

July 16, 2020 | Equity Research



Apple Inc.

AAPL: China Mobile Phone Export Declines Decelerate in June; -4% Y/Y

Overweight/\$400

IT Hardware & Communications Networking

Company Note

What's New? (See Charts on Pg. 2-3): In addition to TSMC's 2Q20 earnings/commentary (now expecting total smartphone shipments to decline in low-teens y/y range in 2020 vs. prior high-single digit decline est.), which we would consider positive for Apple and the smartphone industry more broadly, we highlight the release of China mobile phone export data for June (China Province level data should be released later this month). Total June 2020 mobile phone exports on a US\$ basis were \$9.234 billion, -4% y/y, but up 8% sequentially (vs. June 5-year average of -1% m/m; range: -16% to +5%). This represents an improving / decelerating rate of decline from -24.5% and -25% in April and May, respectively. On a unit basis, total mobile phone exports totaled 81.56 million in June, +16.3% y/y (+22% m/m). We view the improving rate of decline as a positive data point for Apple as we focus on a sustainable smartphone recovery through 2H2020 driven by a materializing 5G cycle. We would note that TSMC raised its 5G smartphone penetration rate expectation for 2020 to a high-teens %, up from its prior mid-teens forecast (supported by recent China 5G unit growth of 12% m/m growth for June). See our note published today for additional details: [TSMC: Semi Outlook & Capex Guide Increased; Derivs - Apple, AMD, NVDA](#).

2Q20 Exports -18% Y/Y vs. -21% in 1Q20: Total 2Q20 China mobile phone exports totaled \$25.854B, a decline of 18.5% y/y that compares to -21.3% in 1Q20. On a sequential basis, exports were up 1.7% from 1Q20, better than historical trends (2Q average -4% q/q over past 3 years), but unsurprising given the COVID disruptions in 1Q20.

Reminder: June Internal China Registrations -16.6% Y/Y: As a reminder, the China Academy of Information and Communications Technology (CAICT) published China internal smartphone registration data for June last week (7/10). China smartphone registrations totaled ~27.706 million in June, -16.6% y/y and down from 40.782 million and 32.661 million in April (+17% y/y) and May (-10% y/y), respectively. This leaves total 2Q20 China smartphone registrations at ~101.15 million, -3% y/y and up from 47.74 million smartphone registrations in 1Q20 (-35% y/y). Implied non-China branded mobile phone registrations (e.g., iPhone, etc.) totaled only 1.35 million in June, a decline of 18% y/y and down from ~3.75 million and ~2.79 million registrations in April and May, respectively. For 2Q20 non-China branded smartphone registrations totaled 7.882 million, -7% y/y; up from ~5.901 million registrations in 1Q20 and compared to 9.802 million and 12.726 million registrations in 3Q19 and 4Q19, respectively.

\$	2019A	2020E	2021E		
EPS		Curr.	Prior	Curr.	Prior
Q1 (Dec.)	4.18	4.99 A	NC	4.05	NC
Q2 (Mar.)	2.46	2.55 A	NC	2.82	NC
Q3 (June)	2.18	2.12	NC	2.60	NC
Q4 (Sep.)	3.03	2.61	NC	3.01	NC
FY	11.85	12.28	NC	12.48	NC
CY	12.66	11.33		13.24	
FY P/EPS	32.5x	31.3x		30.8x	
Rev.(MM)	260,174	259,324		261,659	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile

Ticker	AAPL
Price Target/Prior:	\$400/NC
Price (07/16/2020)	\$384.87
52-Week Range:	\$192-400
Shares Outstanding: (MM)	4,375.0
Market Cap.: (MM)	\$1,683,784.4
S&P 500:	3,205.70
Avg. Daily Vol.:	38,014,700
Dividend/Yield:	\$3.28/0.9%
LT Debt: (MM)	\$89,086.0
LT Debt/Total Cap.:	53.0%
ROE:	24.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2020 Est. P/EPS-to-Growth:	5.7x
Last Reporting Date:	04/30/2020
	After Close

