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Apple

Moderate Estimates for iPhone SE with Higher Consumer Headwinds; Market Share to Drive Resilience; Maintain \$210 PT

We have recently taken a more cautious view on the consumer spending outlook, including moderating our growth forecasts for the smartphone market, which is already limiting the upside we had expected from the launch of the iPhone SE3 and will likely limit the magnitude of upside to iPhone 13 as well as App Store revenue in Services. Thus, we are trimming our earnings forecasts for Apple, led by a modest haircut to our revenue growth estimates for iPhone (primarily iPhone SE) and Services, although the overall reduction in estimates is fairly modest given the resilience of high-end smartphones, tablets and laptops to the broader slowdown in consumer spending. The reduction in estimates from what were above consensus (and bullish) expectations for iPhone revenue growth is now bringing us largely in line with consensus forecasts for FY22. However, we remain above consensus expectations for FY23 and FY24, led by our forecasts for better than expected growth in Products as well as margin and earnings trajectory on the back of robust growth in Services. Our positive view on the shares long term leads us to maintain our Overweight rating and Dec-22 price target of \$210.

- **Lower iPhone unit outlook modestly, led by iPhone SE3.** We are modestly lowering our street-high iPhone volume outlook for CY22 to 245 mn, relative to prior estimate for 250 mn, with our estimates for iPhone SE3 moving to 24 mn relative to 30 mn prior. Our estimates for iPhone 13 remain largely intact as we expect the combination of recent color variant launches as well as a higher than typical inventory level in the channel against the backdrop of existing supply chain constraints to provide offsets to lower customer spending.
- **Services momentum slowing on tough comparables as well as slowing consumer spending on App Store.** Gross app store revenue, new downloads, as well as gaming revenue worsened in relation to y/y growth trends in C1Q22, which while partly on account of tough comparables is also the first q/q sequential moderation in gross revenue since C4Q19. We expect the slower engagement on the App Store to limit Services revenue growth in the +15%-20% y/y range in FY22 and thus we lower our estimates on our expectations for more modest sequential growth in Service revenues through the fiscal year.
- **Despite increasing headwinds on consumer spending, Apple should drive offsets through market share increases; maintain Dec-22 PT of \$210.** Even as our concerns regarding consumer spending momentum have increased in recent months, leading to a downward revision in our unit outlook for the Smartphone market (see report [here](#)), as well as the PC market (see report [here](#)), we continue to see Apple well positioned to deliver resilient performance in Product revenue growth, led by share gains across the different categories of hardware products as both Enterprises and Consumers increasingly adopt higher-performance devices. The offsets and the expected resilience lead us to maintain our Dec-22 price target of \$210.

Overweight

AAPL, AAPL US

Price (06 Apr 22): \$171.83

Price Target (Dec-22): \$210.00

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Key Changes (FYE Sep)

	Prev	Cur
Adj. EPS - 22E (\$)	6.20	6.15
Adj. EPS - 23E (\$)	6.85	6.80
Revenue - 22E (\$ mn)	397,811	396,159
Revenue - 23E (\$ mn)	427,290	425,527

Quarterly Forecasts (FYE Sep)

Adj. EPS (\$)	2021A	2022E	2023E
Q1	1.68	2.10A	2.16
Q2	1.40	1.48	1.42
Q3	1.30	1.23	1.47
Q4	1.24	1.34	1.75
FY	5.61	6.15	6.80

Style Exposure

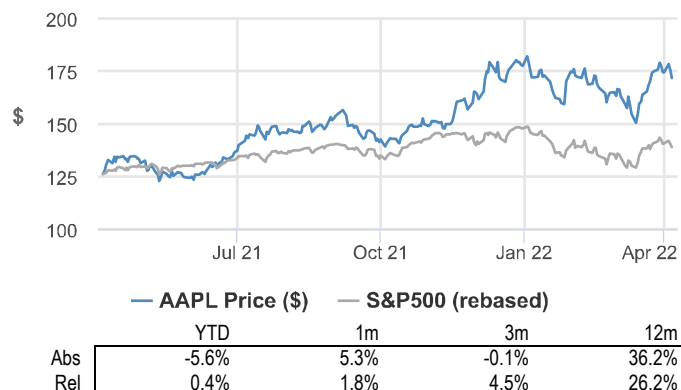
Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	67	58	65	60	66
Growth	73	71	68	76	86
Momentum	18	41	75	85	68
Quality	1	1	1	3	4
Low Vol	9	14	12	20	11
ESGQ	12	86	94	96	85

