

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

25 February 2018

Periodical

A weekly take on Apple news

For the week ending February 23, 2018

In a quiet Apple news week, the key focus was on Samsung's plans to more than halve its OLED panel production in response to weak iPhone X demand. Also of note, Apple could be planning to release updated AirPods featuring voice- activation and water resistance, and Apple is believed to be looking to source cobalt directly from miners to secure adequate supply. In other news, updated Apple TV logo trademarks point to a possible gaming console from Apple, and newly approved iPad and iPhone devices for sale in eastern Europe have touched oﬀ reports that refreshed iPads may be coming.

Samsung to cut OLED output on weak iPhone X demand

Reduced iPhone X production plans, due to weaker-than-expected demand, are leading Samsung to lower OLED display production, according to the Nikkei. Samsung is reportedly planning to cut OLED panel output from 45-50M iPhones to 20M or fewer devices. While increased OLED display orders from Chinese smartphone manufacturers could help oﬀset lower Apple demand, the report suggests additional production cuts could be ahead. (https://asia.nikkei.com/Business/AC/Samsung-to-slash-OLED-panel-output-as- iPhone-X-slumps)

Updated AirPods could be coming to market

Voice-activated AirPods wireless headphones could be available later this year, according to Bloomberg. Featuring a more powerful wireless chip for managing Bluetooth connectivity, the upgraded AirPods will reportedly be activated by the "Hey Siri" wake phrase. The report also suggests that Apple is developing water resistant AirPods that could be released next year. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-02-22/apple-is-said-to-plan-)ws/art[icles/2018-02-22/apple-is-said-to-plan-](http://www.bloomberg.com/news/articles/2018-02-22/apple-is-said-to-plan-) upgrades-to-popular-airpods-headphones)

Apple to source cobalt directly from miners

Apple is in discussions to secure a longer term supply of cobalt, an essential ingredient in lithium ion batteries, according to Bloomberg. The company is reportedly looking to obtain cobalt directly from miners to ensure ample supply in the face of strong competing demand from electric vehicles. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-02-12/how-apple-plans-to-)ws/art[icles/2018-02-12/how-apple-plans-to-](http://www.bloomberg.com/news/articles/2018-02-12/how-apple-plans-to-) root-out-bugs-revamp-iphone-software)

Apple ﬁles Apple TV logo trademark update

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Companies featured

Apple Inc. (AAPL.OQ),USD171.07 Hold

2017A 2018E 2019E

|  |  |  |  |
| --- | --- | --- | --- |
| EPS (USD) | 9.21 | 10.88 | 10.80 |
| P/E (x) | 14.9 | 15.7 | 15.8 |
| EV/EBITDA (x) | 7.9 | 9.4 | 9.9 |
| *Source: Deutsche Bank* |  |  |  |

*Our price target is based on shares trading at 14x our FY-19E EPS. Upside risks 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. Downside risks include slower smartphone sales, market share losses in smartphones, and weaker growth in Services sales.*

Apple ﬁled an update to its existing Apple TV logo trademark, according to Patently Apple. The update was ﬁled under a category covering trademark areas related to gaming, including video game consoles, raising the possibility that Apple may introduce a game console or add gaming console capabilities to Apple TV.

[(http://www.patentlyapple.com/patently-apple/2018/02/apple-ﬁles-major-apple-](http://www.patentlyapple.com/patently-apple/2018/02/apple-%EF%AC%81les-major-apple-) tv-logo-trademark-update-focused-on-all-things-related-to-gaming-including-a- video-game-console.html)

New Apple devices approved for the Eastern European market

The Eurasian Economic Commission (EEC) has approved a handful of unidentiﬁed iPad and iPhone models for sale in Eastern European countries, according to The Verge. The EEC's list of approved Apple devices reﬂects unfamiliar device numbers and preﬁxes, creating ambiguity around the speciﬁc products coming to the Eastern European market. From four vague references to unidentiﬁable iPad models, a few media sources have suggested that Apple could be launching two new, refreshed iPad models in the next few months. (ht[tps://www](http://www.theverge.com/circuitbreaker/2018/2/21/17036172/apple-mystery-).thev[erge.com/circuitbreaker/2018/2/21/17036172/apple-mystery](http://www.theverge.com/circuitbreaker/2018/2/21/17036172/apple-mystery-)- ipad-pro-modern-rumors-speculation) (https://9to5mac.com/2018/02/21/eurasian-ﬁlings-hint-at-two-new-ipad-models- coming-soon/#more-521266

Apple Investment Thesis

Outlook

Apple has a dominant position in smartphones and tablets where its products represent the gold standard in both categories. These segments continue to oﬀer good growth opportunities, particularly smartphones, allowing Apple to outgrow overall IT spending. Despite healthy growth, slowing smartphone and tablet sales, as well as Apple’s already signiﬁcant revenue levels suggest growth will be more diﬃcult going forward. With puts and takes currently balanced, in our view, we consider shares as fairly valued and rate Apple a Hold.

## 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.