

Deutsche Bank Markets Research

Rating

Hold

North America

United States

Company

Apple Inc.

Date

1 August 2017

Results

TMT

IT Hardware and Supply Chain

Reuters

AAPL.OQ

Bloomberg

AAPL US

Exchange

NSM

Ticker

AAPL

Price at 1 Aug 2017 (USD)

Price target

52-week range

150.05

140.00

156.10 - 103.13

F3Q-17 results: standing tall before the main event

Results and outlook unlikely to change views

Apple delivered upside to results and guidance in a quarter that most investors weren't particularly focused on. The big upside surprise came from iPad sales, while Services also saw improving trends. The focus for investors, however, is the next iPhone launch, with mgmt's guidance implying a relatively normal sequential increase, which may suggest speculation about iPhone delays are unfounded. We felt mgmt delivered a good quarter, but we continue to believe the market is overly optimistic on future iPhone sales. Given a saturated smartphone market, elongating refresh cycles, increased competition in China, and a growing secondary market, we think Apple will have a hard time delivering on Street expectations. We continue to view Apple as a trading stock, and believe shares will trade at the higher end of their historical range while current market multiples are elevated.

Positive takeaways

Units and sales in all three of AAPL's hardware categories grew Y/Y, a ﬁrst since

[Valuation & Risks](https://ger.gm.cib.intranet.db.com/ger/disclosure/Disclosure.eqsr?ricCode=AAPL.OQ)

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Key changes

Price target 132.00 to ↑ 6.1%

140.00

EPS (USD) 9.00 to 9.06 ↑ 0.6%

F1Q-14. iPad was the standout in the Q with 15% Y/Y unit growth and 2% Y/Y sales growth driven by recent new device launches and strength in U.S. education. Services growth also accelerated to 22% Y/Y, up from 18% Y/Y last quarter. iPhone unit shipments of 41M were modestly ahead of expectations, but iPhone sales were actually lower than Street expectations. Of the roughly $500M in upside to sales versus Consensus, roughly $1B came from better iPad sales and Services delivered $200M in upside vs. the Street, while iPhone ($670M) and Mac ($100M) were a drag versus Consensus expectations. Other key positives included growth in App Store, Apple Music, and iCloud storage, and GM of 38.5% at the high end

Revenue (USDm)

200

*Source: Deutsche Bank*

Price/price relative

150

100

50

226,940.0 to ↑ 0.6%

228,400.0

Jan '16 Jul '16 Jan '17 Jul '17

of guidance and above Consensus expectations at 38.3%. **Apple Inc. S&P 500 INDEX (Rebased)**

Items to monitor

We still remain focused on China sales, which declined 10% Y/Y vs. an easy compare, the sixth straight quarter of declines in this geography for Apple. In addition, while EPS beat Consensus estimates by $0.10, operating proﬁt only delivered $0.04 of the upside, with a lower tax rate helping by roughly $0.06. We also felt GM guidance of 37.5-38.0% was disappointing, given expectations for a strong mix of higher priced phones with the new iPhone launch.

Tweaking estimates, raise PT to $140 on higher multiple; maintain Hold

Our FY-18 and FY-19 estimate are essentially unchanged but we have raised our PT to $140 from $132. Our updated PT is based on shares trading at 14x our FY-19E EPS, vs prior 13x, to reﬂect higher market multiples. Positive risks: stronger-than

Performance (%) 1m 3m 12m

Absolute 4.2 2.4 41.5

S&P 500 INDEX 2.1 3.6 14.0

*Source: Deutsche Bank*

*Please see our variance charts for F3Q-17 and F4Q-17 on p.3-4.*

expected smartphone sales and share gains, and signiﬁcantly higher margins. Negatives: slower smartphone sales, and market share losses.

# Valuation

Apple has traded at an average forward P/E of 13x since 2010 with a range of 9x to 15x. 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.

Figure 3: Apple income statement

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