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Price Performance



Company Data

Shares O/S (mn)	16,519
52-week range (\$)	182.94-122.25
Market cap (\$ mn)	2,838,510.00
Exchange rate	1.00
Free float(%)	94.5%
3M - Avg daily vol (mn)	94.35
3M - Avg daily val (\$ mn)	15,788.5
Volatility (90 Day)	31
Index	S&P 500
BBG BUY HOLD SELL	38 9 1

Key Metrics (FYE Sep)

\$ in millions	FY21A	FY22E	FY23E	FY24E
Financial Estimates				
Revenue	365,817	396,159	425,527	455,124
Adj. EBIT	108,949	119,697	128,269	138,032
Adj. EBITDA	120,233	134,769	146,899	157,944
Adj. net income	94,680	100,279	107,497	115,443
Adj. EPS	5.61	6.15	6.80	7.50
BBG EPS	5.58	6.16	6.56	6.90
Cashflow from operations	104,038	121,475	147,436	141,662
FCFF	92,953	111,867	136,798	130,284
Margins and Growth				
Revenue growth	33.3%	8.3%	7.4%	7.0%
EBIT margin	29.8%	30.2%	30.1%	30.3%
EBIT growth	64.4%	9.9%	7.2%	7.6%
EBITDA margin	32.9%	34.0%	34.5%	34.7%
EBITDA growth	55.5%	12.1%	9.0%	7.5%
Net margin	25.9%	25.3%	25.3%	25.4%
Adj. EPS growth	71.6%	9.7%	10.6%	10.3%
Ratios				
Adj. tax rate	13.3%	15.7%	15.8%	16.0%
Interest cover	-	-	-	-
Net debt/Equity	1.4	1.3	0.6	0.1
Net debt/EBITDA	0.7	0.6	0.3	0.1
ROE	147.4%	154.7%	148.1%	130.6%
Valuation				
FCFF yield	3.2%	4.0%	5.0%	4.9%
Dividend yield	-	-	-	-
EV/Revenue	7.5	6.9	6.4	6.0
EV/EBITDA	22.8	20.3	18.6	17.3
Adj. P/E	30.6	27.9	25.3	22.9

Summary Investment Thesis and Valuation

We rate AAPL shares Overweight given our favorable outlook on iPhone and Services revenues relative to investor expectations, catalysts to accelerate revenue growth, and upside risk to our base forecast for +10% earnings CAGR. We see upside on several aspects of the business as well as financials that remain underappreciated by investors, namely the transformation of the company to Services, growth in the installed base, technology leadership, and optionality around capital deployment – all of which together lead us to expect double-digit earnings growth and a modest re-rating for the shares.

Our December 2022 price target of \$210 is based on a P/E multiple of ~30x on our CY23 earnings estimate of \$6.98. Apple shares have traded closer to 30x P/E following the re-rating on account of Services growth as well as expectations of better execution on the product cycle, which we expect to be a multiple investors are willing to return to attributing to the shares, with beats driven by more sustainable secular drivers in iPhone and Services with a larger installed base, higher share in 5G smartphones, and better Services monetization – all together turning out to be a strategic advantage for the company.

Performance Drivers

Market	45%
Sector	20%
Macro	1%
Style	8%
Idiosyn.	24%

Factors	6M Corr	1Y Corr
Market: MSCI US	0.75	0.68
Sect: Technology	0.57	0.61
Ind: Tech Hard Equip	0.99	0.99
Macro:		
US 10yr Breakeven	-0.19	-0.28
Non-Energy Commodity	-0.19	-0.26
US 10yr yield	-0.01	-0.22
Quant Styles:		
Quality	0.45	0.47
Size	0.58	0.43
LowVol	0.44	0.33

Investment Thesis, Valuation and Risks

Apple Inc. (Overweight; Price Target: \$210.00)

Investment Thesis

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Valuation

Our December 2022 price target of \$210 is based on a P/E multiple of ~30x on our CY23 earnings estimate of \$6.98. Apple shares have traded closer to 30x P/E following the re-rating on account of Services growth as well as expectations of better execution on the product cycle, which we expect to be a multiple investors are willing to return to attributing to the shares, with beats driven by more sustainable secular drivers in iPhone and Services with a larger installed base, higher share in 5G smartphones, and better Services monetization – all together turning out to be a strategic advantage for the company.

