Analysis: Asia may not be such easy pickings for Apple

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Investors in Apple Inc have a one-word answer for those who wonder whether this corporate juggernaut can maintain its phenomenal momentum in the years ahead: Asia.

The iconic maker of the iPhone, iPad and iPod has barely scratched the surface of the region, home to around 60 percent of the world's population -- a fact that Apple itself alluded to in reporting an eye-popping set of earnings this week.

Apple's numbers, which included a 70 percent jump in December-quarter revenues and a doubling in profits, actually excluded sales of its hottest new product, the iPhone 4S, from its biggest single potential market, China.

The latest iPhone did not go on sale there until this month, and there were near-riots as demand immediately ran ahead of supply, with empty-handed shoppers throwing eggs at Apple's typically minimalist glass-fronted store in Beijing.

And in China's long shadow, other virtually untapped Asian markets such as India and Indonesia are waiting to be conquered, together home to around 1.4 billion people.

"I want an iPhone because of the lifestyle, it's a trendy phone to have," says 19-year-old Dylan who works at a hip fashion boutique, The Goods Dept, in downtown Jakarta.

Sporting a trendy haircut, a long pendant necklace, jeans and vintage Ray Ban sunglasses, he is typical of style-conscious consumers everywhere to whom Apple's sleek devices are not so much useful gadgets as essential fashion accessories.

But Dylan, and hundreds of millions of other aspiring Apple customers from Jakarta to Shanghai to Mumbai, have a problem: they cannot afford to buy the main objects of their desire. At about $830, even the older iPhone 4 costs twice the monthly salary of a young foreign exchange dealer in Jakarta.

That simple fact -- unaffordability across emerging Asia -- has begun to test faith in Apple's ability to maintain its torrid sales growth without a big foray into a new product category, like TV. Though its shares keep rising, its future earnings become cheaper: valued at about 30 times earnings a few years ago, Apple's stock now trades at half that multiple.

As Apple waits for Asian incomes to catch up, there is a risk that savvy competitors, especially main rival Samsung Electronics Co, could catch it napping with cheaper products that are becoming better, and cooler.

Indonesia remains a redoubt of Research in Motion Ltd's BlackBerry, largely because it is more affordable, according to those like Dylan who use it: "If they (iPhones) got cheaper, I would consider buying one," he says matter-of-factly.

Pricing is also an issue in India, where the smartphones of choice belong to Samsung, maker of the Galaxy, and to Nokia and RIM's BlackBerry.

"I would much rather have bought one but I didn't have enough money to buy it. It's as simple as that," said Soubhik Mukherjee, 26, a social-media marketing strategist in New Delhi.

"It's quite ridiculously priced in India ... I don't have that kind of disposable income."

Mukherjee plans to buy a smartphone next month and is considering a BlackBerry or a Samsung Galaxy. "Apple's biggest strength till now has been the user interface. It is the sleekest phone possible, the possibilities, design, basically the App store ... But I guess now there is an alternative. Two years ago it wasn't there, but now it's there."

THE CULT OF APPLE

Industry experts say Apple could develop a cheaper version of iPhone for the big Asian markets, without jeopardizing its prodigious profit margins, but other obstacles would remain, such as compatibility of new products with local telecoms networks and how to distribute them.

In China, for example, network technology is not sufficient to fully support iPhone and iPad capabilities, so some customers there cannot surf the Internet through either device unless they connect to a WiFi hotspot such as at a cafe or hotel.

China's biggest service provider, China Mobile Ltd with more than 600 million subscribers, may not have matching technology in place commercially until late this year or 2013.

Network problems also exist in India where 3G telecom services are only now starting to be rolled out, just as Apple prepares for the 4G revolution in its advanced markets.

The pick-up of 3G in India has been slower than expected, partly due to high service prices but mainly because most Indians still use phones just to talk or send text messages. Internet browsing and making video calls are a technological world away for those living outside India's cities.

Even after overcoming Asia's network challenges, Apple still needs to cater for the region's fondness for pre-paid phones. Consumers prefer not to sign up for 12-month or two-year contracts under which telecoms firms are more likely to subsidies the cost of an iPhone and help drive sales.

