Investment Memo: Apple Inc (AAPL)

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1. Executive Summary

INVESTMENT SNAPSHOT

METRIC	VALUE
Recommendation	**SELL**
Current Price	$259.48
12-Month Target Price	$90.09
Upside/Downside	-65.3%

KEY METRICS

METRIC	VALUE
Forward P/E	28.0x
Profit Margin	26.9%
Revenue Growth	6.4%
ROE	151.9%

INVESTMENT THESIS

Apple Inc is rated SELL with a 12-month target of $90.09 (vs $259.48 current; -65.3% downside). The analysis indicates that the stock trades at a forward P/E of 28.0x, which is significantly higher than its historical average, suggesting overvaluation. Despite a robust net margin of 26.9% and an impressive ROE of 151.9%, the current valuation does not seem justified given the modest revenue growth of 6.4%. The key risk to this investment thesis is the company's ability to innovate and launch new products that could potentially drive higher growth. However, given the mature nature of its primary markets and increasing competition, it is questionable whether Apple can maintain its high growth rates and margins in the long term. Therefore, the SELL rating appears appropriate considering the current valuation and growth prospects.

2. Company Overview

Apple Inc (AAPL) is a USA-based company in the CONSUMER ELECTRONICS industry within the TECHNOLOGY sector, listed on NASDAQ with a market capitalization of approximately $3.8T.

Apple Inc operates as a consumer electronics company, generating revenue primarily through the sale of hardware products, software, and related services. Its key offerings include the iPhone, iPad, and Mac, as well as software platforms such as iOS, macOS, and watchOS. The company's competitive positioning is bolstered by its robust ecosystem of devices and services, strong brand loyalty, and innovative product design, which together create a significant competitive moat. Headquartered in Cupertino, California, Apple has a global footprint with key markets in the Americas, Europe, Greater China, Japan, and the rest of Asia Pacific.

3. Financial Analysis

3.1 FINANCIAL RATIOS

METRIC	2021	2022	2023	2024	2025	RATING
PROFITABILITY						
Gross Margin	41.8%	43.3%	44.1%	46.2%	46.9%	Acceptable
Operating Margin	30.6%	30.3%	29.8%	31.5%	31.9%	Strong
Net Profit Margin	25.9%	25.3%	25.3%	24.0%	26.9%	Strong
ROE	150.1%	197.0%	156.1%	164.6%	151.9%	Strong
ROA	27.0%	28.3%	27.5%	25.7%	31.2%	Strong
ROIC	37.0%	40.5%	40.7%	40.3%	46.3%	Strong
LEVERAGE						
Debt/Assets	0.7x	0.6x	0.6x	0.6x	0.6x	Weak
Debt/Equity	3.7x	4.3x	3.3x	3.6x	2.7x	Weak
Interest Coverage	42.3x	40.7x	29.1x	N/A	N/A	N/A
LIQUIDITY						
Current Ratio	1.1x	0.9x	1.0x	0.9x	0.9x	Weak
Quick Ratio	1.0x	0.8x	0.9x	0.8x	0.9x	Weak

3.2 FINANCIAL HEALTH ASSESSMENT

CATEGORY	RATING
Profitability	**Strong**
Leverage	**Weak**
Liquidity	**Weak**

3.3 DUPONT ANALYSIS

ROE Decomposition: 151.9% = 26.9% × 1.16x × 4.87x

COMPONENT	FORMULA	VALUE
Net Profit Margin	Net Income / Revenue	26.9%
Asset Turnover	Revenue / Assets	1.16x
Equity Multiplier	Assets / Equity	4.87x
ROE	Margin × Turnover × Multiplier	**151.9%**

The primary driver of Apple Inc's (AAPL) impressive ROE of 151.9% is its high leverage of 4.87x, which magnifies the returns generated from its solid margin of 26.9% and turnover of

Apple Inc. (AAPL) demonstrates robust profitability with a gross margin of 46.9% and a net margin of 26.9%, significantly above industry averages. The company's return on equity (ROE) stands at an impressive 151.9%, while its return on assets (ROA) is 31.2%, indicating efficient use of both equity and assets. AAPL's leverage is relatively high, with a debt-to-equity ratio of 2.7x and a debt-to-assets ratio of 0.6x, suggesting a moderate financial risk. However, the lack of interest coverage ratio data limits a comprehensive assessment of its debt servicing capability. AAPL's liquidity appears slightly constrained, as evidenced by a current ratio and quick ratio both at 0.9x, indicating potential challenges in meeting short-term obligations. Despite a modest revenue growth of 6.4%, AAPL's overall financial health remains strong, underpinned by superior profitability and manageable leverage, albeit with some liquidity concerns.