AAPL P/E-Based Price Target Analysis

\$ in Millions, except per share amounts

	NTM	
	Qtrs 1-4	CY23E
JPM Net Income	100,108	109,331
JPM EPS	\$6.21	\$6.98
P/E Multiple	28x	
JPM P/E Multiple		30x
Total Equity Value	2,838,510	3,290,869
Average Diluted Share Count	16,519.3	15,535.0
Implied Share Price	\$171.8	\$210.0
Current Value per Share	\$171.83	\$171.83
Upside vs. Current		22%
<u>Memo:</u>		
(-) Net Cash/(Debt)	79,798	105,633
Enterprise Value	2,758,712	3,185,236
JPM EBITDA	135,922	149,518
<i>Implied EV/EBITDA</i>	<i>20.3x</i>	<i>21.3x</i>

Source: J.P. Morgan estimates.

Risks to Rating and Price Target

Industry Downside Risks

Deceleration or contraction in the handset and smartphone market could be faster than expected. Economic conditions or shifting consumer demand could cause greater-than-expected deceleration or contraction in the handset and smartphone markets. This would negatively impact Apple's prospects for growth, and the shares may fail to achieve our price target as a result.

Increase in competitive pressures in international markets. Apple is increasingly participating in international markets, such as China and India, where local players, which are better situated, could leverage their position, and pull on levers such as pricing to make the market more competitive. In addition, tariffs enacted by local governments may further hurt Apple's ability to compete effectively in international markets.

Company-Specific Downside Risks

Investment in new business strategies and acquisitions could be fruitless. Apple has historically invested in new business strategies and acquisitions. As such, success on these investments has low visibility at this time and could lead to greater-than-expected liabilities and expense. Additionally, new investments could have a negative impact on current operations by distracting management.

Key man risk around departure of chief executive officer. While risks related to departure of management executives appear considerably lower relative to the past, we believe the execution on strategic priorities under CEO Tim Cook's leadership still present modest risk to the share price, although we see a strong group of executives to support business performance without disruptions.

