalised full iPad volumes or even full iPhone volumes."

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