

Deutsche Bank Markets Research

Rating

Hold

North America

United States

Company

Apple Inc.

Date

1 February 2018

Results

TMT

IT Hardware and Supply Chain

Reuters

AAPL.OQ

Bloomberg

AAPL US

Exchange

NSM

Ticker

AAPL

Price at 31 Jan 2018 (USD)

Price target

52-week range

167.43

152.00

179.26 - 128.53

F1Q-18 results: A mixed bag of apples

Weak iPhone units balanced by ASP upside and cash return potential

Apple's F1Q-18 results were modestly ahead of expectations driven by upside in iPhone ASPs and Wearables. However, F2Q-18 guidance missed expectations, lending credence to recent reports of cuts to iPhone X production. From our perspective, the quarter was a mixed bag, with the lower sales outlook and declines in iPhone units oﬀset by higher iPhone ASPs and the potential for signiﬁcant capital returns over time. The quarter had enough of both positives and negatives to keep the bulls and bears ﬁrmly in their own camps for now. Our view of Apple as a trading stock is unchanged and we believe shares are likely to trade within their historical range. Given our conservative long-term view, we reiterate our $152 PT and Hold rating.

Key positives

Sales growth accelerated to 13% Y/Y, and average sales were up 21% when

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Key changes

EPS (USD) 10.45 to 10.88 ↑ 4.1%

adjusting for the extra week in F1Q-17, driven by higher iPhone ASPs. iPhone sales grew by a strong 13% Y/Y, driven by a 15% Y/Y increase in ASPs to $796, which oﬀset a 1% Y/Y decline in iPhone units. Services grew by 18% Y/Y, and average Services sales grew 26% Y/Y, helped by record holiday App Store sales and an expanding Apple Music, iCloud, and Apple Pay user bases. Wearables, including Apple Watch, Air Pods, and Beats, grew by 70% Y/Y and contributed to upside in Other Products sales, which were up 36% Y/Y. Sales in China, a key area of focus for many investors, grew 11% Y/Y, the second quarter in a row of double-digit growth in China sales.

Revenue (USDm)

200

*Source: Deutsche Bank*

Price/price relative

150

100

50

259,660.0 to ↓ -2.5%

253,185.0

Jul '16 Jan '17 Jul '17 Jan '18

Drawbacks

Sales guidance was below Street expectations, suggesting iPhone units will be weaker than expected. In addition, GM guidance of 38.0-38.5% was only ﬂat Q/Q, and we believe investors were expecting more given positive mix, no FX drag, and improving component costs. Mac, iPad, and Services missed Consensus sales expectations. Mac sales declined by 5% Y/Y, after four quarters of growth, on declining units and ﬂat ASP. iPad growth of 6% Y/Y decelerated vs. 14% Y/Y last Q, and units grew just 1% Y/Y.

Adjusting estimates; maintain $152 PT and Hold

We have modestly lowered our sales estimates, but raised on EPS on the lower tax rate. Our $152 PT is unchanged and is based on 14x our FY-19E EPS, vs our prior 16x, which is more in line with the company's historical average and reﬂects a lower long-term growth rate. Positive risks: stronger-than expected

**Apple Inc. S&P 500 INDEX (Rebased)**

Performance (%) 1m 3m 12m

|  |  |  |  |
| --- | --- | --- | --- |
| Absolute | -1.1 | -1.0 | 38.0 |
| S&P 500 INDEX | 5.6 | 9.7 | 23.9 |
| *Source: Deutsche Bank* |  |  |  |
|  |  |  |  |
| Key indicators (FY1) |  |  |  |
| ROA (%) |  |  | 14.6 |
| Book value/share (USD) |  |  | 28.79 |
| Price/book (x) |  |  | 5.8 |
| Net interest cover (x) |  |  | – |

E*P*B*l*I*e*T*a*m*se*arg*se*in*e*(%*ou*) *r variance charts for F1*26*Q*.3*-18*

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Apple Inc.

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smartphone sales and share gains, and signiﬁcantly higher margins. Negatives: slower smartphone sales, and market share losses.

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# Valuation

Apple has traded at an average forward P/E of 13x since 2010 with a range of 9x to 16x. We believe shares should trade in line with these historical multiples and, because of its large market cap (3-4% of the S&P 500), should trade at a modest discount to the market. Our price target is based on shares trading at 14x our FY-19E EPS.

# Risks

Company-speciﬁc positive risks to Apple include stronger-than-expected smartphone sales and share gains, signiﬁcantly higher margins, and a faster ramp of new product categories including Watch and Apple Pay. Negative risks include slower smartphone sales, market share losses in smartphones, and weaker growth in Services sales.

Figure 3: Apple income statement

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