

Apple Inc.

Global App Store rev increased +15% y/y while China rev increased +10% y/y in Feb

Maintain Rating: BUY | PO: 225.00 USD | Price: 170.73 USD

App Store rev grew +8.4% y/y in F2Q24 66 days into qtr

As per SensorTower data, App Store revenues in F2Q24 (after 66 days) increased to \$5.2bn (+8.4% y/y, according to data on developer revenues from SensorTower), with total downloads (iPhone + iPad) increasing +1.2% y/y (Fig 4). For the month of February, App store rev increased +15% y/y globally and increased +10% y/y in China (Fig 2). So far in F2Q24 (after 66 days), we saw app store dollars per download increase +7.1% y/y. Maintain Buy on a multi-year iPhone cycle driven by GenAI, strong services growth and margin expansion.

Global gaming rev increased +3% y/y in F2Q after 66 days

In F2Q24 (after 66 days), App store gaming revs increased +3% y/y to \$2.8bn and accounted for only 54% of total App store rev vs. 57% a year ago. In F2Q24, Games remained the largest segment, followed by Entertainment (13%), Photo & Video (6%), Social Networking (4%), and Music (3%). So far in F2Q24 (after 66 days), the China gaming segment revenue declined 6% y/y while the entertainment segment increased +13% y/y. So far in F2Q24 (after 66 days), the Entertainment segment has increased its share of App store revenue in China by 2 points to 17% while the Chinese gaming segment's share has declined 5% to 64% of Chinese app store revenue.

China and US remain as the two major App Store markets

Together the US and China accounted for 57% of total App Store revenue in F2Q24 to date (after 66 days), with the US accounting for 32% and China accounting for 25%. China's contribution to App Store revenue declined 2% from 27% of total App Store revenue during the same period in F2Q23.

Services puts and takes in F2Q24

We model services revenue growth of 11% y/y for total services revenue in F2Q24. We view resiliency in Services as a long-term bullish indicator.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.11	6.13	6.70	7.59	8.16
GAAP EPS	6.12	6.12	6.70	7.59	8.16
EPS Change (YoY)	8.9%	0.3%	9.3%	13.3%	7.5%
Consensus EPS (Bloomberg)			6.61	7.20	7.80
DPS	0.90	0.94	0.99	1.04	1.09
Valuation (Sep)					
P/E	27.9x	27.9x	25.5x	22.5x	20.9x
Dividend Yield	0.5%	0.6%	0.6%	0.6%	0.6%
EV / EBITDA*	20.1x	20.7x	19.3x	17.5x	16.6x
Free Cash Flow Yield*	4.2%	3.8%	3.8%	4.1%	4.4%

* For full definitions of *IQmethod*SM measures, see page 6.

11 March 2024

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Stock Data

Price	170.73 USD
Price Objective	225.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-7
52-Week Range	147.70 USD - 199.62 USD
Mrkt Val (mn) / Shares Out (mn)	2,639,810 USD / 15,461.9
Free Float	94.0%
Average Daily Value (mn)	10301.61 USD
BoFA Ticker / Exchange	AAPL / NAS
Bloomberg / Reuters	AAPL US / AAPLOQ
ROE (2024E)	139.3%
Net Dbt to Eqty (Sep-2023A)	130.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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iQprofileSM Apple Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	46.6%	47.5%	48.1%	47.7%	41.7%
Return on Equity	175.5%	171.9%	139.3%	111.3%	77.5%
Operating Margin	32.1%	31.8%	33.2%	33.4%	33.5%
Free Cash Flow	111,443	99,584	100,365	107,672	115,795

