

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

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Periodical

A weekly take on Apple news

For the week ending May 4, 2018

Apple's March quarter results were the highlight of Apple-related news this week, with the company reporting strength in Services and better-than-feared iPhone results, in contrast to a slew of negative supply chain reports. The most important highlight from the report was Apple's announcement of a $100B share buyback which is expected to be done at a "fast" pace. In other news, IDC data showed that Apple remaining in second place in a declining C1Q-18 global smartphone market, Spotify's paid subscribers reached 75M at the end of March vs. Apple Music's 40M base, new MacBook Air production has been delayed until C2H-18, Apple may be developing an AR/VR headset, iPhone lost share in the premium Indian smartphone market, and a smart biking helmet can now be controlled by hand gestures via Apple Watch.

F2Q-18 results: cash returns and strength in Services oﬀset below-Consensus iPhone

Apple's F2Q-18 sales were in line with expectations driven by strength in Services and Wearables which oﬀset a modest miss in iPhone. Management guided F3Q-18 sales above the Street and authorized an additional $100B share buyback. Despite recent concerns about weakening iPhone demand based on negative supplier commentary, iPhone sales and units were only slightly lower than Street estimates. Wearables products (Air Pod, Apple Watch, and Beats) again saw strong growth, with sales growing nearly 50% Y/Y, while Watch sales grew in the double-digits Y/Y. Overall, results were better than feared, with iPhone and Wearables demand trends remaining relevant for supply chain names with Apple exposure in our coverage.

([link](https://research.db.com/Research/Document?rid=0c9cf25a-4d05-11e8-8394-4fad3204d53b-604&amp;kid=RP0001&amp;documentType=R))

Modest growth in C1Q-18 iPhone shipments

Global smartphone unit shipments fell by 3% Y/Y in C1Q-18 to 334M units, according to preliminary IDC data. Samsung remained the top vendor with 23% share, but saw units decline by 2% Y/Y. Apple stayed in second place with 16% market share and a 3% Y/Y increase in unit shipments, due to healthy growth in China. Huawei rounded out the top three with 12% share, up 180bps Y/ Y, followed by two other Chinese vendors that essentially tied for fourth place with approximately 8% and 7% market share, respectively. (ht[tps://www.idc.com/](http://www.idc.com/) getdoc.jsp?containerId=prUS43773018)

Spotify's paid subscribers reach 75M in March

Streaming music leader Spotify announced that its paid subscriber base reached 75M during the company's C1Q-18 earnings report, up 45% Y/Y. According

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Companies featured

Apple Inc. (AAPL.OQ),USD176.89 Hold

2017A 2018E 2019E

EPS (USD) 9.21 11.35 12.80

P/E (x) 14.9 15.6 13.8

EV/EBITDA (x) 7.9 9.2 9.2

*Source: Deutsche Bank*

*Our price target is based on shares trading at 13x 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.*

to Variety, the results suggest that paid subscribers grew by 4M or 6% since February when the company last disclosed subscriber data. Spotify is expecting its paid subscriber base to grow to 92-96M by year-end 2018. As we had written in Slices in late April, two media publications had reported that Spotify's paid subscriber count had already increased to 73M. We note that competition for paid streaming music subscribers remains ﬁerce although Apple Music's paid subscriber base of 40M is still well below Spotify's, likely followed by Amazon Music with "tens of millions" of paid subscribers. (https://investors.spotify.com/ﬁnancials/press-release-details/2018/Spotify- Technology-SA-Announces-Financial-Results-for-First-Quarter-2018/ default.aspx)

[(h](http://variety.com/2018/digital/news/spotify-q1-2018-earnings-1202795532/))t[tp://variety.com/2018/digital/news/spotify-q1-2018-earnings-1202795532/)](http://variety.com/2018/digital/news/spotify-q1-2018-earnings-1202795532/))

New MacBook Air production delayed to C2H-18

Apple has reportedly delayed volume production of a new, lower-priced, 13-inch MacBook Air to C2H-18 from C2Q-18, according to supply chain sources cited by Digitimes. The sources believe the delay is related to issues with certain key components, including processors, and note that suppliers may face low capacity utilization until Apple starts shipping the new device. (ht[tps://www](http://www.digitimes.com/news/a20180430PD207.html)).digit[imes.com/news/a20180430PD207.html)](http://www.digitimes.com/news/a20180430PD207.html)) (ht[tps://www.macrumors.com/2018/04/30/apple-to-dela](http://www.macrumors.com/2018/04/30/apple-to-delay-macbook-air-2018-)y[-macbook-air-2018-](http://www.macrumors.com/2018/04/30/apple-to-delay-macbook-air-2018-) model/)

AR-VR headset in development with possible 2020 launch

An Apple headset featuring both AR and VR technology capabilities is apparently in the works, according to CNET. The headset, which is code-named T288, is expected to feature an 8K display for each eye and would connect to a box similar to a PC tower with high-speed, short-range wireless 60GHz "WiGig" technology powered by a 5-nanometer Apple chip.

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iPhone loses share in India smartphone market in C1Q-18

Apple moved from ﬁrst place to third in India’s premium smartphone market in C1Q-18, according to the Nikkei Asian Review, with its share dropping from 45% to 18% Y/Y. Samsung moved to the top of the market with 50% share, followed by OnePlus with 25% share. The report suggests Apple's positioning was hurt by higher custom duties on imported mobile phones and the relatively high price of iPhones relative to competitors. Separately, India Times published regulatory data showing that in FY-17 Apple's sales in India grew by 17% Y/Y, to approximately

$1.76B, while proﬁts grew by 44% Y/Y to roughly $234M. (https://asia.nikkei.com/Business/Business-Trends/Apple-loses-top-slot-of-India- s-premium-smartphone-market-to-Samsung2) (https://telecom.economictimes.indiatimes.com/news/apple-indias-net-proﬁt- surges-by-44-and-so-does-its-india-ambition/63966723)

Smart cycling helmet now syncs with Apple Watch

The Lumos smart cycling helmet, which features automatic brake lights and wirelessly-controlled turn signals, has added gesture control for the helmet's blinkers via Apple Watch, according to Engadget. Activation will require users to download two apps to their iPhone, pair their iPhone with the helmet, and calibrate the Apple Watch with left and right hand signaling gestures. The $180 helmet is expected to be available soon and will also integrate with various health apps to track cycling activity.

(ht[tps://www.engadget.com/2018/05/01/lumos-bike-helmet-apple-w](http://www.engadget.com/2018/05/01/lumos-bike-helmet-apple-watch-)atch- gesture-control/)

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*Source: IDC*

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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 13x 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.