MarketWatch

Broadcom poised to ride key tech trends

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SAN FRANCISCO (MarketWatch) — Broadcom Corp. kicked off 2011 by rattling Wall Street with higher projected expenses that some analysts worried would eat into profits.

On Tuesday, Broadcom BRCM, -0.41% shares jumped 9.4% to $38.20 after the company showed the spending was worth it, beating the Street's targets.

Netflix keeps barreling ahead

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Netflix is coming to a crossroads again as its business is evolving, and in Rex On Techs, Rex Crum says the video-rental company is set on keeping the pedal down on the metal, looking to report its first billion-dollar quarter this year.

The rally marked a comeback for the stock, which has fallen more than 10% since Jan. 1, outpacing the Philadelphia Semiconductor Index SOX, +0.05% which is down a fraction for the year to date.

Analysts now see the chip maker as well positioned to benefit from key industry trends in technology. "After spooking investors with the prospect of large increases in operating expenses in January, management has delivered two quarters of better-than-expected results largely on lower expenses," Charter Equity Research analyst Edward Snyder wrote in a note.

Broadcom, which makes chips for a range of products from mobile devices to networking gear, is seen cashing in on the rise of smartphones and tablets — especially given its role as a supplier to Apple Inc. AAPL, -0.64%

FBR Capital analyst Craig Berger wrote that Broadcom "pulled a rabbit out of its hat, reporting 'beat and raise' financial results and guidance Monday that were better than feared."

The company's "product cycles in connectivity combo chips and data-center and enterprise-networking chips, and its enviable position in the Apple iPhone and iPad all combined to drive third-quarter 2011 guidance that was better than Street estimates," he said.

Broadcom announced it anticipates revenue in the range of $1.9 billion to $2 billion. Analysts had been expecting revenue of $1.93 billion for the period.

The company also is seen benefiting from another emerging trend, highlighted by Cisco Systems Inc.'s CSCO, +0.45% ongoing efforts to reduce expenses.

The tech bellwether is seen buying more of the chips for networking from vendors, instead of making them in-house. That's expected to be a big opportunity for chip companies, led by Broadcom.

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“We believe that investors should continuously focus on the success of Broadcom in networking,” Lazard Capital analyst Daniel Amir wrote in a note.

He said Broadcom “has been very successful in penetrating switches by players like Cisco, Juniper JNPR, -1.01% Arista and others. … We see this as a growing theme and expect the company to be able to grow the networking segment 14% to 18% year over year in the next few years.”

Not all analysts were impressed. Wells Fargo analyst David Wong highlighted risks for the company, including “low profitability and uncertainty in the mobile and wireless business.”
