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Apple sells over 5 million iPhone 5, supply constraints loom

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(Reuters) - Apple Inc sold over 5 million iPhone 5 smartphones in the three days since it hit stores, but shares sagged as the company struggled to meet demand.

While sales were solid, the company said on Monday it had run out of its initial supply and many pre-orders were scheduled to go out in October.

Apple Chief Executive Tim Cook said the company is "working hard to build enough iPhone 5s for everyone."

Expectations for new Apple products were so high - some analysts forecast Apple selling as many as 10 million phone over the weekend - that Wall Street was not wowed by the latest numbers. The stock was down 1.7 percent at \$688.64 in afternoon trade.

Given the demand, Apple, the world's most valuable company, is being closely watched for any supplier problems that may slow down the smartphone production.

"We believe that sales could have potentially been much higher if not for supply constraints," William Power, an analyst with Baird Equity Research, wrote in a note.

Supply limitations are likely to weigh on Apple as the iPhone 5 is launched in another 22 countries on Friday.

To complicate matters, Apple's largest contract manufacturer Foxconn Technology closed a factory in the northern Chinese city of Taiyuan after a riot broke out among 2,000 employees.

Foxconn did not confirm which plants supply Apple, but an employee told Reuters the Taiyuan plant is among those that assemble and make parts for Apple's iPhone 5.

Apple referred questions on the factory to Foxconn. The California company also assembles its devices at factories run by Pegatron Corp.

On the parts side, Apple's key supplier for screens, Sharp Corp, has been struggling with high costs and scrambling to raise funds to pay debt. Sources had told Reuters the company's output of new iPhone displays had fallen behind schedule.

STRONG DEMAND

The early total for the iPhone 5 topped sales of the iPhone 4S, which sold more than 4 million units in its first weekend after Apple introduced it in October 2011.

The numbers do not include units that have yet to be shipped or delivered to customers as Apple books sales only when online customers sign for the purchase.

"We are not overly concerned with this 'disappointing' number as we believe this is a classic case of near-term expectations getting out of touch with reality," Sterne Agee analyst Shaw Wu said.

He added that he expects Apple to sell a total of 27 million iPhones in the September quarter and 46.5 million units in the December quarter.

The iPhone 5 has been one of Apple's most aggressive international rollouts to date. The phone will be available 31 countries on September 28 and in more than 100 countries by the end of the year.

"Expectations for Apple are always white hot," said Colin Gillis, a research analyst with BGC. "It's not just enough for them to break records but to smash them."

The iPhone is Apple's highest-margin product and accounts for half of its annual revenues.

Apple is facing stiff competition from smartphones that run on Google Inc's Android software, which has become the most-used mobile operating system in the world. Apple's key supplier as well as rival, Samsung Electronics Co Ltd, has taken the lead in smartphone sales.

Apple signaled last week that pre-orders outstripped initial supply and that many phones would not be available until October.

(Reporting By Jennifer Saba and Sinead Carew; Editing by Gerald E. McCormick, Lisa Von Ahn and Jeffrey Benkoe)



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