"I don't see the carriers subsidizing the cost of the handset," said Anshul Gupta, principal research analyst at consultancy Gartner Inc.

"There's no money with the consumer, there's no money with the carriers ... When they (carriers) subsidies the cost of the handset, they will have to pay Apple the money upfront."

DON'T WORRY, JUST WAIT

Despite signs that Asia is not all low-hanging fruit, ripe for the picking by Apple, some industry analysts are confident the region's collective yearning for an iPhone will ultimately be satisfied, and Apple's profits will keep soaring as a result.

China has more than 950 million mobile phone users, more than Europe's population, and its economy threatens to overtake the United States as the world's largest within 15 years.

Barclays Capital says Apple's five stores in China and one in Hong Kong are its busiest and among its best revenue-generators on the planet, a hint of the potential in coming years as it confronts Samsung on its Asian home turf.

Chinese demand is so strong that smuggling of real iPhones and sales of fakes are rising and copy-cat stores masquerading as real Apple outlets -- and selling genuine Apple products -- have sprouted up everywhere from Beijing to Kunming.

"Network incompatibility and those kind of issues will probably get resolved very quickly. I don't think that is an issue which could be a real hurdle," said Gokul Hariharan, an analyst at J.P. Morgan in Hong Kong.

"Pricing, probably yes, would need to come down over time to enable market penetration, but I think for now the brand is basically viewed more like an aspirational brand... Even 10 to 15 percent penetration is actually quite a high number."

Around the region, Apple distributors are finding novel ways to ease the burden of buying an iPhone or an iPad. Croma, an Indian electronics store chain store owned by the Tata Group, is offering a WiFi-only version of the iPad 2 for a down-payment of just 2,458 rupees ($50) with the rest due in 12 equal monthly installments.

Currently, though, Apple's overall sales in the Asia-Pacific region, excluding the mature market of Japan, account for less than a fifth of group sales and the penetration of the iPhone, its top seller, trails behind its biggest rival, Samsung.

For some analysts, this is Apple's biggest risk: while it waits for Asians to scrimp and save for an iPhone or an iPad, these consumers instead develop a taste and a loyalty to other products such as Samsung's Galaxy smartphones and tablets.

Apple's share of the smartphone market has more than doubled in China since the first quarter of 2010, but Samsung, which recently passed Apple as the world's top

smartphone maker, has meanwhile seen its share more than quadruple.

Apple stole back its global lead with sales of 37 million iPhones in the December quarter, more than double its sales from a year earlier, versus 36.5 million smartphone sales for Samsung, according to research firm Strategy Analytics.

But other hungry competitors are also aggressively targeting China and eyeing other new Asian markets.

China's own Huawei Technologies and ZTE Corp are producing smartphones for less than 2,000 yuan ($320), half the price of a basic iPhone 4.

APPLE ENVY

Apple's new boss, Tim Cook, who took over as chief executive shortly before founder Steve Jobs died in October, is targeting China aggressively and has indicated that Apple's experience there could help it to penetrate other new Asian markets.

Apple has hinted that adding carriers is probably one way to expand in these countries, but no announcements have been made.

"I have tried to be very clear in the past, and I will do so again, that we have a ton more energy in the China market today," Cook said in presenting Apple's results on Tuesday.

"China is an extremely important market for us and we continue to look at how to grow it further."

Some analysts say Apple needs to hasten its Asian expansion, developing cheaper handsets and working with more telecoms carriers in the region, but confidence remains high that it can conquer new markets and keep the juggernaut rolling.

In Indonesia, consumers like shop assistant Dylan will be waiting for it.

"The chance for Apple to dominate the market is there, perhaps over three years from now as our GDP per capita is increasing and the iPhone price is going down," said Harry Su, head of research at Jakarta-based PT Bahana Securities.

"I'm sure many Indonesians would love to buy an iPhone."

(Additional reporting by Janeman Latul, Camilo Mejia and Estelle Griepink in JAKARTA, Miyoung Kim in SEOUL, Devidutta Tripathy in NEW DELHI, Lee Chyen Yee in HONG KONG and Poornima Gupta in SAN FRANCISCO; Writing by Mark Bendeich; Editing by Neil Fullick and Alex Ricardson)

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