02 November 2012
Americas/United States
Equity Research
IT Hardware

Apple Inc (AAPL)

Rating	OUTPERFORM*
Price (01 Nov 12, US$)	596.80
Target price (US$)	750.00[1]
52-week price range	702.10 - 363.50
Market cap. (US$ m)	561,404.99

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[1]Target price is for 12 months.

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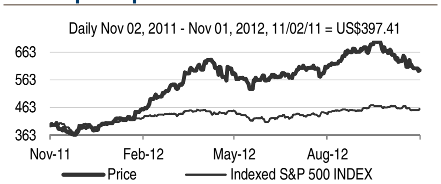
COMMENT

10K insights: Preparing for growth

- **Reiterate Outperform, TP $750.** Apple's recent 10-K filing points to the company continuing to invest for a significant level of growth. Fundamentally, with a structural advantage in the compute market, Apple should deliver a robust EPS CAGR of 25% FY12-14, driving $75 of long term earnings power. Trading on a P/E of 10x our CY13 EPS of $60, shares are inexpensive given the growth profile and $128 of net cash/share.
- **Purchase obligations suggest upside to our above consensus iOS volumes of 285mn in FY13.** Per the 10-K filing, Apple has committed to purchase obligations of $21.1bn (+51% yoy) over the next 12 months. This is important given a solid historic correlation between purchase obligations and iOS volumes shipped over the next year (average of $66 per device over FY10-12). If this relationship continues to hold true, it suggests that Apple will ship 317mn iOS devices in FY13 (iPhone, iPad, iPod Touch), 11% above our 285mn estimate.
- **Conservative CapEx guidance up 25%; suggesting robust iOS volumes.** Apple expects CapEx (ex-retail) of $9.15bn in FY13, down 3% vs. reported CapEx in FY12. While this looks disappointing vs. reported growth of 137% in FY12, we believe even this guidance could imply upside to iOS volumes. Here, we note that last year's CapEx may have been inflated by a one-time uptick in purchasing equipment and securing capacity at suppliers. Adjusting for this and using a CapEx per iOS unit of $32 (in line with the FY10-11 average), suggests iOS units of 288mn (1% higher than our estimate of 285mn). Furthermore, Apple has traditionally overspent guidance by an average of 32%, ex-retail, over the last 3 years, lending further conservatism to estimates.
- **Retail expansion on track – China delivering on EM potential.** Apple is planning to open 30-35 new stores during FY13, with 75% outside the US, which would take its store count from 390 to 425. With Apple's China revenue up 83% yoy in FY12 to $21bn, we believe the company will have captured 40% of its LT opportunity in China alone (~$40bn by 2015). Through retail and carrier expansion in EMs, Apple can drive an incremental $87bn in sales and $21 EPS through 2015. For further details please see our June 15, 2012 note titled *'Emerging Apple – On track to realize potential'*.

Share price performance



On 11/01/12 the S&P 500 INDEX closed at 1427.52

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	6.43	6.40	7.79	7.05
2012A	13.87	12.30	9.32	8.67
2013E	14.59	13.78	13.75	13.14

Financial and valuation metrics

Year	09/11A	09/12A	09/13E	09/14E
EPS - (Excl. ESO) (US$)	28.62	45.54	56.63	70.06
EPS (CS adj.) (US$)	27.68	44.16	55.26	68.69
Prev. EPS (CS adj.) (US$)	—	—	—	—
P/E (CS adj., x)	21.6	13.5	10.8	8.7
P/E rel. (CS adj., %)	—	89.0	75.8	67.6
Revenue (US$ m)	108,249.0	156,508.0	205,314.7	250,477.7
EBITDA (US$ m)	35,604.0	58,518.0	73,819.1	89,349.6
Net debt (US$ m)	-25,952	-29,129	-62,493	-62,454
OCFPS (US$)	40.07	53.82	64.15	68.48
P/OCF (x)	9.5	12.4	9.3	8.7

Number of shares (m)	940.69	Price/sales(x)	2.76
BV/share (Next Qtr., US$)	137.2	P/BVPS (x)	4.6
Net debt (Next Qtr., US$ m)	-37,371.3	Dividend (Next Qtr., US$)	—
Dividend yield (%)	—		

Source: Company data, Credit Suisse estimates.

10-K insights: Preparing for growth

In its recent 10-K filing, Apple provided disclosures around capital expenditure plans for FY13 along with purchase obligations, similar to prior years. In the past, both these items have seen a strong correlation with the number of iOS devices sold in the next 12 months. As such, after reviewing CapEx guidance, we find that iOS numbers could prove conservative.

Guiding for CapEx increase of 25% in FY13 to $10bn

For FY13, Apple is guiding for a total CapEx budget of $10bn, up 25% yoy compared to previous year's guidance of $8bn. Within this, it expects to spend $850mn for retail store facilities and $9.15bn for other CapEx items (which include product tooling and manufacturing process equipment, and corporate facilities/infrastructure including information systems hardware, software and enhancements). This $9.15bn of CapEx budget is something which gives us some insight into Apple's growth prospects over the next year. As such, we would note the following points here:

Exhibit 1: **Apple is spending an average of $36 of CapEx (excl. retail) per iOS device FY10-FY12**

Units ('000)	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**
iPhone	1,389	11,627	20,731	39,989	72,293	125,046
iPad	0	0	0	7,458	32,394	67,276
iPod Touch	240	7,260	16,670	23,304	17,792	17,659
iOS devices ('000)	**1,629**	**18,887**	**37,401**	**70,751**	**122,479**	**209,982**
CapEx actual reported (M&E, corporate, infrastructure) ($ mn)	528	702	775	2,196	3,986	9,460
CapEx spend (excl. retail) per unit ($)	324	37	21	31	33	45
CapEx spend (excl. retail) per unit ($) (average over FY10-12)						36
CapEx spend (excl. retail) per unit ($) (average over FY10-11)						**32**

Source: Company data, Credit Suisse estimates. M&E refers to Machinery & Equipment related spending

CapEx (excl. retail) per iOS device has been $36 on an average over the last 3 years. If we look at the reported CapEx spent on product tooling and manufacturing process equipment along with corporate facilities and infrastructure, we find that the CapEx per iOS device (includes iPhone, iPad and iPod Touch) sold by Apple has been $36 per device on an average over the last 3 years. Specifically, this number was $31 in FY10, $33 in FY11 and $45 in FY12, as shown in Exhibit 1.