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.0x	1.0x	1.0x	1.2x	1.2x
Tax Rate	16.2%	14.7%	16.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	190.3%	130.5%	79.5%	44.1%	-2.0%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	394,328	383,285	396,240	434,681	455,001
% Change	7.8%	-2.8%	3.4%	9.7%	4.7%
Gross Profit	172,026	170,452	182,746	200,891	210,842
% Change	11.7%	-0.9%	7.2%	9.9%	5.0%
EBITDA	137,601	133,300	142,919	157,810	166,228
% Change	8.5%	-3.1%	7.2%	10.4%	5.3%
Net Interest & Other Income	(291)	(765)	(253)	(145)	128
Net Income (Adjusted)	99,803	96,995	103,600	114,933	120,936
% Change	5.4%	-2.8%	6.8%	10.9%	5.2%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	105,764	103,187	110,214	121,922	128,277
Depreciation & Amortization	11,104	11,519	11,511	12,520	13,645
Change in Working Capital	1,200	(6,577)	(10,603)	(12,885)	(11,599)
Deferred Taxation Charge	895	0	0	0	0
Other Adjustments, Net	3,188	2,414	1,320	1,331	1,398
Capital Expenditure	(10,708)	(10,959)	(12,076)	(15,216)	(15,927)
Free Cash Flow	111,443	99,584	100,365	107,672	115,795
% Change	19.9%	-10.6%	0.8%	7.3%	7.5%
Share / Issue Repurchase	(89,402)	(77,550)	(77,139)	(76,000)	(43,000)
Cost of Dividends Paid	(14,841)	(14,875)	(15,366)	(15,735)	(16,172)
Change in Debt	(4,078)	(5,923)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	23,646	29,965	36,295	52,232	108,855
Trade Receivables	28,184	29,508	39,019	46,356	56,612
Other Current Assets	83,575	84,093	85,731	85,885	86,502
Property, Plant & Equipment	42,117	43,715	45,926	50,411	54,643
Other Non-Current Assets	175,233	165,302	166,138	166,707	167,281
Total Assets	352,755	352,583	373,109	401,590	473,892
Short-Term Debt	21,110	15,807	10,000	10,000	10,000
Other Current Liabilities	132,872	129,501	131,138	126,301	126,146
Long-Term Debt	98,959	95,281	95,088	95,088	95,088
Other Non-Current Liabilities	49,142	49,848	50,311	50,322	50,325
Total Liabilities	302,083	290,437	286,537	281,710	281,559
Total Equity	50,672	62,146	86,573	119,880	192,333
Total Equity & Liabilities	352,755	352,583	373,109	401,590	473,892

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

IT Hardware

Company Description

Apple Inc. (AAPL) designs, manufactures, and markets consumer electronics and computers, and has developed its own proprietary iOS, Mac OS, tvOS and Watch OS operating systems and related software platform/ecosystem.

Revenues are principally derived from the iPhone line of smartphones, Services, hardware sales of the Macintosh family of notebook and desktop computers, iPad tablets, and wearables.

Investment Rationale

Our Buy rating on Apple is based on: 1) expected strong iPhone upgrade cycle in F25 driven by the need for latest hardware to enable Gen AI features, 2) higher growth in Services revenue, 3) higher margins from more internally developed silicon, 4) continuing capital returns, 5) AI features that can drive higher institutional ownership, and 6) risk around legal issues being manageable.

