

Deutsche Bank Markets Research

North America

United States

TMT

IT Hardware and Supply Chain

Industry

Scribner's Slice of Apple

Date

19 November 2017

Periodical

A weekly take on Apple news

For the week ending November 17, 2017

Supply of iPhone X appears to be improving, with waiting times on Apple's website falling in many states across the U.S. But sadly for Apple fans, the availability of HomePod has been delayed until 2018. In other news, MacBooks outperformed the notebook market in C3Q-17 and the Apple Watch led the wearable band market due to strong demand for Apple Watch 3 featuring cellular connectivity. Also, Face ID was hacked by a mask and a user's child, future iPhones could feature a rear 3D sensor potentially paving the way for more augmented reality (AR) applications, the ITC is investigating patent infringement claims against Apple, Apple has named a new head of diversity and inclusion, and Apple Watch's GymKit was previewed in Australia. Happy Thanksgiving!

iPhone X wait times improving

Our checks on Apple's website on Friday showed a 2-3 week ship time for the iPhone X, vs. the 3-4 week wait time quoted two weeks ago, suggesting supply of the iPhone X continues to improve. While no inventory was available in stores in the greater New York area, we found availability of both the 64GB and 256GB versions in stores in at least three states (Kansas, Alabama, Arkansas) and of just the 64GB version in at least ﬁve more states (Missouri, Oklahoma, New Mexico, Washington, Utah).

(www.apple.com)

HomePod speaker delayed

Apple's release of its HomePod smart speaker has been delayed from December 2017 until 2018, according to a company statement to The Verge. Apple indicated it needs "more time before it's ready for customers" and plans to begin shipping the device in "early 2018." The device was unveiled at the company's Worldwide Developer Conference in June. (ht[tps://www](http://www.theverge.com/2017/11/17/16670268/apple-homepod-).thev[erge.com/2017/11/17/16670268/apple-homepod-](http://www.theverge.com/2017/11/17/16670268/apple-homepod-)

delayed-2018)

MacBook share grows in C3Q-17

Worldwide notebook shipments were 42.7M in C3Q-17, up 6.8% Q/Q and 0.9% Y/Y, according to TrendForce. Apple's MacBook shipments grew by 11% Q/Q to 4.43M driven by healthy demand for 12-inch MacBooks and the roll out of new MacBook Pro models. Apple held 10.4% share, gaining 40 bps of share Q/Q, and moved from ﬁfth to fourth place in the market. HPQ was the market leader with roughly 26% share, followed by Lenovo and Dell with 20% and 16% share, respectively. Separately, TechCrunch has reported that a new iPad Pro video ad

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Companies featured

Apple Inc. (AAPL.OQ),USD171.10 Hold

2017A 2018E 2019E

EPS (USD) 9.21 10.45 9.70

P/E (x) 14.9 16.4 17.6

EV/EBITDA (x) 7.9 8.9 9.6

*Source: Deutsche Bank*

*Our price target is based on shares trading at 16x 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.*

suggests that the device will make notebook computers obsolete in the near future.

[(http://press.trend](http://press.trendforce.com/press/20171115-3020.html))f[orce.com/press/20171115-3020.html)](http://press.trendforce.com/press/20171115-3020.html)) (https://techcrunch.com/2017/11/16/apples-new-ad-shows-how-ipads-are- going-to-replace-laptops/)

Apple Watch leads C3Q-17 wearable band market

The global wearable band market declined by 2% Y/Y to 17.3M units in C3Q-17, according to Canalys. Growth in smartwatch shipments was oﬀset by weaker demand for basic bands. Apple regained the top position in the market with 3.9M units, followed by Xiaomi with 3.6M shipments and Fitbit with 3.5M. Apple’s performance was reportedly driven by the introduction of the Apple Watch Series 3 and demand for cellular-connectivity. (ht[tps://www.canalys.com/ne](http://www.canalys.com/newsroom/media-alert-apple-retakes-lead-wearable-)wsr[oom/media-alert-apple-retakes-lead-wearable-](http://www.canalys.com/newsroom/media-alert-apple-retakes-lead-wearable-) band-market-q3-2017)