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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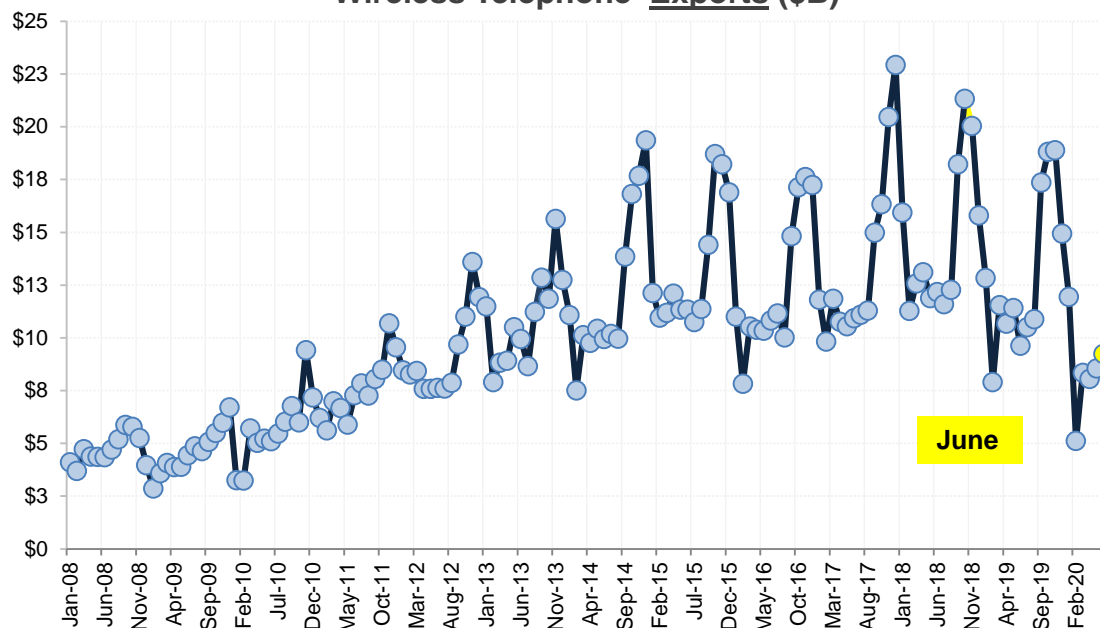
Please see page 5 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 07/16/20 unless otherwise stated. 07/16/20 10:34:07 ET

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Together we'll go far

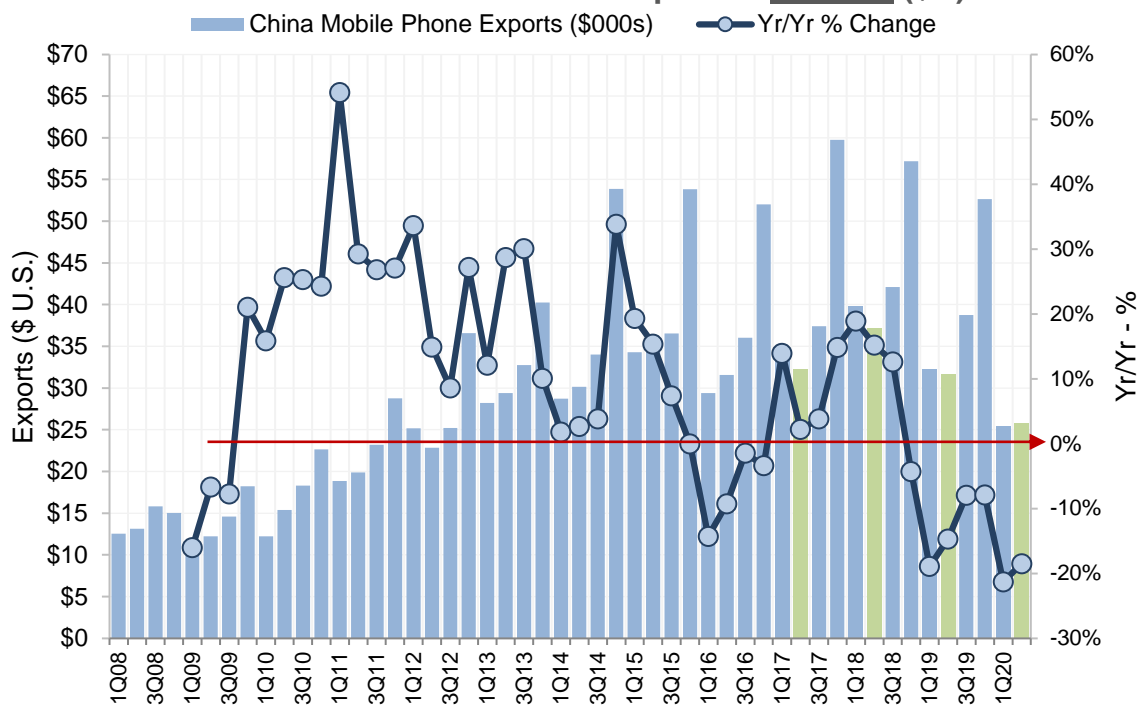


Total People's Republic of China - Monthly Handheld Wireless Telephone Exports (\$B)