4. Valuation

4.1 INTRINSIC VALUE SUMMARY

Company Type: Balanced

METHOD	FAIR VALUE	VS CURRENT ($259.48)	WEIGHT
DCF	$108.43	-58.2%	50.0%
Multiples	$111.34	-57.1%	30.0%
DDM	$12.33	-95.2%	20.0%
12-Month Target Price	**$90.09**	**-65.3%**	**100%**

Overvalued: Current price stretched relative to fundamentals (-65.3% to target).

Valuation Interpretation

The blended fair value for AAPL is calculated at $90.09, indicating a significant downside of -65.3% from the current price of $259.48. This valuation conclusion is derived from a 50% weightage on the DCF model, which values AAPL at $108.43, and a 30% weightage on the multiples method, which values AAPL at $111.34. The weightages reflect a balanced approach given the company's nature. The key driver behind this valuation is the WACC of 10.0%, which significantly impacts the DCF valuation. However, the absence of a specific FCF growth rate poses a challenge in the valuation process.

4.2 KEY VALUATION ASSUMPTIONS

DCF Methodology (Balanced Company) - 3-STAGE MODEL:

- Stage 1 (High Growth): 5 years at 7.5% growth
- Stage 2 (Fade Period): 3 years, declining to 4.0%
- Terminal Growth: 2.5%
- Total Projection Period: 8 years
- WACC: 10.0% (Cost of Equity: 10.3%, Beta: 1.09)

Multiples Approach (PEG-Adjusted):

- Peer Group: GOOGL, MSFT, AMZN
- Metrics: PEG, P/B, EV/EBITDA
- Company Revenue CAGR: 3.3%
- Peer Revenue CAGR: 14.9%
- Peer Avg PEG: 1.87x

- Method: PEG-adjusted

4.3 SCENARIO ANALYSIS

Target price sensitivity (weighted: DCF 50%, Multiples 30%):

SCENARIO	DCF	MULTIPLES	TARGET PRICE	VS CURRENT
Bear Case	$84.47	$111.34	**$77.75**	–70.0%
Base Case	$108.08	$111.34	**$89.91**	–65.4%
Bull Case	$140.64	$111.34	**$106.67**	–58.9%

Current Price: $259.48 | Multiples value fixed across scenarios

> **Scenario Assumptions:**
> • **Bear:** FCF/Dividend growth at 75% of base, discount rate +1.0%
> • **Base:** Current growth trajectory and risk profile
> • **Bull:** FCF/Dividend growth at 125% of base, discount rate –1.0%

5. Competitive Positioning

5.1 PEER COMPARISON MATRIX

Industry: CONSUMER ELECTRONICS

COMPANY	MARKET CAP	PEG	EV/EBITDA	P/B
AAPL	$3.8T	N/A	27.6x	51.7x
GOOGL	$4.1T	1.7x	30.3x	12.6x
MSFT	$3.2T	1.7x	20.4x	9.3x
AMZN	$2.6T	2.3x	21.5x	8.9x
Peer Average	**$3.3T**	**1.9x**	**24.1x**	**10.3x**

5.2 OPERATING METRICS COMPARISON

METRIC	{SELF.TICKER}	PEER AVG	DIFFERENTIAL
Revenue Growth	6.4%	12.0%	–6pp
Gross Margin	46.9%	55.0%	–8pp
Operating Margin	31.9%	28.0%	+4pp
ROE	151.9%	25.0%	+127pp

Competitive Analysis

Apple Inc. (AAPL) trades at a slight premium to its peers, with a P/E ratio of 28.0x and EV/EBITDA of 27.6x, compared to the peer average of 27.7x and 24.1x respectively. This premium appears justified given AAPL's superior financial performance. The company's revenue growth of 6.4% outpaces the industry average, while its gross margin of 46.9% and operating margin of 31.9% reflect strong profitability. Furthermore, AAPL's impressive ROE of 151.9% underscores its

efficiency in generating profits from shareholders' equity. However, competition from technology giants such as Google, Microsoft, and Amazon poses a significant threat. Investors should remain cautious of AAPL's high valuation and potential competitive pressures.

6. Risk Assessment

6.1 KEY RISKS

SEVERITY	RISK CATEGORY	SIGNAL
High	Valuation	Target $90.09 (-65.3% downside)
High	Multiple	P/B 51.7x reflects extreme expectations
Medium	Competitive	Rapid innovation cycle; market share vulnerable

The primary risk for AAPL is its high valuation, with a target price of $90.09, indicating a potential downside of 65.3%. This is reflected in the company's high price-to-book multiple of 51.7x, which suggests extreme market expectations. Additional considerations include a medium level of competitive risk, as the rapid innovation cycle in the technology sector could make AAPL's market share vulnerable. However, it's important to note that AAPL's strong brand and loyal customer base may serve as a mitigating factor against these risks. In conclusion, AAPL's risk profile reflects a combination of high valuation and competitive risks, offset to some extent by its robust brand strength.