However, $45 of CapEx per iOS device in FY12 is inflated in our view. We would note that the CapEx (excl. retail) of $45 per iOS device in FY12 is higher than normal levels given Apple changed the way they spent CapEx by investing heavily in machinery and equipment, securing capacity at some of its manufacturing partners. We believe this to be one-off in nature, and hence CapEx per iOS device should return to normal levels seen during FY10 and FY11. Consequently, we use CapEx per iOS seen in FY10 and FY11 of $31 to $33, with an average of $32.

Exhibit 2: $32 of CapEx per iOS device implies 288mn units in FY13

Number of iOS units to be sold in FY13 based on Apple's CapEx (excl. retail) guidance

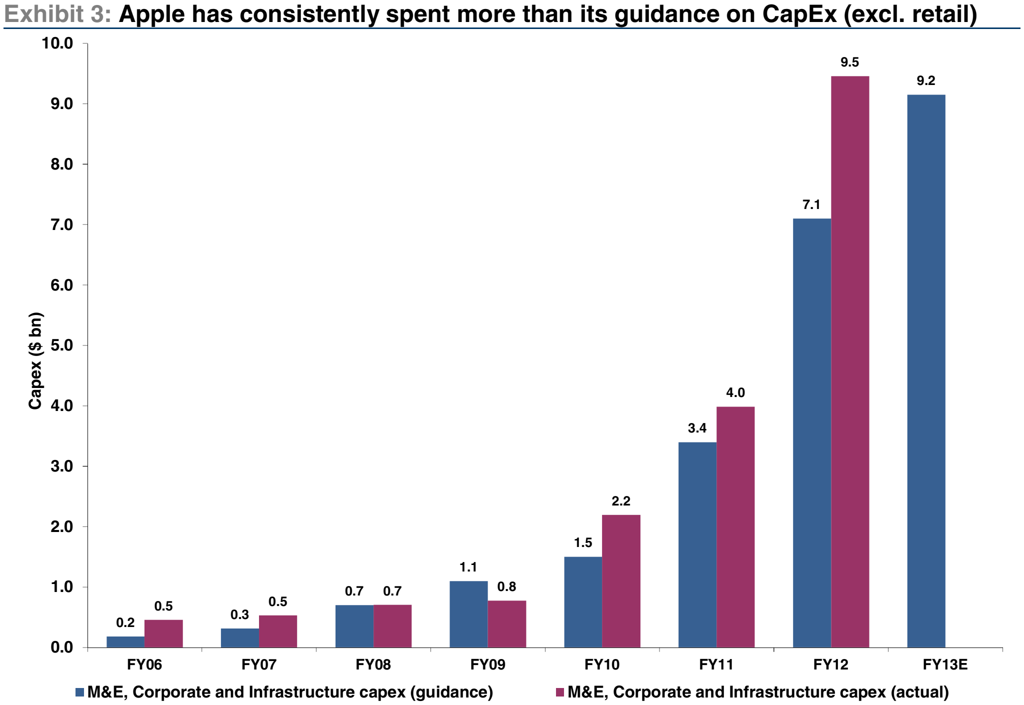
iOS unit analysis	FY13E
CapEx guidance (M&E, corporate, infrastructure) ($ mn)	9,150
Spend per iOS unit (average FY10-12)	**$36**
Implied iOS units ('000)	**252,683**
CS estimate for iOS units ('000)	284,843
Upside / Downside (%)	-11.3%
CapEx guidance (M&E, corporate, infrastructure) ($ mn)	9,150
Spend per iOS unit (average FY10-11)	**$32**
Implied iOS units ('000)	**287,814**
CS estimate for iOS units ('000)	284,843
Upside / Downside (%)	1.0%

Source: Company data, Credit Suisse estimates

$32 of CapEx per iOS device yields 288mn iOS units in FY13, 1% higher than our estimate. If we were to take the average number of $32 for CapEx per iOS device sold by Apple, this would imply total iOS device units of 288mn in FY13 (up 37% yoy) based on company's guidance of $9.15bn of CapEx to be spent on product tooling and manufacturing process equipment along with corporate facilities and infrastructure in FY13. This compares to our estimate of 285mn iOS devices (split as 178mn iPhone, 93mn iPad and 14mn iPod touch) in FY13 (up 36% yoy), implying 1% volume upside to our estimates, as shown in Exhibit 2.

If we use a CapEx number of $36 per iOS device, this would suggest total iOS device volumes of 253mn in FY13, which is 11% lower than our estimate (Exhibit 2). However, as we discuss earlier, we believe this $36 average over FY10-12 is being inflated by one-time uptick in purchasing equipment and securing capacity at its suppliers last year (CapEx per iOS device in FY12 was $45). As such, we believe the average CapEx of $32 per device is the right number to use for forecasting iOS volume shipments in FY13.

Exhibit 3: Apple has consistently spent more than its guidance on CapEx (excl. retail)



Source: Company data, Credit Suisse research

However, Apple has spent more than its CapEx guidance in the past. However, one thing to note here is that Apple has spent significantly more on CapEx for product tooling and manufacturing process equipment along with corporate facilities and infrastructure in the last few years than guidance called for at the start of fiscal year (Exhibit 3). In fact, the reported CapEx numbers for product tooling and manufacturing process equipment, along with corporate facilities and infrastructure, has been on an average some 32% higher than the company's guidance over the last 3 years. This suggests that Apple could potentially end up spending more than its guidance of $9.15bn for FY13, as can be seen in Exhibit 4.

