

EQUITY RESEARCH REPORT

MERIDIAN CAPITAL RESEARCH
Institutional Research Division

APPLE INC. (NASDAQ: AAPL)

Rating: BUY

Price Target: \$225.00

Current Price: \$198.50 (as of December 1, 2024)

Analyst: Sarah Richardson, CFA

Date: November 28, 2024

Sector: Technology Hardware

EXECUTIVE SUMMARY

We maintain our BUY rating on Apple Inc. (AAPL) with a 12-month price target of \$225, representing 13% upside potential from current levels. Our constructive view is driven by:

- **Services Revenue Momentum:** Services segment growing 16% YoY, reaching \$24.2B in Q4 2024
- **iPhone 16 AI Integration:** Strong initial adoption of Apple Intelligence features driving upgrade cycle
- **China Market Stabilization:** Signs of recovery in Greater China region after recent weakness
- **Capital Allocation Excellence:** Continued robust shareholder returns via dividends and buybacks

KEY INVESTMENT HIGHLIGHTS

1. Apple Intelligence Driving Product Cycle The rollout of Apple Intelligence across iPhone 16, iPad, and Mac product lines is creating a compelling upgrade narrative. Early adoption metrics show 40% of iPhone 16 users actively utilizing AI features, significantly higher than anticipated. We expect this to drive sustained hardware revenue growth through 2025.

2. Services Ecosystem Expansion Apple's services revenue reached \$24.2B in Q4 2024, up 16% YoY, driven by:
- App Store revenue growth of 12% YoY
- iCloud+ subscriber additions of 15M in quarter
- Apple Pay transaction volume up 25% YoY
- New advertising revenue streams contributing \$8.5B annually

3. Geographic Diversification Success After facing headwinds in China, Apple has successfully diversified revenue streams:
- India revenue up 42% YoY, now representing 6% of total revenue
- Latin America growth of 28% YoY
- Europe remains stable at 23% of total revenue

FINANCIAL ANALYSIS

Q4 2024 Results Exceeded Expectations: - Revenue: \$94.9B (vs. \$94.2B estimate) - EPS: \$1.64 (vs. \$1.60 estimate) - iPhone Revenue: \$46.2B (+6% YoY) - Services Revenue: \$24.2B (+16% YoY) - Gross Margin: 46.2% (up 110 bps YoY)

Balance Sheet Remains Fortress-Like: - Cash and equivalents: \$162.1B - Total debt: \$104.6B - Free cash flow: \$26.8B in Q4

VALUATION

Our \$225 price target is based on a blend of methodologies:

DCF Analysis (50% weighting): \$230 per share - WACC: 8.2% - Terminal growth rate: 2.5% - 5-year revenue CAGR: 6.8%

P/E Multiple Analysis (50% weighting): \$220 per share - Target P/E: 28x (premium to market due to quality) - 2025E EPS: \$7.85

RISKS

Key Downside Risks: - China geopolitical tensions affecting supply chain and demand - Slower-than-expected AI feature adoption - Increased regulatory scrutiny in EU and US markets - Supply chain disruptions affecting product launches

Key Upside Risks: - Faster AI adoption driving premium pricing - New product categories (AR/VR, automotive) contributing meaningfully - Services attach rates exceeding expectations

CONCLUSION

Apple remains our top pick in large-cap technology given its durable competitive advantages, strong balance sheet, and emerging AI-driven product cycle. The company's ability to extract value from its installed base through services while driving hardware upgrades positions it well for sustained outperformance.

Recommendation: BUY

Price Target: \$225.00

Risk Rating: MODERATE

Important Disclosures: This report is for institutional clients only. Meridian Capital Research may have received compensation for investment banking services from Apple Inc. within the past 12 months. Please refer to our full disclosure statement for additional information.

Analyst Certification: Sarah Richardson, the primary analyst for this report, hereby certifies that the views expressed accurately reflect her personal views

about Apple Inc. and no part of her compensation was directly or indirectly related to the specific recommendations contained in this report.

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