

Apple supplier Imagination hit by competition fears

Paul Sandle, Reuters

Booming sales of Apple's iPhones and iPads were not enough to ease concerns on Tuesday that British supplier Imagination Technologies is overly reliant on one customer as rival smartphone and tablet companies snap at the U.S. giant's heels.

Shares in Imagination, whose graphics power Apple's popular devices, fell as much as 10 percent, despite the firm reporting a 53 percent jump in annual profit.

Liberum Capital analysts said they were skeptical Imagination had the breadth of customers to reach a target for its partners to ship 1 billion chips based on its graphics or video blueprints by 2016.

"We continue to believe that Imagination will struggle to hit this target primarily relying on only one of the key smartphone players, Apple," they said.

They estimates Apple, which holds a near 9 percent stake in Imagination according to Thomson Reuters data, accounts for 53 percent of Imagination's royalty units and a higher percentage of royalty revenue given it licenses both graphics and video.

Imagination shares have tumbled 30 percent over the past two months, pressured by concerns an uncertain economic outlook could hit consumer demand and that it is facing increased competition from rival ARM Holdings in graphics.

Chief Executive Hossein Yassaie, however, remained upbeat.

"Despite the global economic environment, over 1 million devices are now being shipped with our IP daily," he said.

"Our analysis of the market suggest that the 1 billion (annual) target is reasonable."

Imagination, which also makes "Pure" branded digital radios, posted adjusted pretax profit of 36.8 million pounds (\$58 million) for the year ended April on 30 percent higher revenue of 127.5 million.

The firm said the total number of chips shipped with its graphics and video technology by partners including MediaTek rose a third to 325 million.

Yassaie said the group was diversifying, selling into new markets, such as lower priced mobiles in China, smart TVs and autos.

The tablet market was growing fast, he added, and would be further boosted by the launch of Microsoft's Windows 8 operating system later this year.

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Imagination's technology is not in Microsoft's own line of tablet computers unveiled on Monday, but Yassaie said Windows 8 remained a big opportunity.

"There are several design wins and partners that are using our technology with Windows 8," he said. "We see the Windows platform as a significant partner for us."

At 1100 GMT, Imagination shares were down 7.4 percent at 450.1 pence.

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