Exhibit 4: Detailed breakdown of Apple's capex guidance and actual spend over the last few years
in $ millions, unless otherwise stated

Apple fiscal year	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E
Capex - Actual reported								
Retail store facilities	200	294	389	369	404	614	865	na
M&E, corporate, infrastructure	457	528	702	775	2,196	3,986	9,460	na
Total ($ mn)	**657**	**822**	**1,091**	**1,144**	**2,600**	**4,600**	**10,325**	**na**
% change yoy		25%	33%	5%	127%	77%	124%	
Capex - Actual cash payments								
Retail store facilities	200	294	389	369	400	612	865	na
M&E, corporate, infrastructure	457	441	702	775	1,605	3,648	7,430	na
Total ($ mn)	**657**	**735**	**1,091**	**1,144**	**2,005**	**4,260**	**8,295**	**na**
% change yoy		12%	48%	5%	75%	112%	95%	
Capex - Company guidance								
Retail store facilities	210	360	400	400	400	600	900	850
M&E, corporate, infrastructure	180	315	700	1,100	1,500	3,400	7,100	9,150
Total ($ mn)	**390**	**675**	**1,100**	**1,500**	**1,900**	**4,000**	**8,000**	**10,000**
% change yoy		73%	63%	36%	27%	111%	100%	25%
% change yoy (vs. actual reported)		3%	34%	37%	66%	54%	74%	-3%
% difference - actual versus guidance								
Retail store facilities	-4.8%	-18.3%	-2.8%	-7.8%	1.0%	2.3%	-3.9%	na
M&E, corporate, infrastructure	153.9%	67.6%	0.3%	-29.5%	46.4%	17.2%	33.2%	na
Total	**68.5%**	**21.8%**	**-0.8%**	**-23.7%**	**36.8%**	**15.0%**	**29.1%**	**na**

Source: Company data, Credit Suisse estimates

Assuming higher CapEx (excl. retail) implies 334mn iOS devices in FY13. Similar to last 3 years, if we were to assume that Apple spends around 32% higher than its guidance of $9.15bn for product tooling and manufacturing process equipment along with corporate facilities and infrastructure, that would imply a CapEx (excluding retail) of $12.1bn for FY13. Then even assuming $36 of CapEx per iOS device would suggest total iOS device shipments of 334mn (up 59% yoy) in FY13. This is around 17% higher than our estimate of 285mn iOS devices to be shipped during FY13, as detailed in Exhibit 5.

Exhibit 5: iOS volumes for FY13 based on upside to Apple's capex (excl. retail) guidance

iOS unit analysis based on upside to Apple's CapEx guidance	FY13E
CapEx in upside scenario (M&E, corporate, infrastructure) ($ mn)	12,105
Spend per iOS unit (average FY10-12)	$36
Implied iOS units ('000)	**334,278**
CS estimate for iOS units ('000)	284,843
Upside / Downside (%)	**17.4%**

Source: Company data, Credit Suisse estimates

Purchase obligations suggest upside to our above consensus iOS numbers

Apart from CapEx, another lead indicator of device shipments has been purchase obligations. These purchase obligations are related to Apple using several outsourcing partners to manufacture sub-assemblies for its products and to perform final assembly and testing of finished products. Looking at purchase obligation numbers, which Apple reported in its 10-K filing, we would highlight the following points:

Purchase obligations rising to $21.1bn, up 51% yoy. In its 10-K filing, Apple also noted that it has $21.1bn of purchase obligations (up 51% yoy) and these payments are due in less than 1 year. This compares to our estimate of 36% yoy increase in iOS device shipments in FY13, which we assume rising from 210mn units in FY12 to 285mn in FY13.

Purchase obligations per iOS device have been $68 on an average. A more accurate way to see what purchase obligations tells us about future Apple sales is by looking at the purchase obligation number per iOS device sold by Apple in the next 12 months. This number on an average has been $68 in the last 3 years, with the range being $66 to $71.

Purchase obligations of $66 per iOS device implies 317mn iOS devices in FY13. If we were to assume that purchase obligations per iOS device remains the same as last year at $66, then $21.1bn of purchase obligations due over the next 12 months implies Apple may sell around 317mn units in FY13, which is 11% higher than our estimate of 285mn units for FY13, as we show in Exhibit 6.

Exhibit 6: $66 of purchase obligation per iOS device implies 317mn units in FY13 (11% higher than our forecast)
in $ millions, unless otherwise stated

	FY07	FY08	FY09	FY10	FY11	FY12	FY13E
Operating leases	1,425	1,760	1,922	2,089	3,032	4,414	
Purchase obligations	**3,179**	**5,378**	**4,783**	**8,700**	**13,949**	**21,053**	
Other outstanding obligations	74	499	388	1,096	2,415	988	
Total	**4,678**	**7,637**	**7,093**	**11,885**	**19,396**	**26,455**	
iOS device sell-in units ('000)	**1,629**	**18,887**	**37,401**	**70,751**	**122,479**	**209,982**	
Purchase Obligations per iOS device sold next year ($)		144	68	71	66		
Assuming purchase obligation per iOS device is the same for FY13							66
Implied iOS units ('000)							**316,922**
CS estimate for iOS units ('000)							284,843
Upside / Downside (%)							11.3%

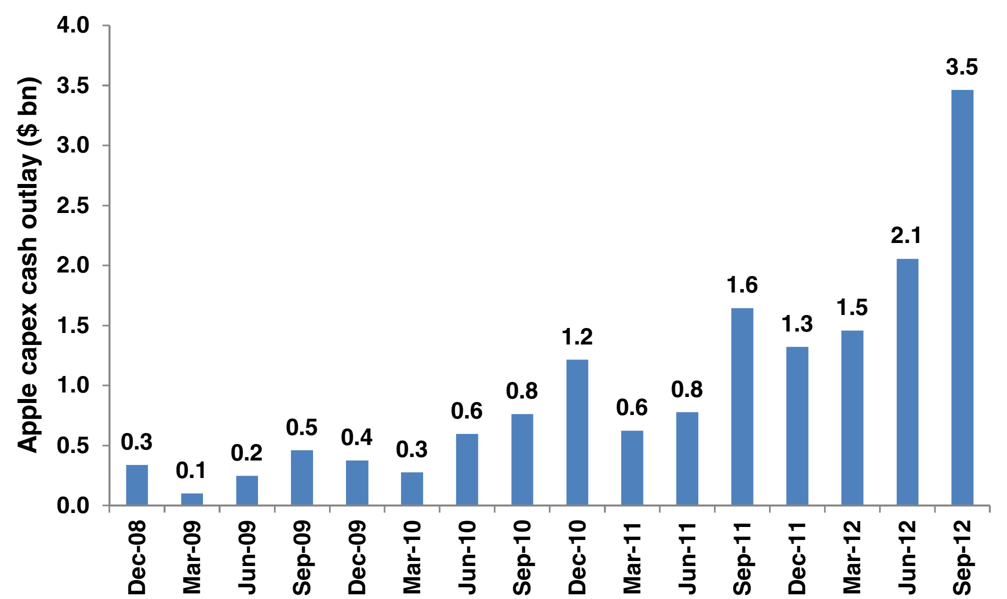
Source: Company data, Credit Suisse estimates