Table 1: Apple Summary Table

\$ in Millions

Sep Fiscal Year End	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22E	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E
iPhone Units	190	81	60	50	51	241	85	60	53	52	250	80	53	53	63	248
iPhone Revenue	137,781	65,597	47,938	39,570	38,868	191,973	71,628	48,649	37,508	40,074	197,860	66,555	41,699	41,699	50,902	200,854
iPad revenue	23,724	8,435	7,807	7,368	8,252	31,862	7,248	8,656	8,417	7,843	32,164	7,643	8,741	8,666	7,920	32,970
Mac revenue	28,622	8,675	9,102	8,235	9,178	35,190	10,852	9,944	9,338	10,766	40,900	10,966	10,295	9,668	11,146	42,075
Wearables Revenue	30,620	12,971	7,836	8,775	8,785	38,367	14,701	8,708	9,748	9,813	42,971	16,925	9,878	11,121	11,287	49,211
Services Revenue	53,768	15,761	16,901	17,486	18,277	68,425	19,516	20,075	20,769	21,904	82,264	24,113	24,411	25,256	26,637	100,417
Revenue	274,515	111,439	89,584	81,434	83,360	365,817	123,945	96,032	85,782	90,401	396,159	126,202	95,024	96,411	107,890	425,527
% chg y/y	5.5%	21.4%	53.6%	36.4%	28.8%	33.3%	11.2%	7.2%	5.3%	8.4%	8.3%	1.8%	-1.0%	12.4%	19.3%	7.4%
Product GM	31.5%	35.1%	36.1%	36.0%	34.3%	35.3%	38.4%	35.4%	33.1%	33.4%	35.5%	36.6%	33.0%	33.2%	34.2%	34.5%
Services GM	66.0%	68.4%	70.1%	69.8%	70.5%	69.7%	72.4%	72.5%	72.0%	72.0%	72.2%	73.5%	73.0%	72.5%	72.5%	72.9%
Gross Margin	38.2%	39.8%	42.5%	43.3%	42.2%	41.8%	43.8%	43.2%	42.5%	42.8%	43.1%	43.7%	43.3%	43.5%	43.6%	43.5%
Opex	38,668	10,794	10,576	11,129	11,388	43,887	12,755	12,580	12,696	13,108	51,139	14,014	14,211	14,266	14,506	56,996
Opex as % of sales	14.1%	9.7%	11.8%	13.7%	13.7%	12.0%	10.3%	13.1%	14.8%	14.5%	12.9%	11.1%	15.0%	14.8%	13.4%	13.4%
Operating Income (COI)	66,288	33,534	27,503	24,126	23,786	108,949	41,488	28,867	23,768	25,574	119,697	41,075	26,938	27,671	32,584	128,269
operating margin	24.1%	30.1%	30.7%	29.6%	28.5%	29.8%	33.5%	30.1%	27.7%	28.3%	30.2%	32.5%	28.3%	28.7%	30.2%	30.1%
Net Income	57,411	28,755	23,630	21,744	20,551	94,680	34,630	24,208	19,957	21,484	100,279	34,459	22,556	23,173	27,310	107,497
Diluted EPS	\$3.27	\$1.68	\$1.40	\$1.30	\$1.24	\$5.61	\$2.10	\$1.48	\$1.23	\$1.34	\$6.15	\$2.16	\$1.42	\$1.47	\$1.75	\$6.80
Diluted Shares (avg.)	17,574	17,114	16,929	16,782	16,635	16,886	16,519	16,312	16,195	16,079	16,309	15,966	15,855	15,746	15,640	15,811
Cash	193,603	195,571	205,913	193,644	190,516	190,516	202,596	209,473	205,696	199,232	199,232	200,842	224,393	235,478	240,698	240,698
Debt	112,436	112,043	121,645	121,791	124,719	124,719	122,798	122,798	122,798	122,798	122,798	122,798	122,798	122,798	122,798	122,798
Net Debt	(81,167)	(83,528)	(84,268)	(71,853)	(65,797)	(65,797)	(79,798)	(86,675)	(82,898)	(76,434)	(76,434)	(78,044)	(101,595)	(112,680)	(117,900)	(117,900)
Net Leverage	-1.0x	-1.0x	-0.8x	-0.6x	-0.5x	-0.5x	-0.6x	-0.7x	-0.6x	-0.6x	-0.6x	-0.6x	-0.8x	-0.8x	-0.8x	-0.8x
Operating Cash Flow	80,674	38,763	23,981	21,094	20,200	104,038	46,966	32,833	22,137	19,539	121,475	28,481	49,617	37,472	31,867	147,436
Capital Expenditures	(7,309)	(3,500)	(2,269)	(2,093)	(3,223)	(11,085)	(2,803)	(2,401)	(2,145)	(2,260)	(9,608)	(3,155)	(2,376)	(2,410)	(2,697)	(10,638)
Free Cash Flow	73,365	35,263	21,712	19,001	16,977	92,953	44,163	30,432	19,992	17,279	111,867	25,326	47,241	35,062	29,170	136,798
Dividends	(14,081)	(3,613)	(3,447)	(3,767)	(3,640)	(14,467)	(3,732)	(3,555)	(3,770)	(3,743)	(14,800)	(3,716)	(3,690)	(3,976)	(3,949)	(15,332)
Share repurchases	(72,358)	(24,775)	(18,548)	(22,900)	(19,748)	(85,971)	(20,478)	(20,000)	(20,000)	(20,000)	(80,478)	(20,000)	(20,000)	(20,000)	(20,000)	(80,000)

Source: Company Reports and J.P. Morgan estimates.