Stock Data

Average Daily Volume 61,053,464

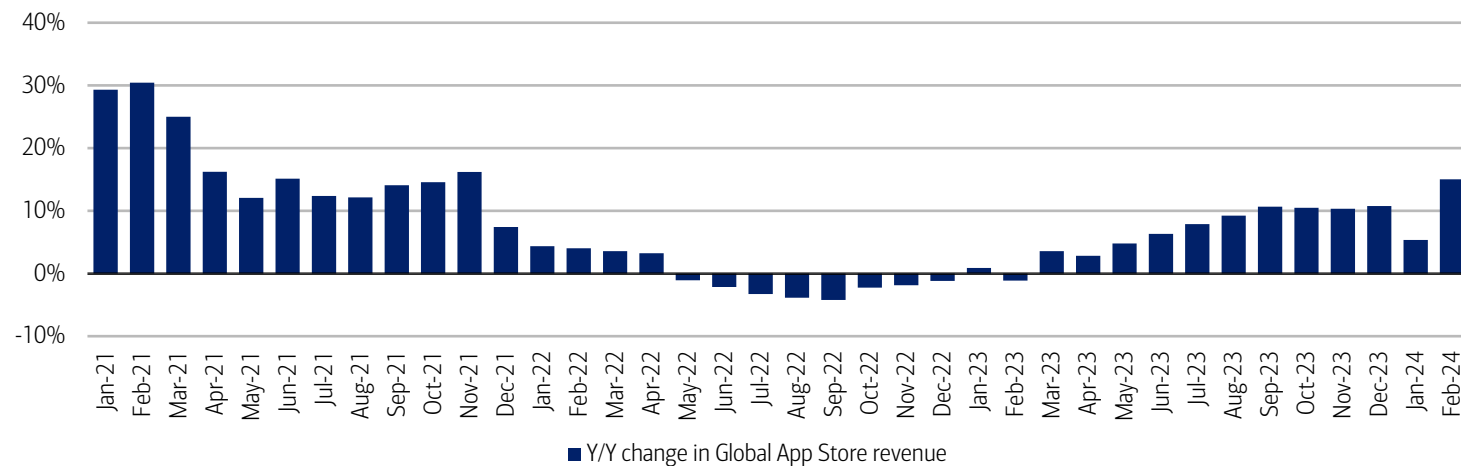
Quarterly Earnings Estimates

	2023	2024
Q1	1.88A	2.18A
Q2	1.52A	1.52E
Q3	1.26A	1.36E
Q4	1.46A	1.64E

Apple Services related charts

Figure 1: YoY change in Global App Store revenue

Global App Store revenue increased 15% YoY in February 2024

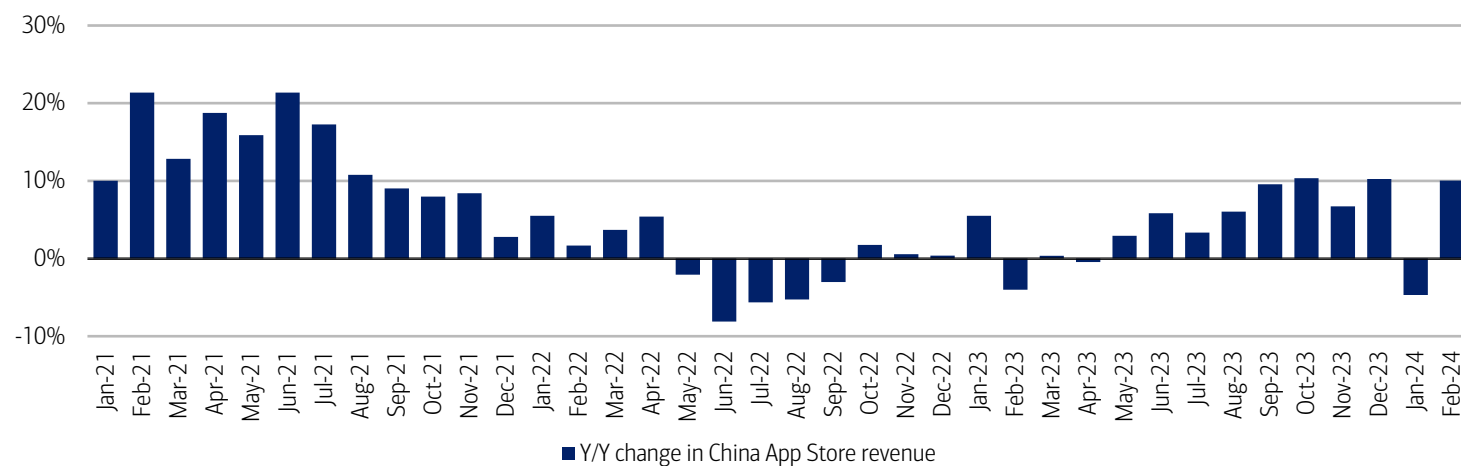


Source: SensorTower, BofA Global Research

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Figure 2: YoY change in China App Store revenue