Apple's scale continues to rise – growing CapEx and semiconductor purchases

Another interesting aspect related to increasing CapEx spend at Apple is the increasing level of scale for the company versus its technology peers. As such, in this section, we try and compare CapEx trends at Apple to some of the leading technology companies. In addition, according to recent estimates from iSuppli, Apple continues to maintain a significant lead over others when it comes to buying semiconductor components from the industry. Both these trends suggest that Apple's scale continues to rise, which may result in the company continuing to benefit from economies of scale and purchasing power, as it continues to see strong growth in its top-line.

Apple's CapEx outflows have seen significant increase recently. Apple has spent around $5.5bn in CapEx in the last 6 months (split as $2.1bn in Jun quarter and $3.5bn in Sep quarter), as detailed in Exhibit 7. Looking at the historic CapEx movements, we would note that the company typically sees a material increase in CapEx outlays in 2H of calendar year in the past, which may be linked to launch of new iPhone versions. Another way to look at it is, if we were to annualize the CapEx spent over the last 6 months, Apple may end up spending $11bn in CapEx during FY13.

Exhibit 7: CapEx spending at Apple has seen significant increases
Apple's cash CapEx outflows over time



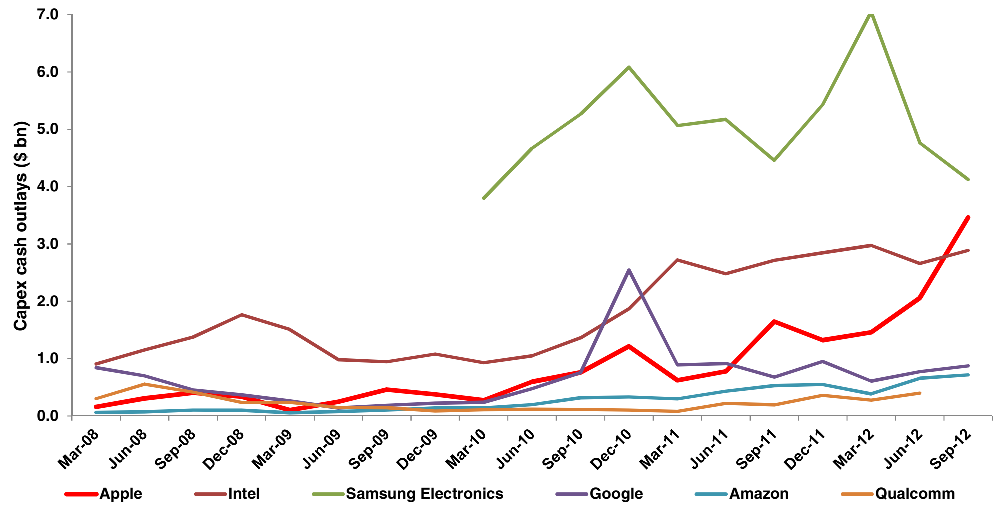
Source: Company data, Credit Suisse research

Comparing Apple's CapEx to some of the tech peer group, nearly outspending some capital intensive businesses. Also looking at the absolute levels of CapEx spent by Apple, we would note that driven by significant increases in CapEx over the last couple of years, Apple's CapEx is significantly higher than a number of tech peers which we believe are leaders in terms of technological innovation including Google, Amazon and Qualcomm. In the most recent quarter, it also spent more than Intel which has a capital intensive business model, and has also narrowed the gap with Samsung, as shown in Exhibit 8.

What is also worth mentioning here is that Apple's product portfolio is focused around 4 key product lines (iPhones, iPad, Macs and iPods), which means that the level of CapEx spend from the company is concentrated around these products. When comparing this to Samsung, we would note that Samsung has a diversified product portfolio ranging from semiconductors (memory and processors), display (LCD panels), mobile communications (handsets, tablets and network infrastructure) and consumer electronics (TV and digital appliances). In fact, of the $4.1bn of CapEx spent by Samsung in Q312, around 45% was directed towards its semiconductor business and 25% towards display panel segment.