Apple: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY20A	FY21A	FY22E	FY23E	FY24E		1Q22A	2Q22E	3Q22E	4Q22E	
Revenue	274,515	365,817	396,159	425,527	455,124	Revenue	123,945A	96,032	85,782	90,401	
COGS	(169,559)	(212,981)	(225,324)	(240,262)	(255,306)	COGS	(69,702)A	(54,585)	(49,318)	(51,718)	
Gross profit	104,956	152,836	170,836	185,265	199,818	Gross profit	54,243A	41,447	36,463	38,682	
SG&A	(19,916)	(21,973)	(25,558)	(27,260)	(28,630)	SG&A	(6,449)A	(6,338)	(6,262)	(6,509)	
Adj. EBITDA	77,344	120,233	134,769	146,899	157,944	Adj. EBITDA	44,185A	33,246	27,823	29,515	
D&A	(11,056)	(11,284)	(15,072)	(18,630)	(19,913)	D&A	(2,697)A	(4,379)	(4,055)	(3,941)	
Adj. EBIT	66,288	108,949	119,697	128,269	138,032	Adj. EBIT	41,488A	28,867	23,768	25,574	
Net Interest	-	-	-	-	-	Net Interest	-	-	-	-	
Adj. PBT	67,091	109,207	119,000	127,669	137,432	Adj. PBT	41,241A	28,717	23,618	25,424	
Tax	(9,680)	(14,527)	(18,721)	(20,172)	(21,989)	Tax	(6,611)A	(4,509)	(3,661)	(3,941)	
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-	
Adj. Net Income	57,411	94,680	100,279	107,497	115,443	Adj. Net Income	34,630A	24,208	19,957	21,484	
Reported EPS	3.27	5.61	6.15	6.80	7.50	Reported EPS	2.10A	1.48	1.23	1.34	
Adj. EPS	3.27	5.61	6.15	6.80	7.50	Adj. EPS	2.10A	1.48	1.23	1.34	
DPS	-	-	-	-	-	DPS	-	-	-	-	
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-	
Shares outstanding	17,574	16,886	16,309	15,811	15,391	Shares outstanding	16,519A	16,312	16,195	16,079	
Balance Sheet & Cash Flow Statement						Ratio Analysis					
	FY20A	FY21A	FY22E	FY23E	FY24E		FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	39,789	34,940	35,266	76,732	110,941	Gross margin	38.2%	41.8%	43.1%	43.5%	43.9%
Accounts receivable	16,120	26,278	34,151	35,963	38,013	EBITDA margin	28.2%	32.9%	34.0%	34.5%	34.7%
Inventories	4,061	6,580	15,516	18,240	18,969	EBIT margin	24.1%	29.8%	30.2%	30.1%	30.3%
Other current assets	83,743	67,038	79,946	79,946	79,946	Net profit margin	20.9%	25.9%	25.3%	25.3%	25.4%
Current assets	143,713	134,836	164,879	210,882	247,869	ROE	73.7%	147.4%	154.7%	148.1%	130.6%
PP&E	36,766	39,440	33,675	25,683	17,148	ROA	17.3%	28.1%	27.2%	26.6%	26.4%
LT investments	100,887	127,877	137,172	137,172	137,172	ROCE	30.1%	51.7%	53.5%	55.3%	54.9%
Other non current assets	42,522	48,849	50,109	50,109	50,109	SG&A/Sales	7.3%	6.0%	6.5%	6.4%	6.3%
Total assets	323,888	351,002	385,835	423,846	452,298	Net debt/equity	1.1	1.4	1.3	0.6	0.1
Short term borrowings	13,769	15,613	16,169	16,169	16,169	P/E (x)	52.6	30.6	27.9	25.3	22.9
Payables	42,296	54,763	70,312	83,915	88,696	P/BV (x)	46.2	46.0	42.1	34.5	27.0
Other short term liabilities	49,327	55,105	71,157	83,399	87,703	EV/EBITDA (x)	35.4	22.8	20.3	18.6	17.3
Current liabilities	105,392	125,481	157,637	183,483	192,568	Dividend Yield	-	-	-	-	-
Long-term debt	98,667	109,106	106,629	106,629	106,629	Sales/Assets (x)	0.8	1.1	1.1	1.1	1.0
Other long term liabilities	54,490	53,325	55,056	55,056	55,056	Interest cover (x)	-	-	-	-	-
Total liabilities	258,549	287,912	319,322	345,168	354,253	Operating leverage	66.9%	193.5%	118.9%	96.6%	109.4%
Shareholders' equity	65,339	63,090	66,513	78,678	98,045	Revenue y/y Growth	5.5%	33.3%	8.3%	7.4%	7.0%
Minority interests	-	-	-	-	-	EBITDA y/y Growth	1.1%	55.5%	12.1%	9.0%	7.5%
Total liabilities & equity	323,888	351,002	385,835	423,846	452,298	Tax rate	14.4%	13.3%	15.7%	15.8%	16.0%
BVPS	3.72	3.74	4.08	4.98	6.37	Adj. Net Income y/y Growth	3.9%	64.9%	5.9%	7.2%	7.4%
y/y Growth	(23.4%)	0.5%	9.2%	22.0%	28.0%	EPS y/y Growth	10.2%	71.6%	9.7%	10.6%	10.3%
Net debt/(cash)	72,647	89,779	87,532	46,066	11,857	DPS y/y Growth	-	-	-	-	-
Cash flow from operating activities	80,674	104,038	121,475	147,436	141,662						
o/w Depreciation & amortization	11,056	11,284	15,072	18,630	19,913						
o/w Changes in working capital	5,690	(4,911)	3,010	21,309	6,307						
Cash flow from investing activities	(4,289)	(14,545)	(22,911)	(10,638)	(11,378)						
o/w Capital expenditure	(7,309)	(11,085)	(9,608)	(10,638)	(11,378)						
as % of sales	2.7%	3.0%	2.4%	2.5%	2.5%						
Cash flow from financing activities	(86,694)	(93,224)	(99,166)	(95,332)	(96,076)						
o/w Dividends paid	(14,081)	(14,467)	(14,800)	(15,332)	(16,076)						
o/w Net debt issued/(repaid)	2,499	12,665	(1,000)	0	0						
Net change in cash	(10,309)	(3,731)	(602)	41,466	34,209						
Adj. Free cash flow to firm	73,365	92,953	111,867	136,798	130,284						
y/y Growth	24.6%	26.7%	20.3%	22.3%	(4.8%)						

