MarketWatch

Apple sneeze hits shares of chip suppliers

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Published: Jan 24, 2013 4:50 p.m. ET

SAN FRANCISCO (MarketWatch) — Apple Inc. sneezes, and now some of its suppliers in the chip industry are catching a cold.

Apple's AAPL, -0.64% disappointing report on Wednesday, highlighted a weaker-than-expected outlook, sent the shares of chip makers that supply the tech giant's products sliding on Thursday.

"AhChoo!" RBC Capital analyst Doug Freedman wrote in a note in which he predicted likely pressure on the chip sector. "Apple is one of the largest purchaser of semiconductors, consuming 10% of world-wide semiconductor content."

That comes to $30 billion "out of our expected 2012 revenue of $290 billion," he added. So it's not surprising that Apple's results are "a clear incremental negative" for the chip sector, he added.

In fact, the Philadelphia Semiconductor Index SOX, +0.05% paced the tech retreat, falling 1%.

The Apple report clearly was a negative for Cirrus Logic CRUS, -1.08% whose shares were down 11% to close at $26.71.

Freedman identified the maker of audio processors as having the largest exposure to Apple, with an estimated 72% of its revenue derived from the iPhone maker.

Investors punish Apple

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Apple shares fall sharply in European trading and drag down Nasdaq-100 futures after the technology giant's quarterly results disappoint investors.

Cody Acree of Williams Financial put Cirrus Logic's Apple business at more than 60%, writing in a note that the chip maker "will definitely feel what looks to be Apple losing market momentum."

Acree also pointed to Skyworks Solutions SWKS, -0.11% which makes power management chips. The stock traded down 1.8% to close at $21.44. Another power management chip maker, Avago Technologies AVGO, +0.24% could also be impacted, he added. Avago slipped 1.4% to close at $33.93.

Also feeling pressure on Thursday were shares of Broadcom Corp. BRCM, -0.41% which makes communications chips. Freedman estimated that 13% to 15% of its sales are to Apple. The stock shed 1.5% to close at $34.21.

Qualcomm Inc. QCOM, +0.55% which makes communications and baseband chips, also saw its stock slip nearly 1% to close at $64.40. Freedman put the company's revenue exposure at 10% to 16%.

RF Micro Devices RFMD, -1.97% which makes radio frequency processors, saw its shares slip, but the stock eventually recovered to close at $5.07, up a fraction.

Freedman estimated the company's Apple business to be about 10% to 15%. However, Acree argued that the RF Micro also supplies other major manufacturers, including Research In Motion US:RIMM Samsung and Nokia Corp. NOK, -0.48%

The fortunes of dozens of suppliers depend on Apple's iPhone sales.

"We believe this diversity and share success was obvious in the firm's results earlier this week, where cellular sales grew 40% sequentially," Acree wrote.

But another radio frequency chip maker appeared to be more vulnerable to Apple's cold. Shares of Peregrine Semiconductor PSMI, -0.32% gave up nearly 10% to close at $12.79. Charter Equity Research analyst Edward Snyder estimated that the company draws more than half of its revenue from the iPhone.

Apple's impact was clearly demonstrated in the market's reaction to SanDisk Corp. SNDK, -0.49% which also reported results on Wednesday.

SanDisk beat Wall Street's expectations, but Wedbush analyst Betsy Van Hees said a weak revenue outlook sent the stock slipping after hours. It was in the process of recovering when SanDisk confirmed that Apple was a major customer, with roughly 13% of SanDisk revenue coming from the tech powerhouse.

SanDisk stock "went down again, as soon as SanDisk said that Apple was a greater than 10% customer in the quarter," Van Hees told MarketWatch.

But on Thursday, SanDisk bucked the downward trend in the sector, its stock rising 2.5% to close at $48.85. Van Hees, who reaffirmed an outperform rating on the stock, pointed to a more upbeat outlook in the memory chip market and potential growth in the solid state drive market geared to corporate IT.

Roger Kay of Endpoint Technologies Associates said the market reactions highlight the importance of diversity in one's business.

"It seems so obvious, but it's sometimes unavoidable," he told MarketWatch. "Every company wants diversification on both supply and distribution ends. If you're selling through one customer, you are vulnerable to its whims and circumstances."

"What's happening now, though, is beyond Apple's control," he continued. "In any weather, diversification is better."

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