Exhibit 8: Apple's capex spend is now much higher than a number of tech peers

Capex spend at some of the leading tech companies globally

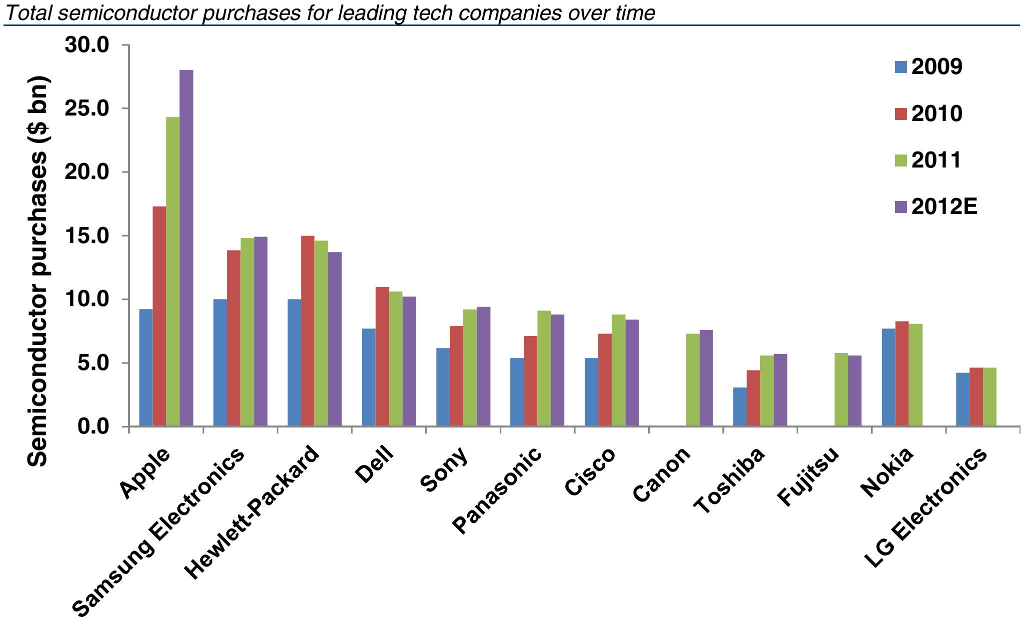


Source: Company data, Credit Suisse estimates

Apple remains one of the largest semiconductor purchasers globally. Apart from increasing CapEx spend, we would note that Apple has also become one of the largest purchases of semiconductor components and has also widened the gap vs. other companies within the technology peer group. In fact, as shown in Exhibit 9, according to iSuppli estimates, Apple purchased semiconductor components worth $24bn in 2011, which has increased from $9bn in 2009, and it expects this to rise to $28bn in 2012. Interestingly, the level of semiconductor purchases by Apple in 2012 will be nearly 2x higher than its nearest tech rivals, Samsung Electronics and Hewlett-Packard.

Exhibit 9: Apple's semiconductor purchases outpaces peers

Total semiconductor purchases for leading tech companies over time



Source: iSuppli (July 2012)

Retail expansion story remains on track

As part of its CapEx spending plans, Apple has also noted that it expects to open about 30 to 35 new retail stores during 2013, of which approximately 75% will be located outside the US. As a reminder, the company added 33 retail stores in FY12, of which 25 were outside the US, as shown in Exhibit 10.

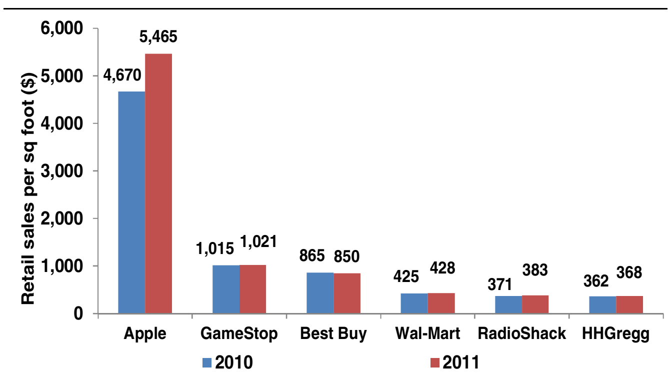
Exhibit 10: Apple continues to expand its retail presence in international markets; 140 retail stores outside the US
Breakdown of Apple's retail stores by country over time

# of retail stores	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Americas	217	219	230	234	234	238	250	255	254	255	264	268	268	271	276
US	207	209	216	220	220	223	234	237	236	237	242	246	246	249	250
Canada	10	10	14	14	14	15	16	18	18	18	22	22	22	22	26
Europe	24	25	29	34	37	37	47	47	48	50	67	67	69	74	82
United Kingdom	20	20	22	25	27	27	29	29	29	30	33	33	33	33	33
Spain	0	0	0	0	0	0	2	2	2	2	5	5	5	10	10
Switzerland	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Germany	1	1	2	2	3	3	4	4	5	5	8	8	8	8	10
France	0	0	0	2	2	2	5	5	5	6	9	9	10	10	14
Italy	1	1	2	2	2	2	4	4	4	4	9	9	9	9	10
Netherlands	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1
Sweden	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Japan	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Asia Pac	4	7	7	8	8	11	13	14	14	15	19	19	19	20	25
Australia	3	5	5	6	6	8	9	10	10	10	13	13	13	13	17
China (incl. HK)	1	2	2	2	2	3	4	4	4	5	6	6	6	7	8
Total	**252**	**258**	**273**	**283**	**286**	**293**	**317**	**323**	**323**	**327**	**357**	**361**	**363**	**372**	**390**
Int'l stores (outside US)	45	49	57	63	66	70	83	86	87	90	115	115	117	123	140
% of stores in EMs	0%	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%	2%	2%	2%	2%

Source: Company data, Credit Suisse estimates

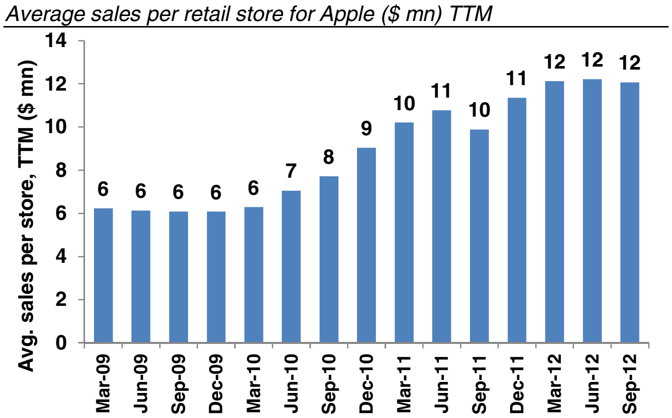
Vastly superior retail metrics for Apple versus peers. We see that Apple's stores generate retail revenue per square foot that is vastly superior to that of its peers and is growing. Apple's revenue per store per square foot is $5.5k or 9x times that of average of some of its retail peers, as shown in Exhibit 11.