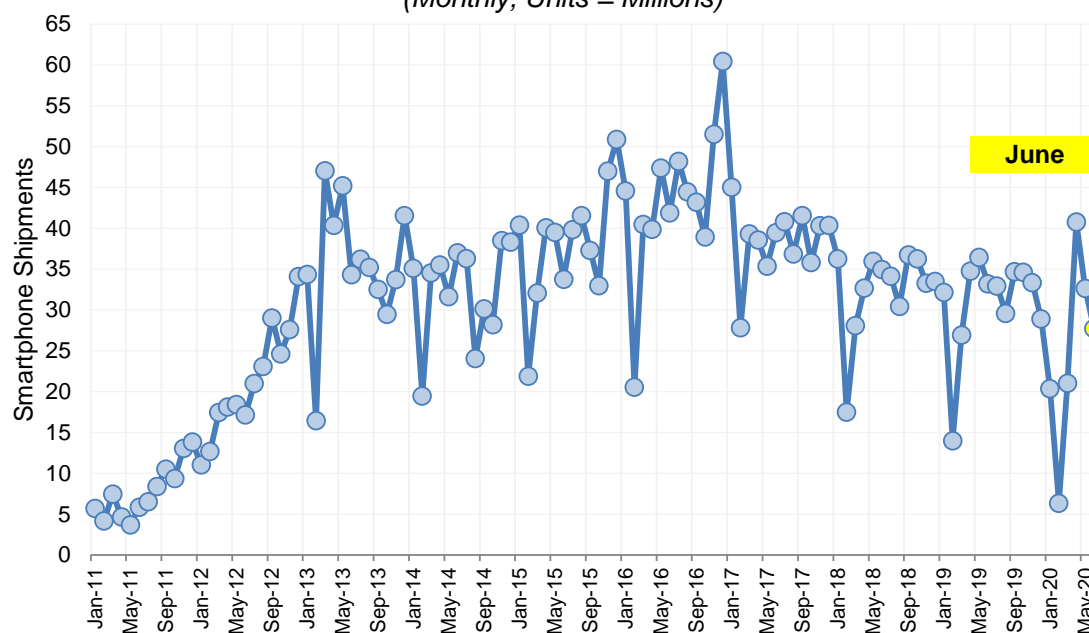
Source: China Customs; Wells Fargo Securities, LLC

China Handheld Wireless Telephone Exports (\$B)



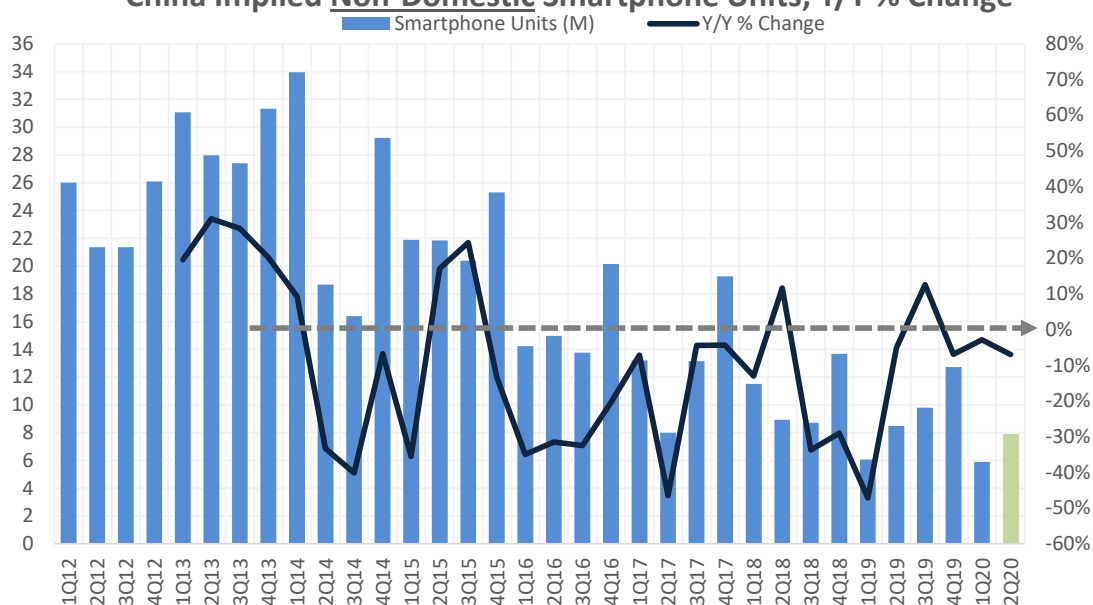
Source: China Customs; Wells Fargo Securities, LLC

