

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

13 October 2017

Periodical

A weekly take on Apple news

For the week ending October 13, 2017

This week, reports continued to circulate about iPhone X shortages, including a Nikkei report citing limited 3D sensing component supply as a key issue. In addition, AT&T’s preA implies weak early iPhone 8 adoption. In PCs, Apple remained the fourth largest vendor according to C3Q-17 IDC data, on ﬂat Y/Y Mac shipments. Also of note, Apple is reportedly developing its ﬁrst original TV series, a remake of "Amazing Stories," and is scouting out locations for its content production team in west LA. In other Apple news, plans for a $1B Irish data center are moving forward, Apple is in discussions with LG for foldable OLED displays, Tim Cook continues to praise AR but suggests a Google Glass-like product is unlikely near term, and Katherine Adams is Apple's new general counsel.

Another report faults 3D sensing component shortages for iPhone X delays Shortages of dot projectors, a key part of the transmitting module in Apple's TrueDepth camera system, which supports Face ID, are responsible for iPhone X

production delays, according to the Nikkei Asian Review. Limited supply of this module, code-named "Romeo," were reported earlier this month. (https://asia.nikkei.com/Business/Companies/iPhone-X-makers-still-struggling- to-reﬁne-facial-recognition?page=1)

AT&T preA suggests weak iPhone 8 sales

In AT&T's C3Q-17 pre-announcement this week, the company cited weaker-than- expected wireless equipment revenue as it had "nearly 900,000 fewer handset equipment upgrades than in the year-ago third quarter.” According to DB Telecom analyst Matt Niknam, the company’s [record-low 3Q handset upgrade rate implies](https://ger.gm.cib.intranet.db.com/ger/document/pdf/32f0c72e-4f7a-4ee9-befd-a95f95e18524_604.pdf) [a weak start to iPhone 8 sales](https://ger.gm.cib.intranet.db.com/ger/document/pdf/32f0c72e-4f7a-4ee9-befd-a95f95e18524_604.pdf), which kicked oﬀ on Sept 22. (https://otp.tools.investis.com/clients/us/atnt/SEC/sec-show.aspx?

Type=html&FilingId=12321828&CIK=0000732717&Index=10000)

Apple remains 4th in PC market with ﬂat Y/Y C3Q-17 shipments

According to preliminary IDC data, Apple maintained its fourth place position in the PC market in C3Q-17 with 7.3% share, up 10bps Y/Y. Apple's unit shipments grew by 0.3% Y/Y, while overall PC shipments declined by 0.5%. Share for the ﬁfth place provider, ASUS, was 6.2%, and trailed Apple by 110bps in the quarter. (ht[tps://www.idc.com/getdoc.jsp?containerId=prUS43147217)](http://www.idc.com/getdoc.jsp?containerId=prUS43147217))

First original TV series announced with Steven Spielberg

Apple is reportedly collaborating with director Steven Spielberg to remake the sci- ﬁ series “Amazing Stories," according to NBCUniversal. The Wall Street Journal

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Companies featured

Apple Inc. (AAPL.OQ),USD156.55 Hold

2016A 2017E 2018E

EPS (USD) 8.31 9.05 10.20

P/E (x) 12.6 17.3 15.3

EV/EBITDA (x) 6.0 9.3 8.3

*Source: Deutsche Bank*

*Our price target is based on shares trading at 14x 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.*

Deutsche Bank Securities Inc.

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reported that Apple will pay $5M per episode, although the deal is not yet complete. If ﬁnalized, the series will be Apple's ﬁrst original series. (ht[tps://www.wsj.com/articles/apple-signs-content-deal-wit](http://www.wsj.com/articles/apple-signs-content-deal-with-steven-)h-stev[en-](http://www.wsj.com/articles/apple-signs-content-deal-with-steven-)

spielberg-1507656455)

Apple looking for oﬃces for original content production team

Apple is in talks with Hackman Capital Partners to lease a 85,000 square-foot facility in Culver City near Los Angeles, according to The Real Deal. The location is expected to cost $3.85M annually and would serve as the headquarters for Apple's original content production and personnel. (https://therealdeal.com/la/2017/10/10/apple-in-talks-to-lease-hackmans-la- cienega-expo-project-sources/)

Billion dollar Irish data center moves forward

After two years of judicial delays, Apple's plans to build a $1B data center in western Ireland have been approved, according to Reuters. A similar 2015 plan for a data center in Denmark is on track to open later this year and the company has announced plans to open a second Danish center. (ht[tps://www.reuters.com/article/us-apple-ireland/irish-court](http://www.reuters.com/article/us-apple-ireland/irish-court-gives-1-billion-)-giv[es-1-bil](http://www.reuters.com/article/us-apple-ireland/irish-court-gives-1-billion-)l[ion-](http://www.reuters.com/article/us-apple-ireland/irish-court-gives-1-billion-) apple-data-center-green-light-idUSKBN1CH1EC)

Future iPhones could feature foldable screens

Apple is reportedly in discussions with LG Display to develop foldable OLED screens for the iPhone, according to Korean news website The Bell. The folding devices are reported to begin production in 2020. As noted in previous Slices, LG Display is expected to supply OLED displays for iPhones starting in 2019, while rival Samsung is currently providing Apple's OLED display supply. According to CNET, Samsung is planning to release a phone with a folding screen next year. (ht[tps://www.cnet.com/news/apple-foldable-iphone-report](http://www.cnet.com/news/apple-foldable-iphone-report-the-bell/))-t[he-bel](http://www.cnet.com/news/apple-foldable-iphone-report-the-bell/))l/) [(http://www.thein](http://www.theinvestor.co.kr/view.php?ud=20171011000678))v[estor.co.kr/view.php?ud=20171011000678)](http://www.theinvestor.co.kr/view.php?ud=20171011000678))

Tim Cook touts AR adoption, down-plays smart glasses

In an interview with Vogue magazine, Apple CEO Tim Cook shared his belief that augmented reality (AR) technology will be widely adopted in the future. He expects the technology to transform things like fashion shows and shopping. Cook noted that companies including Burberry, Ikea, and Anthropologie have already integrated Apple’s ARKit into their apps to create virtual experiences for customers. In addition, Cook indicated that Apple smart glasses are not forthcoming, citing the current lack of a technology able to create a high-quality product.

[(http://www.vogue.co.uk/article/e](http://www.vogue.co.uk/article/exclusive-apple-ceo-tim-cook-future-of-fashion-)x[clusive-apple-ceo-tim-cook-future-of-fashion-](http://www.vogue.co.uk/article/exclusive-apple-ceo-tim-cook-future-of-fashion-) augmented-reality)

Katherine Adams appointed as new general counsel

Apple announced the appointment of Katherine Adams, former Honeywell general counsel, as general counsel and senior vice president of Legal and Global Security. Bruce Sewell, Apple’s current general counsel, will retire at the end of the year.

(ht[tps://www.apple.com/ne](http://www.apple.com/newsroom/2017/10/katherine-adams-joins-apple-as-)wsr[oom/2017/10/katherine-adams-joins-apple-as-](http://www.apple.com/newsroom/2017/10/katherine-adams-joins-apple-as-) general-counsel-and-svp/)

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.