Exhibit 11: Apple generates sales per sq. foot of $5.5K
Retail sales per square foot ($) for retail peer group



Source: Company data, Credit Suisse research

Exhibit 12: Quarterly sales per retail store continues to rise
Average sales per retail store for Apple ($ mn) TTM



Source: Company data, Credit Suisse research

Adding international stores should continue to propel growth. This is one avenue of raising awareness of Apple's product strength which will need to be accompanied by branding/marketing campaigns. During FY11, Apple opened 40 stores globally, of which 65% were outside the NA region. In FY12, Apple opened 33 stores worldwide of which 64% were outside the NA region (76% outside the US). In the past, the company has highlighted that its international retail stores have higher volumes compared to US stores. During FY13, the company is planning to add 30-35 new retail stores, which will take the overall count of its stores from 390 currently to around 425. Of these 30-35 new stores, 75% are expected to be outside the US.

Improving level of retail efficiency. This supports our argument that distribution is the gating factor. The reason why Apple has not realized this potential in emerging markets is primarily an issue of distribution. As Apple has moved increasingly across international markets, its revenue per store has increased as can be seen from Exhibit 12. Currently Apple has some 390 stores but only 6 of them are in EMs (all in China).

Building distribution will take time. Apple's retail distribution is without doubt effective and occurs at a rapid pace. On an average, we see that Apple has opened around 40 stores per year over the last 3 years. Second, the strategy tends to focus on expanding within one country at a time. Third, we conclude that even though there are important countries such as Brazil, Russia and India, which Apple should address with direct retail operations (similar to what it has done in China), the focus may evolve on a country by country basis.

Long term potential in China on track, other EMs to follow

Within its 10-K Apple, provided details on its China sales for FY12, which were $22.8bn, and this marks an 83% increase yoy ($12.5bn in FY11 – according to Apple's definition, China includes Hong Kong as well). Apple derived ~18% of its group revenues (ex-retail) from China in FY12.

Long term revenue potential of $42bn in China – Apple has already captured ~40% of the incremental LT revenue opportunity. After generating over $9bn of sales from China (ex-HK/Taiwan) in 2011, we estimate that it may reach $24bn in 2012. Based on our estimate that Apple's addressable market in China will be $29mn in 2012, it suggests that the addressable population in China will spend $700 on Apple products. Even assuming a similar level of spend with a rising addressable market, will help Apple reach ~$40bn of sales in China by 2015. This suggests that Apple has achieved 40% of incremental opportunity in China from 2011 to 2015 inside of one year. This is reassuring given our thesis around LT growth in China and EMs as a whole. Assuming Apple addresses the emerging markets from a distribution perspective, this could drive an incremental $87bn in sales and $21 of EPS by 2015. For further details please see our June 15, 2012 note titled *'Emerging Apple – On track to realize potential'*.

* *We note that Apple do not disclose Hong Kong, Taiwan and mainland China revenues separately however it should be noted that even if Hong Kong + Taiwan revenues are ~$3bn, a strong CY4Q12 in China should put the company's sales in China well ahead of our estimates.*

Exhibit 13: **China Sales for Apple have grown steadily**
in millions, unless otherwise stated

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	FY10	FY11	FY12
Greater China	**2,575**	**2,375**	**3,825**	**4,475**	**4,500**	**7,900**	**5,700**	**5,700**	**2,764**	**13,250**	**23,800**
Group	26,741	24,667	28,571	28,270	46,333	39,186	35,023	35,966	65,225	108,249	156,508
as % of group	*9.6%*	*9.6%*	*13.4%*	*15.8%*	*9.7%*	*20.2%*	*16.3%*	*15.8%*	*4.2%*	*11.5%*	*14.6%*

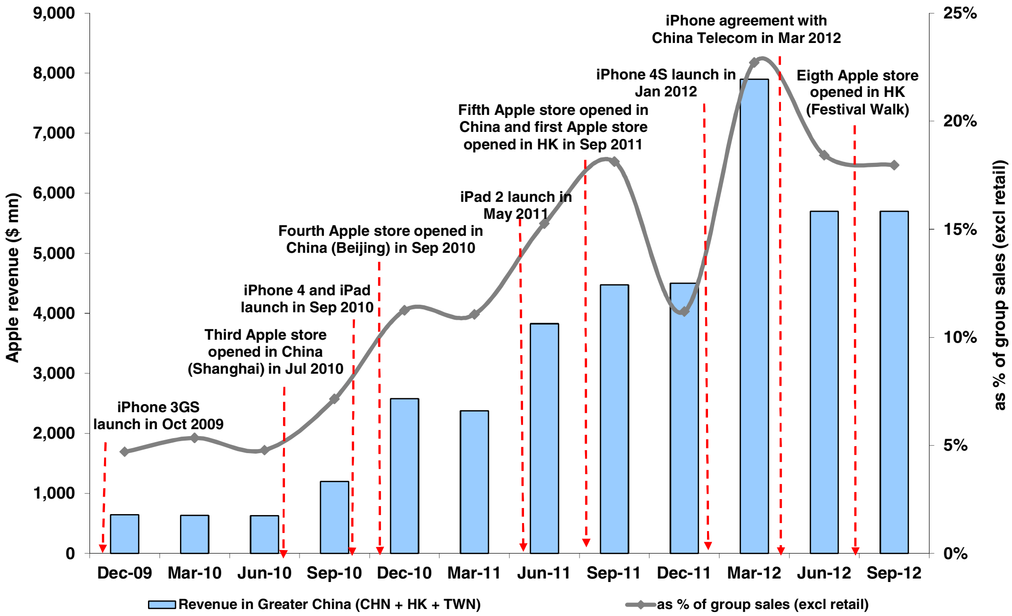
Source: Company data, Credit Suisse estimates

What has been driving success in China? This success is being driven by expanding distribution for iPhone (and rising carrier subsidies) along with addition of more retail stores, with a total of 8 now, up from 6 a year ago. Until now, handset subsidy strategies in China had been mixed. Since the start of this year we now see a trend for the iPhone, whereby both China Telecom and China Unicom offer a substantial subsidy to consumers for the device.

