

# Goldman Takes Apple Stock off 'Preferred' List

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NEW YORK (AP) — Goldman Sachs dropped Apple off its list of most highly recommended stocks Tuesday as it joined other analysts in reducing expectations for a company that hasn't had a revolutionary new product since the iPad in 2010.

Goldman analyst Bill Shope said the iPhone 5, introduced last fall, hasn't sold as well as he expected. He said the company now needs some real hits among the products it rolls out during the second half of the year in order to boost the stock price.

Apple's stock fell \$1.01, or 0.2 percent, to \$427.90 in afternoon trading Tuesday, while the Nasdaq was up 0.2 percent. Apple's stock price is close to its one-year low of \$419, hit a month ago. It's well off its all-time peak of \$705.07, reached in September on the day the iPhone 5 went on sale.

Besides taking the company off Goldman's "Americas Conviction List," which it had been on since December 2010, Shope lowered Apple's price target on the shares to \$575, from \$660. But he kept a "Buy" rating for the company.

After a heady decade, Apple's sales growth is slowing down. In recent years, Apple has tinkered with existing products rather than come out with groundbreaking new ones. Even so, the company warned this fall that a wave of improvements meant higher production costs, at least initially. For the quarter that just ended, analysts polled by FactSet expect an 18 percent decrease in earnings compared with the previous year. It would be the first time in many years that Apple sees an earnings decline of that magnitude.

Compared with competitors such as Samsung Electronics Co., Apple has appeared inflexible, refusing to vary the size and cost of the iPhone.

Shope, though, joins other analysts in saying he expects a cheaper iPhone debuting around the third quarter, which could help drive growth in developing countries.

The company may also get a boost if it comes out with an iPhone with a larger screen, but Shope said that so far there's little evidence Apple is looking to release one this year.

Practically all competing high-end phones have bigger screens than the iPhone, including Samsung's upcoming Galaxy S 4, which has a screen that's 56 percent larger than the iPhone 5.

Shope also said he's expecting Apple to improve the full-size iPad. That could slow some of the loss of sales to the cheaper iPad Mini, which was released last fall. The analyst said that the smaller tablet has been more successful than he expected and

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Published on Wireless Design & Development (<http://www.wirelessdesignmag.com>)

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that this may permanently shift the focus of Apple's iPad line toward this smaller size.

Like others, Shope believes that Apple will soon announce a way to use its massive cash pile for the benefit of shareholders. If the company announces a substantial dividend increase or a stock buyback, it could provide "a healthy floor" for the stock price, he said. Still, the analyst said that he believes the stock's outperformance over the next 12 months "will be more closely tied to the timing and success of Apple's next batch of product refreshes."

A call to Apple for comment was not immediately returned.

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AP Business Writer Michelle Chapman contributed to this report.

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