Face ID may not be fool-proof

Vietnamese security solutions company Bkav reported that it cracked Apple’s Face ID authentication system with a mask made out of plastic, silicone, and makeup. While the company noted that the mask costs only $150, it did require detailed facial data obtained from an extensive digital scan of the subject’s face. Separately, WIRED reported that a 10-year old child successfully unlocked his mother's iPhone X with Face ID. The report suggests that low-lighting, potentially insuﬃcient standards for face data matching, and erroneous training of the Face ID feature, could have contributed to the unintentional hacking of Face ID. [(http://www.bka](http://www.bkav.com/d/top-news/-/view_content/content/103968/face-id-)v[.com/d/top-news/-/view\_content/content/103968/face-id-](http://www.bkav.com/d/top-news/-/view_content/content/103968/face-id-) beaten-by-mask-not-an-eﬀective-security-measure) (ht[tps://www.wired.com/story/10-y](http://www.wired.com/story/10-year-old-face-id-unlocks-mothers-iphone-x/))ear[-old-face-id-unlocks-mot](http://www.wired.com/story/10-year-old-face-id-unlocks-mothers-iphone-x/))her[s-iphone-x/)](http://www.wired.com/story/10-year-old-face-id-unlocks-mothers-iphone-x/))

Future iPhone could feature rear-facing 3D sensing system

Apple is reportedly developing a new 3D sensor system for the iPhone that would be integrated into the back of the device and could be launched in 2019, according to Bloomberg. The rear-facing system could replace the "structured- light" technology, currently used in the iPhone X's front-facing TrueDepth sensor system, with a "time-of-ﬂight" technique. Bloomberg suggests the shift in the iPhone X's 3D sensor location would also advance the device's augmented reality (AR) capabilities.

(ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2017-11-14/apple-is-said-to-target-)ws/art[icles/2017-11-14/apple-is-said-to-target-](http://www.bloomberg.com/news/articles/2017-11-14/apple-is-said-to-target-) rear-facing-3-d-sensor-for-2019-iphone)

ITC launches new Apple investigation

The U.S. International Trade Commission is investigating broad patent infringement claims against Apple brought by Aqua Connect and Strategic Technology Partners.

[(http://www.reuters.com/article/us-apple-in](http://www.reuters.com/article/us-apple-investigation/usitc-says-launches-)v[estigation/usitc-says-launches-](http://www.reuters.com/article/us-apple-investigation/usitc-says-launches-) probe-of-allegations-of-patent-infringement-by-apple-idUSKBN1DE2ZZ)

New head of diversity and inclusion

Christie Smith, a former Deloitte executive, will be replacing Denise Young Smith as Apple's vice president of diversity and inclusion, according to TechCrunch. Smith will be leaving Apple in December after eight months in the role and three years as the global head of human resources. (https://techcrunch.com/2017/11/16/apple-vp-of-diversity-and-inclusion-denise- young-smith-is-leaving/?mc\_cid=b103e6d18c&mc\_eid=a145026f5a)

GymKit made available

Apple previewed its GymKit solution for the ﬁrst time at a gym in Australia, according to CNBC. GymKit connects the Apple Watch with compatible ﬁtness equipment via NFC technology. The software solution is expected to help users track and analyze their workouts and health, through the data transmitted to the Apple Watch from the equipment. Several manufacturers are reportedly developing GymKit compatible ﬁtness equipment. (ht[tps://www.cnbc.com/2017/11/15/apple-watch-is-integrating-wit](http://www.cnbc.com/2017/11/15/apple-watch-is-integrating-with-gym-)h-gym- equipment-via-gymkit.html)

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 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.