7. Investment Recommendation

INVESTMENT RECOMMENDATION: SELL

12-Month Target	Current Price	Upside/Downside
$90.09	**$259.48**	**-65.3%**

Based on the valuation analysis, AAPL is rated SELL with a 12-month target of $90.09, representing a -65.3% downside from the current price of $259.48. The analysis indicates that the stock is significantly overvalued relative to the balanced-weighted fair value estimate. Despite the absence of key risk flags, the current market price appears to have factored in overly optimistic growth projections, which may not be sustainable in the long run. The key catalyst to monitor would be the company's ability to maintain its high growth rates in the face of increasing competition and potential market saturation. The stock trades at a premium to its peers, which could be justified if the company can deliver on its growth promises. However, given the significant downside potential and the high valuation multiples, the SELL rating appears to be the most appropriate course of action at this time.

Valuation Method: Balanced (DCF: 50.0% · Multiples: 30.0% · DDM: 20.0%)

Appendix A: Scoring Methodology

The recommendation is based on valuation upside—the percentage difference between the calculated Target Price and Current Price. The Target Price is a weighted blend of three valuation methods, with weights determined by company classification.

STEP 1: CALCULATE TARGET PRICE

METHOD	DESCRIPTION
DCF	Intrinsic value based on projected free cash flows discounted to present value
Multiples	Fair value based on P/E, EV/EBITDA, and P/B multiples vs peer companies
DDM	Value based on expected dividend stream using Gordon Growth Model

VALUATION WEIGHTS BY COMPANY TYPE

COMPANY TYPE	DCF	MULTIPLES	DDM
Growth	70%	30%	0%
Balanced	50%	30%	20%
Dividend	30%	20%	50%
Cyclical	30%	60%	10%

STEP 2: CALCULATE UPSIDE

`Upside = (Target Price - Current Price) / Current Price × 100%`

STEP 3: GATE CHECKS (SAFETY FILTERS)

GATE	THRESHOLD	SEVERITY
Interest Coverage	≥ 1.5x	CRITICAL
Current Ratio	≥ 0.8x	HIGH
Debt/Equity	≤ 5.0x	HIGH

STEP 4: RECOMMENDATION LOGIC

CONDITION	RECOMMENDATION
Upside > +20% AND no HIGH/CRITICAL gates	**BUY**
Upside > +20% BUT has HIGH gate	**HOLD**
-10% < Upside < +20%	**HOLD**
Upside < -10%	**SELL**
Any CRITICAL gate triggered	**SELL**

Appendix B: Company Classification Framework

Companies are classified into four types based on dividend yield, revenue growth, and sector. Each type uses different valuation weights optimized for its characteristics.

CLASSIFICATION CRITERIA & VALUATION WEIGHTS

TYPE	CRITERIA	DCF	MULTIPLES	DDM	TYPICAL SECTORS
Growth	Dividend <2%, Revenue Growth >15%	70%	30%	0%	Technology, Biotech, Software, Semiconductors
Balanced	Dividend 2-4%, Revenue Growth 10-15%	50%	30%	20%	Healthcare, Financials, Industrials
Dividend	Dividend >4%, Revenue Growth <10%	30%	20%	50%	Utilities, REITs, Telecom, Consumer Staples
Cyclical	Sector-based classification	30%	60%	10%	Energy, Materials, Chemicals, Automotive

CLASSIFICATION LOGIC

STEP	CHECK	RESULT
1	Sector in [Energy, Materials, Chemicals, Automotive]	→ **CYCLICAL**
2	Dividend Yield > 4%	→ **DIVIDEND**
3	Revenue Growth > 15% AND Dividend < 2%	→ **GROWTH**
4	All other cases	→ **BALANCED**

WEIGHTING RATIONALE

METHOD	BEST FOR	LIMITATIONS
DCF	Companies with visible, sustainable cash flows	Less reliable for high-growth (forecast uncertainty) and cyclical (volatile earnings)
Multiples	Peer benchmarking when sector dynamics drive valuation	Requires comparable peers; can reflect market mispricing
DDM	Companies with established, stable dividend policies	Not applicable for non-dividend or variable dividend companies

Appendix C: Model Limitations

This analysis has inherent limitations that users should consider:

CATEGORY	LIMITATION
DCF Model	Highly sensitive to growth rate assumptions; small changes significantly impact fair value
Industry Metrics	No sector-specific KPIs (ARR for SaaS, NIM for banks, same-store sales for retail)
Peer Selection	Based on market cap similarity, not business model or competitive positioning
One-Time Items	No adjustment for restructuring charges, asset impairments, or non-recurring gains
Data Source	Alpha Vantage free tier limited to 25 requests/day; some data may be delayed
Beta	Static beta from provider; not calculated from historical returns regression
Qualitative Factors	No assessment of management quality, competitive moat, or ESG considerations
Earnings Quality	No accruals analysis, cash conversion check, or revenue recognition review