Analysts to Apple: Bend your knee to Wall Street

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NEW YORK (AP) — Apple needs to start making nice with Wall Street, analysts said Thursday as investors hammered the company's stock.

The sell-off put Apple a hair's-breadth away from losing its status as the world's most valuable company. At Thursday's close, it was worth $423 billion, just 1.6 percent more than No. 2 Exxon Mobil Corp.

The plunge was set off by Apple's quarterly earnings report late Wednesday, which suggested the company's nearly decade-long growth spurt is slowing drastically.

The stock ended down $63.51 or 12 percent, at $450.50. It last traded that low a year ago. It was the biggest one-day percentage drop in the stock since Sept. 29, 2008, when two Wall Street brokerages downgraded the stock because of the recession. In dollar terms, it was the largest ever single-day change in the stock.

Should Apple try to win back the investors who are fleeing? No, analysts say. Investors who bought the stock on the way up will be chasing the next hot stock. The company needs to make itself appealing to a new crop of people who've never considered the stock, analysts say, by doing what Wall Street wants and doling out more of its massive cash pile in the form of more generous dividends and stock buybacks.

Apple's profits for the October-December quarter were flat compared with the year before. It still managed to grow revenue 18 percent from the year before, but the cost of starting up production lines for multiple new products like the iPhone 5 and iPad Mini meant that less revenue flowed to the bottom line. The company's gross profit margin in the recent quarter was 38.6 percent compared with 44.7 percent a year earlier.

Of even more concern to investors: Apple's forecast sales growth for the current quarter is around 7 percent compared with a year ago —far from the 50-percent-plus rate it's often hit in recent years.

Apple usually lowballs its forecasts, but Chief Financial Officer Peter Oppenheimer indicated the company will provide more realistic figures from now on.

To be sure, Apple products haven't lost their appeal. Apple CEO Tim Cook said the company couldn't make enough iPhones, iPads and iMacs in the holiday quarter to satisfy demand. The problem is rather that Apple hasn't launched a revolutionary new product since the iPad in 2010.

It's a lot to ask that a company reinvent consumer electronics every few years, but Apple did it three times in a decade with the launch of the iPod, iPhone and iPad. In doing so, the company left investors with the expectation of perpetually zooming growth.

Now, Apple looks quite different. It's still massively profitable, but its growth is moderate, making it similar to companies like IBM Corp. and Microsoft Corp.

"The company is at a bit of a crossroads," said Nomura Securities analyst Stuart Jeffrey. "It's gone from launching big hit products where they didn't have to look at the competitive landscape — they just did their own thing — and the growth meant they didn't have to focus on the whims of Wall Street."

The problem, Jeffrey said, is that Apple hasn't adjusted to this reality and worked to find new constituencies among investors. Those who invest in fast-growing companies or chase rising stocks have abandoned the company. Apple doesn't do enough to attract other investor types: value investors who seek out the stocks of undervalued companies with steady, predictable profits, and income investors who look for stocks with generous dividends and low risk.

Analyst Brian White at Topeka Capital Markets said the lack of interest from value-oriented investors means Apple lacks a safety net when there's disappointing news, like Wednesday's earnings report. When other companies' stocks fall, value investors tend to swoop in, putting a floor under the stock and dampening volatility.

"No one wants to pay anything for (Apple) because you can't get the value investor to back it up," White said.

Apple sits on a cash pile of $137 billion, which currently earns about 1 percent annual interest. It's a hoard that frustrates many company-watchers, and analysts are virtually unanimous in their opinion that Apple should be putting it to better use.

Apple has taken steps in the right direction, as far as Wall Street is concerned. Last year, it instituted a quarterly dividend of $2.65 per share, a generous sum compared with most technology companies. But it's paltry when measured against companies with similar cash reserves. It has also started using cash to buy back shares — another way to reward investors.

But analysts say the company should be doing more. Jeffrey calculates that Apple will generate about another $103 billion over three years, but has only committed to returning $45 billion of this $240 billion in cash to shareholders.

"The company needs to change strategically in a number of ways... including in looking after shareholders," Jeffrey said.

A higher dividend would appeal to value and income investors, and buybacks would reduce the number of shares outstanding, which in turn would get the company's earnings per share growing again.

White has been one of the biggest Apple cheerleaders on Wall Street. He drew attention in April for setting a $1,111 price target for Apple's stock when the shares were trading around $600.

White backed away from his old price target on Thursday. He said he still believes the company is worth that much, but he has realized he's too far in front of the pack. Investors aren't going to give the company the credit it deserves, in his opinion.

"It's tough for people to get their head around. I can't be a visionary forever," White said.

His new price target: $888. Eight is a lucky number in China, and three eights are extra lucky.

"Look, Apple needs a little luck here," White said.