



# Apple Inc.

## Managing supply chain and FX headwinds well

### UNITED STATES | CONSUMER | 3Q22 RESULTS

- 3Q22 revenue and PATMI in line with expectations. 9M22 revenue/PATMI at 77/80% of our FY22e forecasts.
- Record iPhone revenue for June quarter, with growing installed base and increasing customer engagement driving Services growth.
- Gross margins slightly above forecasts, demonstrating Apple's ability to better manage supply chain constraints.
- We adjust our FY22e earnings forecasts upwards slightly to reflect higher gross margins and PATMI outperformance YTD. We expect Apple to weather the supply chain constraints and 6% FX headwind. We maintain BUY recommendation with a higher target price of US\$198.00 (prev. US\$194.00) on DCF with a WACC of 6.1% and terminal growth of 3.0%.

#### Results at a glance

US\$ bn	3Q22	3Q21	YoY	Comments
Revenue	83.0	81.4	1.9%	3% FX headwinds
- Products	63.4	63.9	-0.9%	iPhone revenue grew 3% YoY
- Services	19.6	17.5	12.1%	installed based growing, increasing customer engagement
Gross profit	35.9	35.4	1.5%	
Operating exp.	12.8	11.1	15.1%	
PATMI	19.4	21.7	-10.6%	
Gross Margins	43.3%	43.4%	-0.2%	Slightly above forecasts

Source: Company, PSR

#### The Positives

**+ Record revenue for iPhone and Services.** AAPL reported record sales from its iPhones for 3Q22 – US\$63.4bn (3% YoY), with customer satisfaction and brand loyalty at an all-time high. There were also a record number of people switching to iPhones in the quarter. The company also mentioned no obvious macroeconomic impact on iPhone sales in the quarter besides FX. Services also set records for the quarter across both developed and emerging markets, up 12% YoY overall despite almost 5% FX headwinds, supported by a growing customer installed base, and increasing customer engagement.

**+ Gross margins slightly above forecasts.** AAPL recorded gross margins of 43.3%, slightly above consensus forecasts, demonstrating its ability to manage supply chain constraints better despite COVID-related factory shutdowns in China, and increasing FX headwinds. Products gross margin was down almost 1.5% YoY to 34.5%, while Services gross margin up 1.7% YoY to 71.5%.

#### The Negatives

**- Supply constraints and FX to impact revenue growth.** A couple of headwinds are likely to continue from 2Q22 into 3Q22. For Products, AAPL expects supply constraints to continue, although at slightly lower levels compared to 2Q22 – affecting Product margins. A strengthening US dollar relative to most other currencies is also likely to provide approximately 6% of negative headwinds for revenue growth.

3 August 2022

#### BUY (Maintained)

CLOSING PRICE	USD 160.01
FORECAST DIV	USD 0.93
TARGET PRICE	USD 198.00
TOTAL RETURN	24.3%

#### COMPANY DATA

Bloomberg CODE:	AAPL US
O/S SHARES (MN):	16,071
MARKET CAP (SGD bn / USD bn):	3551 / 2571
52 - WK HI/LO (SGD):	182.94 / 129.04
3M Average Daily T/O (mn):	89.46

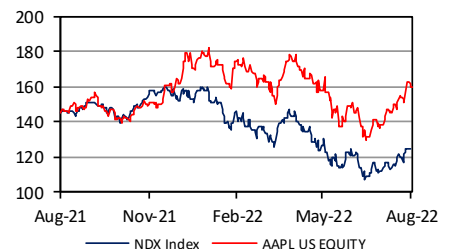
#### MAJOR SHAREHOLDERS

Vanguard Group Inc/The	7.9%
BlackRock Inc	6.4%
Berkshire Hathaway Inc	5.7%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
APPLE	15.2	1.4	10.6
NASDAQ	11.4	(1.1)	(13.1)

#### PRICE VS. NASDAQ



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Sep, USD (bn)	FY20	FY21	FY22e	FY23e
Revenue	274.5	365.8	394.7	416.2
EBITDA	77.3	120.2	129.6	134.2
Net Profit	57.4	94.7	100.0	102.8
EPS (USD)	3.3	5.6	6.2	6.4
P/E (X)	35.2	27.2	25.7	25.0
Dividend Yield	0.7%	0.6%	0.6%	0.6%
ROE	88%	150%	137%	127%
ROA	18%	27%	27%	26%

Source: Company, PSR

#### VALUATION METHOD

Discounted Cash-Flow, WACC 6.1%, g 3.0%

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### Outlook

Supply chain constraints will ease, and strength of the US dollar will continue to hurt margins. AAPL expects 3Q22 revenue growth to accelerate compared to 2Q22, despite FX headwinds. The company also guided gross margins between 41.5% and 42.5%, with operating expenses of US\$12.9bn-13.1bn.