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Sep. o/w - out of which

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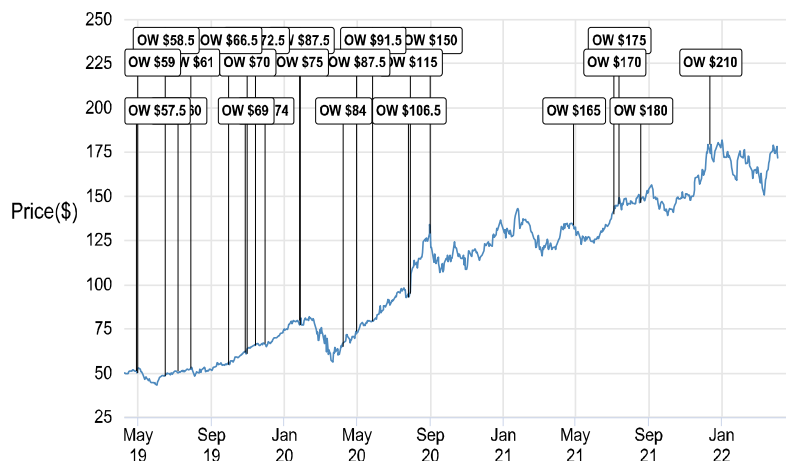
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Apple (AAPL, AAPL US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage May 01, 1999. All share prices are as of market close on the previous business day.

Date	Rating	Price (\$)	Price Target (\$)
29-Apr-19	OW	51.08	57.5
01-May-19	OW	50.17	59
17-Jun-19	OW	48.18	58.5
08-Jul-19	OW	51.06	60
30-Jul-19	OW	52.42	61
30-Sep-19	OW	54.70	66.5
28-Oct-19	OW	61.64	69
31-Oct-19	OW	60.82	70
15-Nov-19	OW	65.66	72.5
01-Dec-19	OW	66.81	74
27-Jan-20	OW	79.58	75
28-Jan-20	OW	77.24	87.5
08-Apr-20	OW	64.86	84
01-May-20	OW	73.45	87.5
28-May-20	OW	79.53	91.5
27-Jul-20	OW	92.62	106.5
30-Jul-20	OW	95.04	115
01-Sep-20	OW	129.04	150
29-Apr-21	OW	133.58	165
06-Jul-21	OW	139.96	170
14-Jul-21	OW	145.64	175
19-Aug-21	OW	146.36	180
13-Dec-21	OW	179.45	210

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IB clients**	52%	47%	36%
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