

Deutsche Bank Markets Research

Rating

Hold

North America

United States

Company

Apple Inc.

Date

2 November 2017

Forecast Change

TMT

IT Hardware and Supply Chain

Reuters

AAPL.OQ

Bloomberg

AAPL US

Exchange

NSM

Ticker

AAPL

Price at 2 Nov 2017 (USD)

Price target

52-week range

168.11

152.00

169.04 - 105.71

F4Q-17 results: Good results, as we wait for the main event

Double-digit growth driven by everything but the iPhone

Apple reported above-Street F4Q-17 sales and EPS, driven by double-digit sales growth in all segments except iPhone. F1Q-18 sales guidance was a bit higher than Street expectations, suggesting some of the supply concerns are overdone. While the results were solid, we believe investors' main focus is on whether Apple can sell a $1,000 premium phone in signiﬁcant quantities, something we won't have a good sense of until later this year, at the earliest. Until then, we expect bulls and bears to remain in their own camps, with this quarter's results unlikely to sway views. 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 and the iPhone X remains in short supply. We are raising our price target to $152 from $140 on higher market multiple, but maintain our Hold rating given our more conservative long-term view.

What went right

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

Sherri Scribner Research Analyst

+1-212-250-5734

Adrienne Colby Associate Analyst

+1-212-250-0948

Jeﬀrey Rand, CFA Research Associate

+1-212-250-0639

Key changes

TP 140.00 to ↑ 8.6%

152.00

EPS (USD) 10.20 to 10.45 ↑ 2.4%

Company sales grew 12% Y/Y, the strongest growth since F4Q-15. Mac sales grew 25% Y/Y (although oﬀ of an easy compare), which was the strongest growth for this business since F4Q-11, with Apple noting increased interest from enterprise customers. iPad units grew double-digits for the second straight quarter, after having experienced Y/Y declines in every quarter since F1Q-14. Greater China sales also rebounded after 6 straight quarters of double-digit Y/ Y declines, growing 12% Y/Y. The Services business grew 34% Y/Y, on App Store strength, Apple Music growth of 75% Y/Y, and double-digit iCloud growth,

Revenue (USDm)

200

*Source: Deutsche Bank*

Price/price relative

150

100

50

250,044.0 to ↑ 3.8%

259,660.0

although Services were helped by a $640M one-time sales adjustment, and grew

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

24% Y/Y excluding this one-time item. **Apple Inc. S&P 500 INDEX (Rebased)**

and what could have gone better

iPhone unit growth of 2% Y/Y was in line, but sales missed driven by lower- than-expected ASPs ($618 vs. Str at $638), which suggests more lower priced units than expectations. Gross margin guidance of 38.0-38.5% was also below expectations, and we believe some investors expected better margins given the shipment of iPhone X. While EPS beat expectations by $0.20, roughly $0.11 of the beat came from below-the-line items, including higher other income and a lower tax rate relative to mgmt's guidance.

Tweaking estimates, raising PT to $152 on higher multiple; maintain Hold

We are modestly raising our estimates on a better sales outlook. We are also introducing FY-20E estimates of sales of $244B and EPS of $9.90. We are also raising our PT to $152 from $140. Our updated PT is based on shares trading

Performance (%) 1m 3m 12m

Absolute 9.3 7.0 50.6

S&P 500 INDEX 2.0 4.1 22.9

*Source: Deutsche Bank*

*Please see our variance charts for F4Q-17 and F1Q-18 on p.3-4.*

at 16x our FY-19E EPS, vs prior 14x, to reﬂect higher market multiples. Positive risks: stronger-than expected smartphone sales and share gains, and signiﬁcantly higher margins. Negatives: slower smartphone sales, and market share losses.

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# 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 16x 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.

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