MarketWatch

Qualcomm helped, hurt by close Apple ties

By Dan Gallagher
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SAN FRANCISCO (MarketWatch) — While Qualcomm Inc. isn't nearly the household name that is Apple Inc., the two companies have a great deal in common.

Both are key players in the fast-growing market for mobile devices such as smartphones and tablets. They're also highly profitable, with a record of solid double-digit earnings growth over the last several quarters. Both are well liked on Wall Street, with nearly 90% of covering brokers rating each stock as a buy.

What's more, the two companies have taken it on the chin in the market over the last six weeks — owing to worries about supply limitations, a weakening economy and growing competitive threats, among other issues.

Qualcomm QCOM, +0.55% shares have picked up some from last week, but are down more than 6% since Apple AAPL, -0.64% launched its iPhone 5 on Sept. 21. That event marked a peak for Apple's own shares, which are down more than 16% since. The stock was trading down more than 2% on Wednesday afternoon ahead of the results, following a broad market slump.

"It's impossible to be as big a player in Apple's food chain and not be affected by them," Ed Snyder of Charter Equity said in an interview about Qualcomm.

That sentiment will carry into Qualcomm's report for its fiscal fourth quarter on Wednesday afternoon. The San Diego-based company, which makes chip sets used in wireless devices, is expected to post adjusted earnings of 82 cents a share, according to consensus estimates from FactSet. Revenue is expected to gain about 14% from last year to $4.7 billion.

Qualcomm's mobile-station modem, or MSM, chips are used in certain models of the iPhone — including the newly launched iPhone 5, as well as other smartphones from companies such as Samsung, HTC, Nokia Corp. NOK, -0.48% Google Inc.'s GOOG, -0.40% Motorola and others. The company also makes the Snapdragon application processor used in devices running on the Android, Windows Phone and BlackBerry platforms.

In addition, Qualcomm draws a significant portion of its revenue from licensing agreements, owing to its broad portfolio covering CDMA technology used in much of the world's wireless networks.

Snyder said any read-through from Apple on Qualcomm's shares is "mostly an emotional play." But he downgraded the stock anyway, from a "strong buy" to a "buy" rating on Tuesday, citing growing competition in the Chinese market and the weakening global economy that are likely to weigh down Qualcomm's future growth opportunities.

"There are lots of ways they can get hurt" on their earnings report, the analyst added, noting that most of the upside drivers are already known and factored in. "There are not many ways for [Qualcomm] to move up."

Reuters

Qualcomm CEO Paul Jacobs

What's inside the iPhone 5?

(2:10)

Analysts at IHS iSuppli take apart an iPhone 5 to determine what components are inside and how much it's costing Apple to produce.

One metric closely watched on Wednesday will be the company's projection for MSM shipments in the December quarter, as well as its forecast for the average selling price of 3G and 4G handsets — which affects the royalties for its licensing arm.

Cody Acree of Williams Financial said in an interview Tuesday that Qualcomm's report, coming at the tail end of the earnings season, has allowed the stock to be buffeted by the downbeat forecasts across the rest of the chip sector, from companies such as Intel Corp. INTC, -0.03% Advanced Micro Devices Inc. AMD, +0.24% and Texas Instruments Inc. TXN, +0.25%

"I think Qualcomm is still in the best position in the industry, but the macro is down," Williams commented, pointing out that outside of hit devices like the iPhone 5 and Galaxy S3 from Samsung, most of the growth in wireless is coming from low-end devices in emerging markets. "If the growth is only coming from lower-end phones, there's only so much a dominant player like Qualcomm can do."

Still, analysts are largely bullish on Qualcomm. Nomura Securities upgraded the stock to buy from a neutral rating on Tuesday, noting the recent selloff and a belief that investors are undervaluing growth potential in the royalty business known as Qualcomm Technology Licensing, or QTL.

"Near-term concerns over chip-set shortages and margins seem overblown," Romit Shah of Nomura wrote on Monday. "We would be buyers of the stock into earnings on Wednesday."

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quotes are in local exchange time.