Qualcomm shares take hit on earnings drop

Sharp losses to investment portfolio; weak revenue outlook provided

By Dan Gallagher, MarketWatch
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SAN FRANCISCO (MarketWatch) -- Shares of Qualcomm Inc. came under pressure Thursday morning after the provider of chip technology for wireless phones posted lower-than-expected earnings tied to heavy losses on its investment portfolio.

Qualcomm was off more than 7% to $34.20 at last check. The stock has lost more than 35% of its value over the last six months.

Late Wednesday, the company reported that net income dropped significantly in its first fiscal quarter despite a gain in revenue. The company also issued an outlook that was slightly below most Wall Street estimates, saying that the slowing economy made forecasting difficult.

Analysts focused on the hit to the company's investment portfolio, as Qualcomm said it has determined that about $388 million of its investments were "other than temporarily impaired." It also said that, as of Jan. 23, it had "net unrealized losses" totaling $1.1 billion in marketable securities.

"We criticize Qualcomm's cash management," wrote Tal Liani of Banc of America Securities, noting that about 13% of its cash is invested in stocks and additional funds that are invested in corporate bonds and mortgage-backed securities. "In our view a company in that caliber with such solid underlying fundamentals and great opportunities ahead should minimize external risks and focus on its core biz."

Qualcomm also issued a revenue forecast for the current period that was slightly weaker than expected and, like other tech companies, declined to provide an earnings forecast for the period, citing the uncertain economy.

For its fiscal second quarter, Qualcomm said it expects revenue to come in between $2.25 billion and $2.45 billion. Analysts were expecting revenue of $2.41 billion for the period. Operating income is expected to decline between 26% and 38% for the period.

Ed Snyder of Charter Equity said in a note to clients that the investment impairments "do not jeopardize the core business, impede cash flow, or even prevent the payment of dividends."

"Indeed, we believe the impact of these write-offs will be more psychology given the markets overreaction to (earnings) headlines than to market share or cash flow from operations," Snyder wrote.

Brian Modoff of Deutsche Bank said the company remains in a strong position.
"Macro conditions could worsen, but Qualcomm's numbers now appear to have some leeway built in," Modoff wrote. "Management indicated that they are modeling a worse [second half of] '09 than the Street, which we interpret as prudent conservatism."
Earnings take hit

For the period ended Dec. 31, Qualcomm reported net income of $341 million, or 20 cents a share, compared with net income of $767 million, or 46 cents a share, for the same period the previous year.

Excluding stock options and other charges, the company said it would have earned $520 million, or 31 cents a share, for the recent period.
Revenue rose 3% to $2.52 billion.

Analysts were expecting earnings of 47 cents a share on revenue of $2.42 billion for the quarter, according to consensus estimates from Thomson Reuters.

Qualcomm makes chipsets used in wireless phones. The company also licenses out its CDMA technology to other device manufacturers.

Revenue from the company's chipset business fell 16% to $1.42 billion. The business that handles licensing and royalty fees saw revenue jump 48% to $1.09 billion. Though royalties generate a smaller portion of the company's total revenue, they account for a majority of its operating profit. ■
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