

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 September 15, 2017

Apple's launch of the iPhone X and iPhone 8 was the key focus of Apple news this week, with the company also unveiling a new Apple Watch and 4K Apple TV. The iPhone X's November ship date suggests supply chain reports of delayed OLED production and integration issues were correct. Thus far, the new iPhone models are seeing only muted initial discounts by U.S. carriers, contrary to last year's launch. In other Apple news, the company is expected to contribute $3B to a Bain-led bid for Toshiba's memory business, Apple Watch's heart monitor is undergoing trials, and Apple has raised the price on AppleCare coverage for iPhones.

New iPhones launched

At an event held at its new campus, Apple launched the iPhone X , iPhone 8 and iPhone 8 Plus. The iPhone X features an edge-to-edge OLED display, facial recognition and augmented reality capabilities, priced starting at $999 for the 64GB model. The new iPhone X removes the home button and replaces Touch ID with Face ID, Apple’s new facial detection technology. Apple also introduced the iPhone 8 and 8 Plus, with slight upgrades to processor, cameras and design versus the iPhone 7 models. The 64GB iPhone 8 is priced at $699, which is $50 higher than the entry price for prior new models. (ht[tps://www.apple.com/ne](http://www.apple.com/newsroom/2017/09/the-future-is-here-iphone-x/))wsr[oom/2017/09/the-future-is-here-iphone-x/)](http://www.apple.com/newsroom/2017/09/the-future-is-here-iphone-x/))

Apple Watch Series 3 and Apple TV 4K debuted

Along with the three new iPhone models, Apple also unveiled the Apple Watch Series 3 and Apple TV 4K. The Apple Watch Series 3 has an upgraded processor and a version which includes built-in LTE cellular connectivity, eliminating the requirement to connect the Watch to an iPhone in order to make calls and access other apps. Apple Watch Series 3 with built-in cellular connectivity is priced starting at $399, and requires a separate carrier plan, with U.S. carriers charging an additional $10 per month. The new Apple TV now supports 4K and High Dynamic Range (HDR) content. It also has a dedicated sports tab which hosts live sports broadcasts. Apple TV 4K is priced starting at $179. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2017-09-12/apple-debuts-a-watch-)ws/art[icles/2017-09-12/apple-debuts-a-watch-](http://www.bloomberg.com/news/articles/2017-09-12/apple-debuts-a-watch-) that-can-make-calls-without-an-iphone) (https://techcrunch.com/2017/09/12/apple-is-bringing-live-sports-to-the-apple- tv-4k/)

Delayed iPhone X ship date points to supply constraints

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Companies featured

Apple Inc. (AAPL.OQ),USD159.65 Hold

2016A 2017E 2018E

EPS (USD) 8.31 9.06 9.87

P/E (x) 12.6 17.6 16.2

EV/EBITDA (x) 6.0 9.5 8.8

*Source: Deutsche Bank*

*Our price target is based on shares trading at 14x our FY-19E EPS. 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. Negative risks include slower smartphone sales, market share losses in smartphones, and weaker growth in Services sales*

The November 3 ship date for the new iPhone X likely reﬂects supply chain bottlenecks, according to Digitimes. Supply chain sources suggest that Samsung's low initial OLED yield limited Foxconn's production of the iPhone X but that Samsung's yields have subsequently improved. The report indicates that OLED panel production will be much higher in September vs. June but will ultimately constrain 2017 iPhone X volumes to a level "signiﬁcantly below" the original 80-85M unit target. Foxconn could ship as few as 5M iPhone X units in September, followed by an additional 45-55M by year end. The report also suggests that 35-38M iPhone 8 units are expected to ship in 2017 versus just slightly north of 18-20M iPhone 8 Plus units. [(http://www.digitimes.com/news/a20170914PD204.html)](http://www.digitimes.com/news/a20170914PD204.html))

U.S. carriers oﬀering modest iPhone discounts post launch

U.S. wireless phone carriers are oﬀering fewer deals for new iPhones according to Reuters and DB's Telecom analyst, Matt Niknam. Reuters reports that market saturation and record low customer churn have reduced the incentives for carriers to oﬀer meaningful discounts. Matt Niknam notes that preliminary checks suggest AT&T, Verizon, T-Mobile, and Sprint are avoiding the 2-3 weeks of free iPhone oﬀers seen following last year's launch. Instead, carriers are focused on oﬀering handset credits with trade-ins ($300 credit from Verizon and T-Mobile, 50% oﬀ lease payments from Sprint) or buy one, get one free oﬀers (AT&T). [(http://www.reuters.com/article/us-apple-iphone-carriers/u-s-wireless-carriers-](http://www.reuters.com/article/us-apple-iphone-carriers/u-s-wireless-carriers-) dial-back-discounts-on-new-iphones-idUSKCN1BO2TI)

Apple to provide $3B for Bain-led bid for Toshiba's memory chip unit

Apple is in discussions to provide roughly $3B to support Bain Capital’s oﬀer to acquire Toshiba’s memory chip unit, according to Bloomberg. Apple is reportedly expecting an equity share in the Toshiba memory unit in return for its investment, while Dell, SK Hynix, and Seagate are among the other companies expected to provide ﬁnancial backing for Bain's bid. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2017-09-14/apple-is-said-to-)ws/art[icles/2017-09-14/apple-is-said-to-](http://www.bloomberg.com/news/articles/2017-09-14/apple-is-said-to-)

discuss-3-billion-stake-in-bain-s-toshiba-bid)

Apple Watch heart rate detection capabilities tested

Apple is collaborating with a group of clinicians at Stanford and telemedicine vendor American Well to test the Apple Watch's ability to detect abnormal heart rhythms in patients, according to CNBC. A successful trial may potentially open up a signiﬁcant market opportunity for the device. (ht[tps://www.cnbc.com/2017/09/11/apple-watch-caridac-arrh](http://www.cnbc.com/2017/09/11/apple-watch-caridac-arrhythmia-tests-)yt[hmia-tests-](http://www.cnbc.com/2017/09/11/apple-watch-caridac-arrhythmia-tests-) stanford-american-well.html)

AppleCare+ warranty prices for certain iPhones increased

Apple has raised the price of AppleCare+ for the iPhone 6s Plus and 7 Plus to

$149 from $129, while the warranty service for the new iPhone 8 Plus and Phone X will cost $149 and $199, respectively. In addition, Apple has also increased the prices of non-warrantied repairs of certain iPhone models. [(http://appleinsider.com/articles/17/09/13/apple-hikes-repair-replacement](http://appleinsider.com/articles/17/09/13/apple-hikes-repair-replacement-)- applecare-prices-for-iphones) (ht[tps://www.apple.com/shop/product/S6362LL/A/applecare-f](http://www.apple.com/shop/product/S6362LL/A/applecare-for-iphone-8-plus-)or[-iphone-8-plus-](http://www.apple.com/shop/product/S6362LL/A/applecare-for-iphone-8-plus-) iphone-7-plus-and-iphone-6s-plus)

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 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.