China App Store revenue increased 10% YoY in February 2024



Source: SensorTower, BofA Global Research

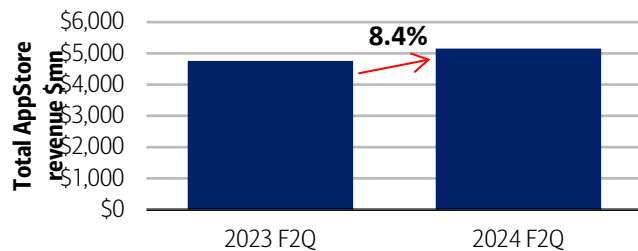
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Key takeaways for F2Q24 vs F2Q23 after 66 days

- Apple App Store generated approximately \$5.2bn revenue in F2Q24 (after 66 days), compared to \$4.8bn in F2Q23 (after 66 days). This represents +8.4% YoY growth. (Fig 3)
- App Store downloads were 6.1bn in F2Q24 (after 66 days) vs 6.0bn in F2Q23 (after 66 days). This represents +1.2% YoY growth. (Fig 4)
- Average dollars per download increased +7.1% YoY to \$0.85 in F2Q24 (after 66 days), compared to \$0.79 in the year-ago period. (Fig 5)
- Downloads in China increased 3.1% YoY from 1,225mn in F2Q23 (after 66 days) to 1,263mn in F2Q24 (after 66 days). (Fig 6)

Figure 3: YoY growth in App Store revenue – F2Q24 vs F2Q23 (After 66 days)

Global App Store rev increased +8.4% YoY in F2Q24 to date

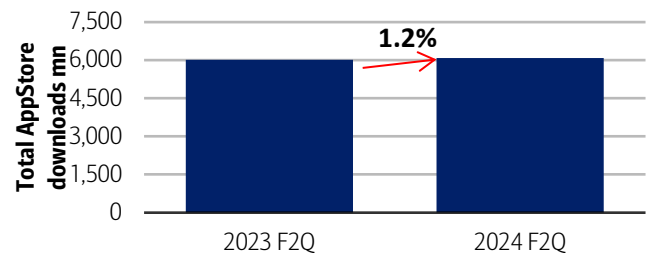


Source: SensorTower, BofA Global Research

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Figure 4: YoY growth in App Store downloads – F2Q24 vs F2Q23 (After 66 days)

Global App Store downloads increased +1.2% in F2Q24 to date

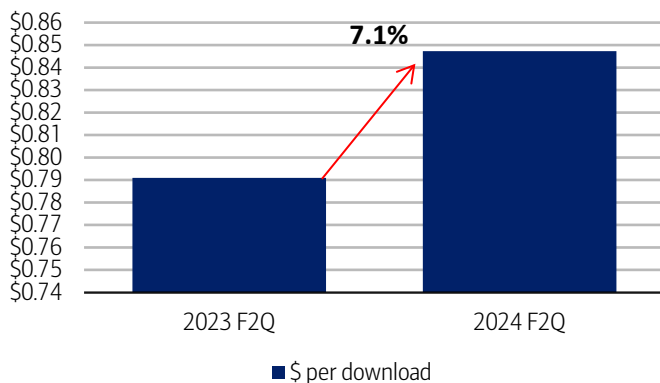


Source: SensorTower, BofA Global Research

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Figure 5: YoY growth in App Store ASP – F2Q24 vs F2Q23 (After 66 days)

