

Deutsche Bank 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 June 29, 2018

Apple has reportedly secured LG Display as a second OLED display provider for its upcoming 2018 iPhones. In other Apple-related news, Apple and Samsung reached an undisclosed out-of-court settlement of their patent infringement case, in lieu of the $539M in damages awarded to Apple by a jury in May. Also, Apple has begun production of iPhone 6s in India, another report has surfaced suggesting over-ear headphones, updated AirPods, and a refreshed Home Pod are coming in 2019, Apple may be considering a bundled subscription service for Apple Music, Apple News, and video content, the company has rolled out a new service program for defective MacBook keyboards, and the Nikkei suggests an upcoming AirPods charging case could be used to wirelessly charge iPhones.

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Companies featured

Apple to add second supplier of OLED screens

LG Display is expected to supply 2-4M OLED panels for one of Apple's 2018 iPhone models, according to Bloomberg. The report suggests that it is unclear if LG can achieve high enough production volumes this year to satisfy demand for an entire model despite signiﬁcant investments in its production capabilities. Samsung is currently Apple's only OLED display provider although Apple is also reportedly in discussions with a third OLED supplier, BOE Technology. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-06-28/apple-is-said-to-get-)ws/art[icles/2018-06-28/apple-is-said-to-get-](http://www.bloomberg.com/news/articles/2018-06-28/apple-is-said-to-get-) second-supplier-for-oled-iphone-screens)

Apple and Samsung settle outside of court

Apple and Samsung have reached an undisclosed settlement of their seven- year patent infringement dispute, according to Reuters. Apple had been awarded

$539M in damages in the legal case between the two companies in May and Samsung had reportedly started an appeal of the damages verdict earlier this month.

(ht[tps://www.reuters.com/article/us-apple-samsung-elec/apple-samsung-set](http://www.reuters.com/article/us-apple-samsung-elec/apple-samsung-settle-)tle- u-s-patent-dispute-idUSKBN1JN2S4)

"Made in India" iPhone 6s underway

Mass production of iPhone 6s has reportedly started in India, according to the Economic Times. Wistron, Apple's contract manufacturer in India, is already building iPhone SE devices in the country which has allowed Apple to avoid import taxes on the Indian-made model. Apple will continue to import iPhone 6s devices while local production scales, but will eventually be able to avoid import duties and lower price on the devices.

Apple Inc. (AAPL.OQ),USD185.50 Hold

2017A 2018E 2019E

EPS (USD) 9.21 11.35 12.80

P/E (x) 14.9 16.3 14.5

EV/EBITDA (x) 7.9 9.8 9.7

*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.*

(https://economictimes.indiatimes.com/tech/hardware/after-se-made-in-india- iphone-6s-set-to-hit-a-store-near-you-soon/articleshow/64741606.cms)

Another report suggests high-end headphones, updated AirPods and HomePod will be released in 2019

Bloomberg has published another report suggesting Apple is developing over- ear headphones, revamped AirPods, and an updated HomePod device for release in 2019. In March, Bloomberg reported that studio-quality over-ear headphones were in development while the current report indicates that the headphones will be sold as a higher-end version of Beats and have been delayed until early 2019 due to developmental issues. A refreshed version of AirPods, featuring a new chip and voice-activation of Siri is still expected to be released later this year, as was reported in February. In addition, a higher-end version of AirPods, including noise cancellation, water resistance, and a longer wireless range, is expected to be launched next year. Lastly, as was reported in May, an updated HomePod device is thought to be in development. The current Bloomberg report suggests Apple is shifting audio device production away from Inventec in favor of Foxconn. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-06-25/apple-is-said-to-amplify-)ws/art[icles/2018-06-25/apple-is-said-to-amplify-](http://www.bloomberg.com/news/articles/2018-06-25/apple-is-said-to-amplify-) its-audio-device-strategy-in-2019)

Subscription bundle of Apple Music, News, and video could be coming

Apple is reportedly considering a bundled subscription oﬀering, similar to Amazon Prime, according to The Information. The service could include Apple's existing streaming music service, a revamped News product, and original video content, combined under a single subscription. (ht[tps://www](http://www.theinformation.com/articles/apple-eyes-streaming-bundle-for-tv-).t[heinformation.com/articles/apple-e](http://www.theinformation.com/articles/apple-eyes-streaming-bundle-for-tv-)y[es-streaming-bundle-f](http://www.theinformation.com/articles/apple-eyes-streaming-bundle-for-tv-)or[-tv](http://www.theinformation.com/articles/apple-eyes-streaming-bundle-for-tv-)- music-and-news)

(https://appleinsider.com/articles/18/06/27/apple-mulls-subscription-bundle-of- apple-music-news-and-original-video-content-report-says)

New free service program launched for MacBook and MacBook Pro

Apple has announced a worldwide free service program for keyboard problems on eligible MacBook and MacBook Pro computers released after 2015. According to CNET, the service program will provide free keyboard replacements for known issues with Apple's "butterﬂy switch" keyboard design that cause keys to repeat or not respond consistently.

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Updated AirPods charging case could function as wireless iPhone charger

An upcoming version of the AirPods charging case could reportedly feature wireless iPhone charging capabilities according to The Nikkei. The report suggests the updated case could be available by year end. (https://asia.nikkei.com/Business/Apple-to-unveil-iPhone-wireless-charging-

with-AirPods)

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.