Figure 1: Guidance summary for AAPL vs PSR

Category	Metric	AAPL 4Q22f	PSR	
			4Q22e	FY22e
Revenue	US\$ bn	-	90.5	394.7
PATMI	US\$ bn	-	20.9	100.0
Gross margins	% margin	41.5% to 42.5%	41.7%	43.2%
Operating expenses	US\$ bn	12.9 to 13.1	13.0	51.1
Tax	% of PBT	16.0%	15.9%	16.2%

Source: Company, PSR

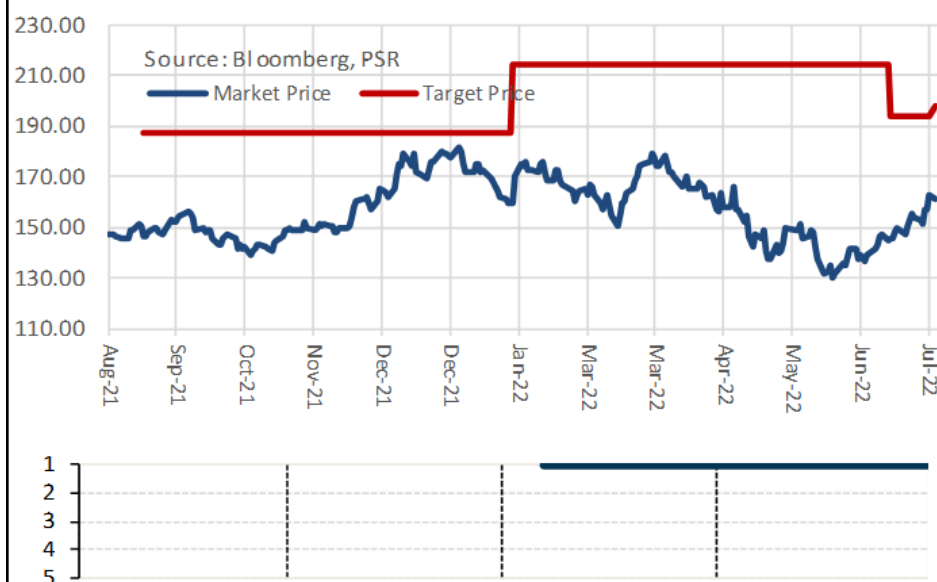
Demand for AAPL products is likely to remain resilient, with customers switching over to iPhones. At the same time, more than half of the customers who purchased its other products – Mac, iPad, Wearables, were new to the product, a trend we expect to continue moving forward, especially with the new M2 chip release and new iPhone release later this year.

A growing installed base of AAPL users across all regions and product categories is also supporting the expansion in Services, with transacting accounts, paid accounts, and paid subscriptions all showing double digit YoY growth – creating a flywheel effect.

### Maintain BUY with a higher TP of US\$198.00 (prev. US\$194.00)

Even with near-term headwinds, we are adjusting our FY22e PATMI forecasts upwards slightly to reflect higher gross margins, and the outperformance for 1H22. We maintain BUY and our target price of US\$198.00 (prev. US\$194.00) on DCF with a WACC of 6.1% and terminal growth of 3.0%.

### Ratings History



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

## Financials

### Income Statement

Y/E Sep, USD mn	FY19	FY20	FY21	FY22e	FY23e
<b>Revenue</b>	<b>260,174</b>	<b>274,515</b>	<b>365,817</b>	<b>394,706</b>	<b>416,234</b>
Gross profit	98,392	104,956	152,836	170,446	177,961
<b>EBITDA</b>	<b>76,477</b>	<b>77,344</b>	<b>120,233</b>	<b>129,586</b>	<b>134,219</b>
Depreciation & amortisation	(12,547)	(11,056)	(11,284)	(10,254)	(11,893)
<b>EBIT</b>	<b>63,930</b>	<b>66,288</b>	<b>108,949</b>	<b>119,331</b>	<b>122,326</b>
Net Finance Inc/(Exp)	1,385	890	198	553	708
Profit before tax	65,737	67,091	109,207	119,331	122,389
Taxation	(10,481)	(9,680)	(14,527)	(19,332)	(19,612)
<b>PATMI</b>	<b>55,256</b>	<b>57,411</b>	<b>94,680</b>	<b>100,000</b>	<b>102,777</b>