Global App Store ASP increased +7.1% YoY in F2Q24 to date

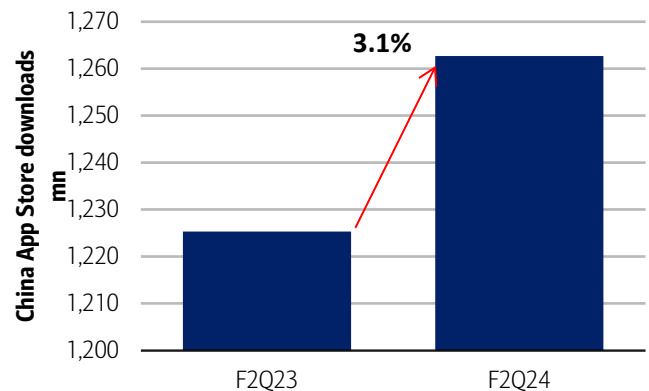


Source: SensorTower, BofA Global Research

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Figure 6: YoY growth in China App Store downloads – F2Q24 vs F2Q23 (After 66 days)

China App Store downloads increased +3.1% YoY in F2Q24 to date



Source: SensorTower, BofA Global Research

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Price objective basis & risk

Apple Inc. (AAPL)

Our PO of \$225 is based on approximately 32x our C24E EPS. Our target multiple compares to the 5-year historical range of 16-34x (median 27x). We believe a multiple at the higher end of the historical range is justified given a large cash balance and opportunity to diversify into new end markets, increasing mix and diversity of services.

Downside risks are: a) weaker iPhone 15 cycle on consumer spending risk, b) weaker near-term services trajectory where App Store & Licensing can decelerate, c) gross profit dollars declining y/y next few quarters, d) iPads/Macs reverting to pre-COVID levels, and e) stronger dollar. Other risks are potential trade conflicts, tariffs, longer iPhone replacement cycles, commoditization in the smartphone market, intensifying competition in the tablet market, ability to manage beat and raise expectations for EPS estimates, and requirement to maintain pace of product innovation.

Upside risks are: a) stronger sales of Pro iPhone models which can help average selling price and help the mix of the business, b) est. revisions can be lower vs. peers, c) potential new products (AR/VR), and services (advertising). Other upside risks are stronger than expected iPhone cycle, gross margin upside from better mix of higher end iPhones, tailwinds from lower memory costs, and a faster than expected recovery in emerging markets.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan



US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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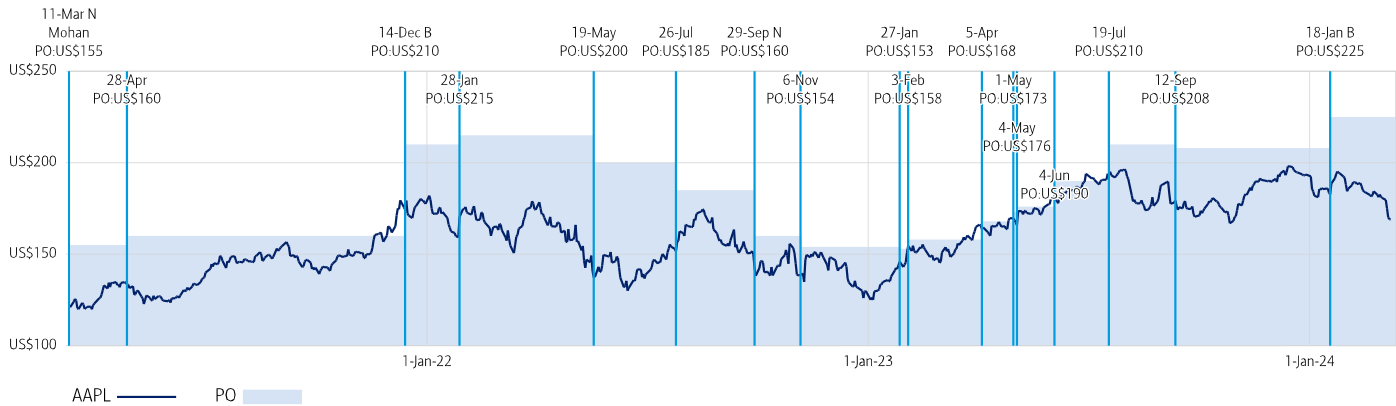
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Disclosures

Important Disclosures

Apple Inc. (AAPL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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