

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

20 May 2018

Periodical

A weekly take on Apple news

For the week ending May 18, 2018

In a relatively quiet week for Apple-related news, of most interest was data suggesting Apple shipped 600K HomePod units in its ﬁrst quarter of availability and held 6% share of the smart speaker market. In other Apple news, Vivendi plans to use Apple TV as the default set-top box for its Canal Plus pay-TV service, Apple has increased its self-driving car ﬂeet in California to 55 vehicles, Samsung and Apple are in a retrial for their $1B damages suit from 2012, and reports surfaced that Apple may build a new East Coast campus in North Carolina or Virginia.

HomePod ranks 4th place in C1Q-18 smart speaker market

Global smart speaker shipments of 9.2M grew by 278% Y/Y in C1Q-18, according to Strategy Analytics. Apple's HomePod was ranked fourth in the market with 6% share, shipping 600K units in its ﬁrst quarter of availability. Amazon remained the top vendor with 4M shipments but saw its share drop from 82% to 44% Y/Y. In contrast, Google, the number two vendor, shipped 2.4M units and increased its share from 12% to 27% of the market during the quarter. Alibaba placed third with 700K shipments and 8% market share. (ht[tps://www.businesswire.com/news/home/20180517006158/en/Strategy](http://www.businesswire.com/news/home/20180517006158/en/Strategy-)- Analytics-Amazon's-Global-Smart-Speaker-Share/)

French pay-TV provider to use Apple TV as set-top box

Vivendi's Canal+ Group will start oﬀering Apple TV as its pay-TV service's standard set-top box starting on May 17, according to Variety. This partnership will be Apple TV’s ﬁrst deployment by a pay-TV provider and DB's European Entertainment analyst Laurie Davison expects Apple's involvement to drive growth in younger, urban Canal+ subscribers ( [link](https://research.db.com/Research/Document?rid=9fb1d381-0453-4b90-a9f8-56e1ee2b7e14-604&amp;kid=RP0001&amp;documentType=R) ). [(http://variety.com/2018/digital/news/canal-plus-apple-tv-4k-set-top-](http://variety.com/2018/digital/news/canal-plus-apple-tv-4k-set-top-)

france-1202809719/) [(http://www.canalplusgroupe.com/uploads/pressRelease/](http://www.canalplusgroupe.com/uploads/pressRelease/) press\_release\_4759.pdf)

Self-driving ﬂeet in California grows to 55 vehicles

Apple has expanded its self-driving car ﬂeet in California to 55 cars, up from 45 in March and 27 at the beginning of 2018, according to information Mac Reports received from the California DMV. As we have written previously in Slices, Apple has the second highest number of registered self-driving cars on the road in California behind GM with 104 vehicles and ahead of Alphabet's Waymo.

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Companies featured

Apple Inc. (AAPL.OQ),USD186.99 Hold

2017A 2018E 2019E

|  |  |  |  |
| --- | --- | --- | --- |
| EPS (USD) | 9.21 | 11.35 | 12.80 |
| P/E (x) | 14.9 | 16.5 | 14.6 |
| EV/EBITDA (x) | 7.9 | 9.9 | 9.8 |
| *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.*

However, we note that Apple has not yet applied for any permits to test vehicles without a backup human driver.

(https://macreports.com/apple-again-grows-its-california-self-driving-ﬂeet/)

Apple and Samsung return to court over $399M in damages

A California U.S. district court is hearing a retrial of a $1B damages verdict from a 2012 smartphone patent infringement suit between Apple and Samsung, according to Bloomberg. Following a retrial and a series of appeals regarding the initial verdict, Samsung paid Apple $548M in 2015. However, in 2016 the U.S. Supreme Court ordered a damages retrial over $399M of the initial award. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-05-15/apple-wants-1-billion-)ws/art[icles/2018-05-15/apple-wants-1-billion-](http://www.bloomberg.com/news/articles/2018-05-15/apple-wants-1-billion-) from-samsung-at-smartphone-retrial)

New East Coast campus could be located in Virginia or North Carolina

Apple is reportedly exploring possible locations for a new 4 million square foot, 20,000 employee campus in Northern Virginia, according to the Washington Post. However, sources cited by WRAL suggest that the company is close to investing

$1.5-2B to build a 10,000 employee campus in North Carolina. (ht[tps://www](http://www.washingtonpost.com/business/economy/its-not-just-amazon-).w[ashingtonpost.com/business/economy/its-not-just-amazon-](http://www.washingtonpost.com/business/economy/its-not-just-amazon-) apple-quietly-explores-northern-virginia-for-20000- jobs/2018/05/16/1c66b3b0-5566-11e8-abd8-265bd07a9859\_story.html) (ht[tps://www.wral.com/nort](http://www.wral.com/north-carolina-apple-negotiating-deal-on-triangle-)h-car[olina-apple-negotiating-deal-on-triangle-](http://www.wral.com/north-carolina-apple-negotiating-deal-on-triangle-) campus-second-site-in-cary/17558985/)

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.