### Per share data (USD)

Y/E Sep	FY19	FY20	FY21	FY22e	FY23e
EPS	3.0	3.3	5.6	6.2	6.4
DPS	0.8	0.8	0.9	0.9	1.0
BVPS	4.9	3.7	3.7	4.5	5.0

### Cash Flow

Y/E Sep, USD mn	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
<b>Profit after tax</b>	<b>55,256</b>	<b>57,411</b>	<b>94,680</b>	<b>100,000</b>	<b>102,777</b>
Adjustments	17,623	17,573	14,269	18,020	20,139
WC changes	(3,488)	5,690	(4,911)	13,079	2,116
<b>Cashflow from ops</b>	<b>69,391</b>	<b>80,674</b>	<b>104,038</b>	<b>131,099</b>	<b>125,032</b>
<b>CFI</b>					
CAPEX, net	(10,495)	(7,309)	(11,085)	(9,724)	(13,015)
Others	56,391	3,020	(3,460)	2,391	13,529
<b>Cashflow from investments</b>	<b>45,896</b>	<b>(4,289)</b>	<b>(14,545)</b>	<b>(7,334)</b>	<b>514</b>
<b>CFF</b>					
Share issuance, net	(66,116)	(71,478)	(84,866)	(78,300)	(87,380)
Loans, net of repayments	(1,842)	3,462	-	745	-
Dividends	(14,119)	(14,081)	(14,467)	(14,928)	(15,477)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>(90,976)</b>	<b>(86,820)</b>	<b>(93,353)</b>	<b>(97,205)</b>	<b>(102,856)</b>
Net change in cash	24,311	(10,435)	(3,860)	26,560	22,690
<b>CCE, end</b>	<b>48,844</b>	<b>38,016</b>	<b>34,940</b>	<b>61,500</b>	<b>84,190</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sep, USD mn	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
Trade and other receivables	45,804	37,445	51,506	49,799	54,411
Cash	48,844	38,016	34,940	61,500	84,190
Inventories	4,106	4,061	6,580	7,029	6,870
<b>Total current assets</b>	<b>162,819</b>	<b>143,713</b>	<b>134,836</b>	<b>164,500</b>	<b>189,266</b>
PPE & IA	37,378	36,766	39,440	38,910	40,031
Others	138,319	143,409	176,726	171,724	162,091
<b>Total non-current assets</b>	<b>175,697</b>	<b>180,175</b>	<b>216,166</b>	<b>210,634</b>	<b>202,122</b>
<b>Total Assets</b>	<b>338,516</b>	<b>323,888</b>	<b>351,002</b>	<b>375,134</b>	<b>391,388</b>
<b>LIABILITIES</b>					
Accounts payable	46,236	42,296	54,763	58,781	63,116
Accrued expenses	37,720	42,684	47,493	50,596	55,944
Bank borrowings	10,260	8,773	9,613	9,613	9,613
Commercial paper	5,980	4,996	6,000	6,000	6,000
Others	5,522	6,643	7,612	8,638	8,683
<b>Total current liabilities</b>	<b>105,718</b>	<b>105,392</b>	<b>125,481</b>	<b>133,627</b>	<b>143,357</b>
Long-term borrowings	91,807	98,667	109,106	109,851	109,851
Others	50,503	54,490	53,325	58,750	57,109
<b>Total non-current liabilities</b>	<b>142,310</b>	<b>153,157</b>	<b>162,431</b>	<b>168,601</b>	<b>166,960</b>
<b>Total Liabilities</b>	<b>248,028</b>	<b>258,549</b>	<b>287,912</b>	<b>302,228</b>	<b>310,317</b>
<b>Equity</b>					
Share capital	45,174	50,779	57,365	60,409	68,655
<b>Shareholder Equity</b>	<b>90,488</b>	<b>65,339</b>	<b>63,090</b>	<b>72,905</b>	<b>81,072</b>

### Valuation Ratios

Y/E Sep	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	20.5	35.2	27.2	25.7	25.0
P/B (X)	12.5	30.9	40.8	35.3	31.7
EV/EBITDA (X)	14.8	26.3	21.9	20.1	19.2
Dividend Yield	1.2%	0.7%	0.6%	0.6%	0.6%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	-2.0%	5.5%	33.3%	7.9%	5.5%
EBITDA	-6.5%	1.1%	55.5%	7.8%	3.6%
EBIT	-9.8%	3.7%	64.4%	9.5%	2.5%
Net profit, adj.	-7.2%	3.9%	64.9%	5.6%	2.8%
<b>Margins</b>					
Gross margin	37.8%	38.2%	41.8%	43.2%	42.8%
EBITDA margin	29.4%	28.2%	32.9%	32.8%	32.2%
EBIT margin	24.6%	24.1%	29.8%	30.2%	29.4%
Net profit margin	21.2%	20.9%	25.9%	25.3%	24.7%
<b>Key Ratios</b>					
ROE	61.1%	87.9%	150.1%	137.2%	126.8%
ROA	16.3%	17.7%	27.0%	26.7%	26.3%
Net Gearing	15.7%	21.4%	23.9%	15.5%	9.0%
Net Debt/EBITDA (X)	0.7	0.9	0.7	0.4	0.3

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