Significant upside ahead – China Mobile, retail expansion. China Mobile has ambitious plans to move towards TD-LTE (4G). The company plans to construct over 20,000 LTE base stations for scale trials in 9 cities during 2012 with a target of over 200,000 base stations in 2013. With nearly 700mn wireless subs on its network, LTE rollout could open up a significant opportunity for Apple in early 2013. The iPhone 5 SKUs uses a Qualcomm 9x15 baseband chip which would be technologically capable to support the China Mobile network, adding further weight to the idea that Apple is looking to launch the iPhone 5 with China Mobile. Finally, Apple's retail strategy outside of developed markets has focused entirely on opening retail locations in China. The company has highlighted that its stores in China have had the greatest amount of foot-traffic in the world and given the fact that Apple expands its retail operations in only one country at a time, we would expect its retail footprint to grow at a rapid pace in China going forward.

Exhibit 14: Greater China is ~18% of Apple's revenues (ex-retail)

in millions, unless otherwise stated



Source: Company data, Credit Suisse estimates

Financial Models

Exhibit 15: Apple: Annual income statement, year ending September
in US$ millions, unless otherwise stated

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013E	FY 2014E
Total revenue	**42,905**	**65,225**	**108,249**	**156,508**	**205,315**	**250,478**
Cost of goods sold	25,683	39,541	64,431	87,846	120,329	145,348
Gross profit	**17,222**	**25,684**	**43,818**	**68,662**	**84,986**	**105,130**
Gross margin (%)	40.1%	39.4%	40.5%	43.9%	41.4%	42.0%
Research & Development	1,333	1,782	2,429	3,381	3,798	4,759
% of sales	3.1%	2.7%	2.2%	2.2%	1.9%	1.9%
Selling, General & Administrative	4,149	5,517	7,599	10,040	11,908	14,277
% of sales	9.7%	8.5%	7.0%	6.4%	5.8%	5.7%
Total operating expenses	**5,482**	**7,299**	**10,028**	**13,421**	**15,707**	**19,036**
% of sales	12.8%	11.2%	9.3%	8.6%	7.7%	7.6%
Operating income	**11,740**	**18,385**	**33,790**	**55,241**	**69,279**	**86,093**
Operating margin (%)	27.4%	28.2%	31.2%	35.3%	33.7%	34.4%
One-times gains	0	0	0	0	0	0
Other income and expense	326	155	415	522	830	750
Pretax income	**12,066**	**18,540**	**34,205**	**55,763**	**70,109**	**86,843**
Pretax margin (%)	28.1%	28.4%	31.6%	35.6%	34.1%	34.7%
Income tax expense	3,831	4,527	8,283	14,030	17,712	21,711
Effective tax rate (%)	31.8%	24.4%	24.2%	25.2%	25.3%	25.0%
P/F Net income	8,235	14,013	25,922	41,733	52,397	65,133
P/F Net margin	19.2%	21.5%	23.9%	26.7%	25.5%	26.0%
After-tax stock options expense	484	634	885	1,303	1,300	1,300
P/F net income (excl. options expense)	8,719	14,647	26,807	43,036	53,697	66,433
	8,235	14,013	25,922	41,733	52,397	65,133
Reported GAAP EPS	**$9.08**	**$15.15**	**$27.68**	**$44.16**	**$55.26**	**$68.69**
EPS (excl. options expense)	$9.08	$15.15	$27.68	$44.16	$55.26	$68.69
Diluted shares outstanding	907	925	937	945	948	948

Source: Company data, Credit Suisse estimates

Exhibit 16: Apple: Product details on a quarterly basis
in US$ millions, unless otherwise stated

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
iPhone	**F1Q12**	**F2Q12**	**F3Q12**	**F4Q12**	**F1Q13E**	**F2Q13E**	**F3Q13E**	**F4Q13E**
Apple iPhone units (mn)	**37.0**	**35.1**	**26.0**	**26.9**	**49.8**	**47.3**	**41.1**	**39.3**
ASPs ($)	638.7	626.0	598.8	611.5	617.1	588.2	586.1	569.3
iPhone H/W revenue ($ mn)	23,658	21,950	15,586	16,456	30,719	27,820	24,115	22,396
Other revenue ($ mn)	759	740	659	669	1,652	1,665	1,572	1,576
Total iPhone revenue ($ mn)	**24,417**	**22,690**	**16,245**	**17,125**	**32,371**	**29,484**	**25,688**	**23,972**
Gross profit ($ mn)	**12,776**	**12,338**	**8,000**	**7,810**	**14,030**	**14,144**	**12,548**	**10,939**
Gross margin (%)	*52.3%*	*54.4%*	*49.2%*	*45.6%*	*43.3%*	*48.0%*	*48.8%*	*45.6%*
iPad	**F1Q12**	**F2Q12**	**F3Q12**	**F4Q12**	**F1Q13E**	**F2Q13E**	**F3Q13E**	**F4Q13E**
Apple iPad units (mn)	**15.4**	**11.8**	**17.0**	**14.0**	**23.9**	**19.9**	**25.8**	**23.3**
ASPs ($)	579.2	537.6	517.4	500.0	482.6	458.6	509.4	502.5
iPad H/W revenue ($ mn)	8,939	6,342	8,818	7,018	11,516	9,119	13,169	11,690
Other revenue ($ mn)	214	248	353	492	573	545	678	666
Total iPad revenue ($ mn)	**9,153**	**6,590**	**9,171**	**7,510**	**12,089**	**9,664**	**13,847**	**12,357**
Gross profit ($mn)	**3,842**	**2,907**	**3,730**	**3,076**	**4,569**	**3,842**	**5,532**	**4,986**
Gross margin (%)	*42.0%*	*44.1%*	*40.7%*	*41.0%*	*37.8%*	*39.8%*	*40.0%*	*40.4%*
iPod	**F1Q12**	**F2Q12**	**F3Q12**	**F4Q12**	**F1Q13E**	**F2Q13E**	**F3Q13E**	**F4Q13E**
Apple iPod units (mn)	**15.4**	**7.7**	**6.8**	**5.3**	**11.0**	**5.5**	**4.8**	**7.6**
ASPs ($)	162.8	154.2	153.5	149.2	169.0	165.6	165.6	170.4
iPod H/W revenue ($ mn)	2,507	1,183	1,036	797	1,851	907	798	1,292
Other revenue ($ mn)	21	24	24	23	54	28	25	42
Total iPod revenue ($ mn)	**2,528**	**1,207**	**1,060**	**820**	**1,906**	**935**	**823**	**1,334**
Gross profit ($ mn)	**644**	**323**	**286**	**208**	**494**	**245**	**216**	**350**
Gross margin (%)	*24.9%*	*25.3%*	*25.4%*	*23.4%*	*23.9%*	*24.1%*	*24.1%*	*24.0%*
Mac	**F1Q12**	**F2Q12**	**F3Q12**	**F4Q12**	**F1Q13E**	**F2Q13E**	**F3Q13E**	**F4Q13E**
Desktop	1,479	1,199	1,010	968	1,257	1,222	1,029	1,055
Portable	3,719	2,818	3,010	3,955	4,091	3,058	3,311	4,393
Total units ('000)	**5,198**	**4,017**	**4,020**	**4,923**	**5,348**	**4,279**	**4,340**	**5,448**
Desktop	1,309	1,304	1,274	1,295	1,270	1,251	1,232	1,504
Portable	1,254	1,246	1,211	1,356	1,370	1,370	1,370	1,127
Blended ASP ($)	**1,269**	**1,263**	**1,227**	**1,344**	**1,346**	**1,336**	**1,337**	**1,200**
Desktop	1,936	1,563	1,287	1,254	1,596	1,528	1,268	1,587
Portable	4,662	3,510	3,646	5,363	5,603	4,187	4,535	4,952
Total revenue ($ mn)	**6,598**	**5,073**	**4,933**	**6,617**	**7,199**	**5,715**	**5,802**	**6,539**
Gross profit ($ mn)	**1,673**	**1,297**	**1,192**	**1,540**	**1,760**	**1,322**	**1,362**	**1,644**
Gross margin (%)	*25.4%*	*25.6%*	*24.2%*	*23.3%*	*24.4%*	*23.1%*	*23.5%*	*25.1%*

