

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 July 27, 2018

Apple news was relatively muted this week, in front of the company's C2Q-18 earning announcement on Tuesday. In iPhone news, Foxconn is staﬃng up for C2H-18 iPhone production, while BOE is expected to supply OLED displays for iPhone in 2020. Also, test data shows that iPhone internet download speeds are slower than competitors and iPhone's share fell to 1% in the Indian market. In competitor news, Spotify announced its paid subscribers had reached 83M, or more than 2x Apple Music's 40M. Also of note, Apple acknowledge throttling issues with its new MacBook Pros and Verizon is reportedly in talks with Google and Apple to explore options for oﬀering a 5G TV service by year-end.

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Foxconn staﬃng up ahead of upcoming iPhone production

Foxconn is reportedly expanding its workforce and oﬀering extra bonuses of up to CNY 2,000 ($295) for contract renewals at its plants in Zhengzhou, China according to Digitimes. The facilities are where the company manufactures iPhones and the report notes that the hiring eﬀorts are expected to continue until later this year.

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BOE could become supplier of iPhone OLED displays in 2020

BOE Technology Group, a Chinese display manufacturer, is reportedly interested in scaling its advanced manufacturing capabilities and supplying OLED displays for iPhone, according to the Wall Street Journal. The company is currently just providing LCD screens for iPads and MacBooks, with the earliest BOE would be able to provide adequate supply of OLED panels expected to be in 2020. According to MacRumors, BOE has recently announced a $14.5B investment in two AMOLED factories.

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Tests show faster internet speeds on Pixel and Galaxy vs. iPhone

Internet download speeds for the iPhone 8, 8 Plus, and iPhone X are reportedly slower than Samsung’s Galaxy S9 and Google’s Pixel 2, according to Ookla data as reported by Bloomberg. The Ookla data is generated from users under a number of diﬀerent real-world conditions, with the company hosting "millions" of tests a day. Samsung's Galaxy S9 had the fastest average download speeds at

38.9 Mbps, while Google's Pixel 2 had speeds of 34.4 Mbps. Average download

Companies featured

Apple Inc. (AAPL.OQ),USD194.21 Hold

2017A 2018E 2019E

EPS (USD) 9.21 11.35 12.80

P/E (x) 14.9 17.1 15.2

EV/EBITDA (x) 7.9 10.3 10.3

*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.*

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speeds for the iPhone X were 29.7 Mbps, while the other iPhone models had slower speeds.

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Report suggests iPhone's C2Q-18 share was 1% in India

Apple's share of the Indian smartphone market reached a new low of 1% in C2Q-18, according to Counterpoint Research. The report suggested that Samsung was the market leader with 29% market share, but was followed closely by Xiaomi with 28% share. In addition, smartphones accounted for only half of the total Indian handset market in C2Q-18. The data showed Apple was in third place in the premium smartphone category behind OnePlus and Samsung. (ht[tps://www.counterpointresearch.com/samsung-topples-xiaomi-regain-](http://www.counterpointresearch.com/samsung-topples-xiaomi-regain-) number-one-position-india-q2-2018/)

Spotify's paid subscribers reach 83M

During its C2Q-18 earnings report this week, streaming music leader Spotify announced that its paid subscriber base had reached 83M, up 10% Q/Q. The number is more than twice the size of Apple Music's 40M paid users, and is presumably much larger than Amazon Music which has "tens of millions" of paid subscribers.

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Apple releases ﬁxes for underperforming new MacBook Pros

Apple acknowledged this week that its new MacBook Pro computers underperformed advertised speeds under heavy workloads and the company issued an apology to users. Apple noted that the issues were related to the laptop’s thermal management system, which throttles processing speeds to prevent overheating in certain situations. The company is releasing a software ﬁx for the issue, which will ultimately be rolled out to all new MacBook Pro owners. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-07-24/apple-unveils-%EF%AC%81x-for-)ws/art[icles/2018-07-24/apple-unveils-ﬁx-for-](http://www.bloomberg.com/news/articles/2018-07-24/apple-unveils-%EF%AC%81x-for-) macbook-pros-not-hitting-advertised-speeds)

5G TV partnership with Verizon could be coming

Verizon is reportedly in discussions with YouTube TV and Apple TV to develop a 5G online TV service, according to Bloomberg. Verizon has already announced plans to launch 5G online services for homes in four California cities by year-end. The report notes that the ability to provide internet and online TV services would make Verizon more competitive in the market versus cable and telecom providers. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2018-07-23/verizon-is-said-to-seek-)ws/art[icles/2018-07-23/verizon-is-said-to-seek-](http://www.bloomberg.com/news/articles/2018-07-23/verizon-is-said-to-seek-) google-or-apple-as-5g-tv-provider)

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.