TI's margins disappoint, envisions spending hike

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By Sinead Carew

NEW YORK (Reuters) - Texas Instruments Inc disappointed Wall Street on margins and said it will sharply increase 2011 spending despite an expected decline in revenue this quarter, sending its shares down 3 percent.

While TI said it is optimistic about growth prospects, analysts questioned whether its 2011 revenue growth would match an 8 percent increase in its research and development spending budget compared with 2010.

TI's shares had risen 46 percent since September as investors were anticipating stronger growth than TI delivered. The stock slid 2 percent in after-hours trade.

"Given the stock has had a big run in the last quarter or so, you don't seem to have the growth to support it," said Charter Equity Research analyst Ed Snyder, adding that the company's expenses were likely to jump this quarter.

Executives told investors on a conference call they would not increase R&D spending more than revenue. But they left analysts scratching their heads over the suggestion that this would mean 8 percent revenue growth for 2011.

Analysts are on average anticipating revenue increases less than 1 percent in 2011, according to Thomson Reuters I/B/E/S.

"The question now is when they're going to grow," said Gleacher & Co analyst Doug Freedman.

TI's fourth-quarter gross profit margin came to about 53 percent, while two analysts had expected closer to 54 percent.

TI said its profitability was pinched a bit in the fourth quarter as it ramped up production in new factories and weak demand for some chips held back output at older facilities.

But the company, whose chips are used in a products ranging from cellphones to cars, said an inventory correction that hurt sales of chips for TVs and computers had ended.

"The indications we've got from (TV) customers is they've cleaned up their inventory in the fourth quarter and we should expect a resumption of orders in the first quarter," TI's chief financial officer Kevin March told Reuters in an interview.

INVENTORY CORRECTION OVER

Electronics manufacturers had bought too many chips in early 2010 due to enthusiasm about the prospects for an economic recovery, only to curtail orders later in the year because consumer demand didn't show up and they had to clear out excess inventory.

Also on Monday, Volterra, which makes power-supply chips, said it too expects normal seasonal growth after an inventory correction in the communications, server and storage markets.

And European chipmaker STMicroelectronics posted earnings above expectations and said it expects its sales to grow faster than the overall market in 2011. 1]

TI forecast first quarter earnings per share of 54 cents to 62 cents on revenue of $3.27 billion to $3.55 billion.

Wall Street had been expecting 57 cents on revenue of $3.32 billion for the first quarter, which is typically weaker than the fourth quarter consumer holiday shopping season.

March noted said the revenue guidance, which implies a sequential 3 percent decline, compared well to a more typical revenue decline of 5 percent.

The company is ramping up massive new output to extend its lead in analog chips over the next few years but analysts say that may dull its margins in the short-term.

A new plant near Dallas, Texas, is starting with production of power management chips but will likely take years to get up to full capacity.

The company did not give a revenue forecast for 2011 but made bullish comments about demand for its chips in devices such as tablet computers.

"We've pretty good growth as we look out into the future," March told Reuters.

For the fourth quarter, TI posted a profit of $942 million, or 78 cents per share compared with $655 million, or 52 cents per share in the same quarter the year before.

The latest quarter included a 14 cents per share unusual gain from a product line sale and a tax benefit. Excluding that impact, it earned 64 cents a share, a mere penny above an average forecast of 63 cents a share.

Fourth quarter revenue rose to $3.53 billion from $3 billion in the year-ago quarter and compared with the average analyst expectation for fourth-quarter revenue of $3.5 billion, according to Thomson Reuters I/B/E/S.

In late trade TI shares slid 2.4 percent -- giving up a 2.2 percent gain during regular trade -- to $33.81. It had closed at $34.65 on the New York Stock Exchange.

(Additional reporting by Noel Randewich in San Francisco;

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