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 01 Nov 12)*
Amazon.com, Inc. (AMZN, $232.12, OUTPERFORM, TP $301.00)
Apple, Inc. (AAPL, $596.80, OUTPERFORM, TP $750.00)
Best Buy, Inc. (BBY, $15.05, RESTRICTED)
Canon Electronics (7739, ¥1,729)
China Mobile Ltd. (0941.HK, HK$87.30, OUTPERFORM, TP HK$102.00)
China Telecom (0728.HK, HK$4.59, NEUTRAL, TP HK$4.60)
China Unicom Hong Kong Ltd. (0762.HK, HK$12.74, OUTPERFORM, TP HK$17.85)
Cisco Systems, Inc. (CSCO, $17.53, OUTPERFORM, TP $25.00)
Dell, Inc. (DELL, $9.33, UNDERPERFORM, TP $11.00)
GameStop Corp. (GME, $23.60, OUTPERFORM, TP $28.00)
Google, Inc. (GOOG, $688.21, OUTPERFORM, TP $847.00)
Hewlett-Packard (HPQ, $14.00, NEUTRAL, TP $15.00)
hhgregg, Inc. (HGG, $6.39, NEUTRAL [V], TP $7.50)
Intel Corp. (INTC, $22.29, OUTPERFORM, TP $32.00)
QUALCOMM, Inc. (QCOM, $59.75, OUTPERFORM, TP $75.00)
RadioShack (RSH, $2.25, UNDERPERFORM [V], TP $2.00)
Samsung Electronics (005930.KS, W1,297,000, OUTPERFORM, TP W1,700,000)
Sony (6758, ¥915, NEUTRAL [V], TP ¥900, MARKET WEIGHT)
Toshiba (6502, ¥294, NEUTRAL, TP ¥290, MARKET WEIGHT)
Wal-Mart Stores, Inc. (WMT, $73.45, NEUTRAL, TP $80.00)

Disclosure Appendix

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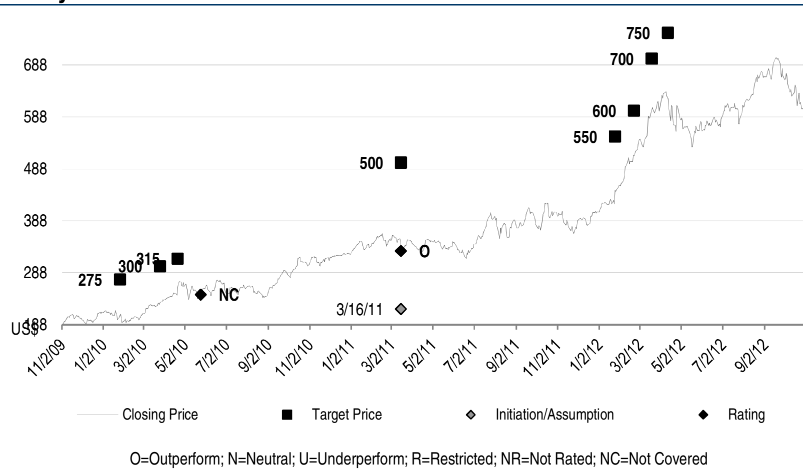
3-Year Price, Target Price and Rating Change History Chart for AAPL

AAPL Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
1/26/10	205.94	275		
3/26/10	230.9	300		
4/21/10	259.22	315		
5/25/10	245.22		NC	
3/16/11	329.76	500	O	X
1/25/12	446.66	550		
2/22/12	513.04	600		
3/19/12	601.1	700		
4/12/12	622.56	750		



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Restricted	3%	

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Method: Our target price for Apple is $750. We calculate this by applying a 12x multiple to our CY2013 taxed operating EPS per share and add back onshore cash per share. Our multiple is slighted discounted to the market, in-line with the stock's historical performance.

Risks: Risks to achievement of our $750 target price for Apple Inc. include competitive pressures from global consumer electronics companies, failure to launch innovative products, loss of key executive managers, failure to maintain key media distribution for iTunes, and regulatory risk

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