Total China Smartphone-Only Registrations (Monthly; Units = Millions)



Source: CAICT / MIIT; Wells Fargo Securities, LLC

China Implied Non-Domestic Smartphone Units; Y/Y % Change



Source: CAICT / MIIT; Wells Fargo Securities, LLC Estimates

Price Target

Price Target: \$400 from NC

Our \$400 price target reflects ~25x EV/EBIT on our C2022 estimate; we believe Apple's expanding subscription customer base can sustain a higher multiple. Risks include: (1) Reinventing product momentum - can Apple sustain current level of product innovation? (2) Emerging competition; pricing pressure; (3) component pricing volatility and gross margin impacts; (4) Supply chain disruptions; (5) Legal disputes; and (6) Execution missteps.

Investment Thesis

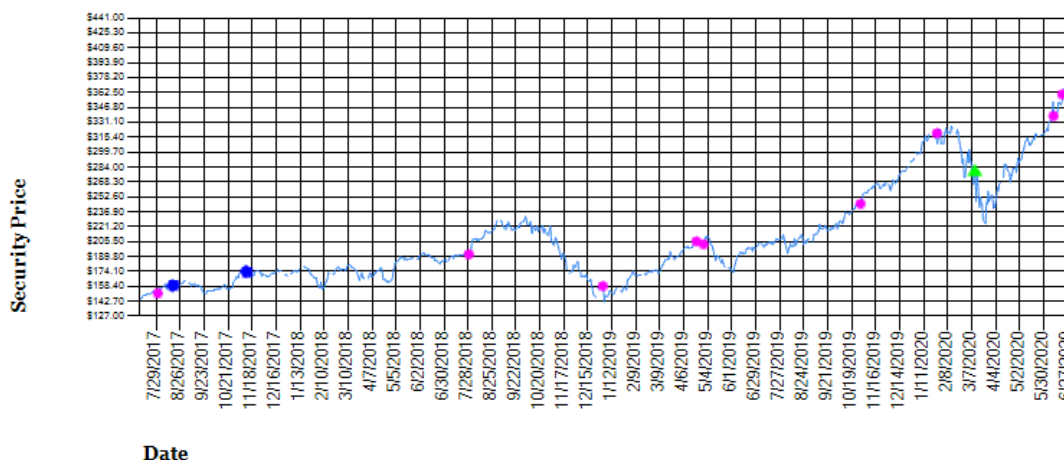
Our Overweight rating reflects our believe that: 1) Apple's competitive differentiation and overall deepening product / services portfolio will create sustainable brand loyalty, 2) Apple's strong balance sheet and sustainable FCF generation; continually funding a strong capital return strategy, and 3) Apple's expanding recurring paid subscriber base.

Company Description

Apple designs, manufactures and markets personal computers and other personal computing, mobile communication, and wearable devices. The company also operates a digital music store through its iTunes application and offers a large variety of downloadable applications for its devices through the App Store. Apple also features its own operating systems, including iOS, WatchOS, TVOS, and Mac OS X, for use in its products. The company sells its products through its online store, growing retail locations, direct sales force, and 3rd party cellular network carriers to a variety of end markets including consumer, small and medium-sized businesses, education, enterprise, government and creative markets. The company was founded in 1976 and is headquartered in Cupertino, CA.

Required Disclosures

Apple Inc. (AAPL) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
7/10/2017		Um				
7/10/2017	NA	2	140	NE	NE	145.06
8/1/2017	150.05	2	150	NE	NE	150.05
8/21/2017		Hausner				
8/21/2017	157.21	SR	NE	NE	NE	157.21
11/14/2017		Rakers				
11/14/2017	171.48	2	195	NE	NE	171.34
7/31/2018	190.29	2	210	NE	NE	190.29
1/2/2019	157.92	2	160	NE	NE	157.92
4/22/2019	204.53	2	190	NE	NE	204.53
4/30/2019	200.67	2	215	NE	NE	200.67
10/30/2019	243.26	2	245	NE	NE	243.26
1/28/2020	317.69	2	315	NE	NE	317.69
3/13/2020	248.23	1	315	NE	NE	277.97
6/11/2020	352.84	1	385	NE	NE	335.90
6/22/2020	357.65	1	400	NE	NE	358.87

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade

▲ Rating Upgrade

● Price Target/Val Range Change

◆ Initiation, Resumption, Drop or Suspend

■ Analyst Change

□ Split Adjustment

Rating Code Key

1 Overweight/Buy

2 Equal Weight/Hold

3 Underweight/Sell

SR Suspended

NR Not Rated

NE No Estimate

Additional Information Available Upon Request

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: July 16, 2020

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