

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 December 15, 2017

After last week's more cautious reports on iPhone demand, news on Apple's major product line was more muted. In top Apple news this week, Finisar will receive $390M in funding from Apple to expand production of lasers used in iPhone X and AirPods. Also of interest, India raised the import tax to 15% on imported iPhones, the new iMac Pro went on sale for $4,999. In other news, Apple provided more detail on its self-driving car work, Jony Ive resumed daily oversight of Apple's design team, Apple acquired Shazam, Spotify and Deezer ﬁled a complaint against Apple in the EU, Apple is working on another original series, and GymKit launched in the U.S. This is the last Apple Slices of 2017. Enjoy your holidays!

Finisar receives $390M in funding

Apple has awarded Finisar $390M from its Advanced Manufacturing Fund to help Finisar expand production of its vertical-cavity surface-emitting lasers (VCSEL) for use in iPhone X and AirPods. Apple's fund is a $1B initiative to support innovation and create employment opportunities by U.S. manufacturers. Finisar noted in a separate ﬁling that the $390M award represents anticipated future business between the two companies, not an investment in Finisar. (ht[tps://www](http://www.apple.com/newsroom/2017/12/apple-awards-%EF%AC%81nisar-390-million-).apple[.com/newsroom/2017/12/apple-awards-ﬁnisar-390-million-](http://www.apple.com/newsroom/2017/12/apple-awards-%EF%AC%81nisar-390-million-) from-its-advanced-manufacturing-fund/) (ht[tps://www.sec.gov/Archives/edgar/data/1094739/000110465917073092/](http://www.sec.gov/Archives/edgar/data/1094739/000110465917073092/)

a17-28415\_18k.htm)

India raises tax on imported smartphones to 15%

India has raised the import tax on mobile phones to 15% up from 10%, according to 9to5mac. The move is part of a broader import tax increase on several types of electronic devices including TVs and video cameras. Currently, only iPhone SE devices are exempt from import tax because they are assembled in India. India is a crucial growth market for Apple and we view the import tax increase as a headwind to Apple's market share given it increases the cost of an iPhone in the country.

(https://9to5mac.com/2017/12/15/india-import-taxes-on-iphones/#more-512314)

Self-driving car project focused on use of camera and sensor data

In a presentation to researchers, Apple's head of artiﬁcial intelligence (AI) Rus Salakhutdinov indicated that Apple is working on several self-driving car projects that involve camera and sensor data. According to geek.com, projects include a software program that uses data from a vehicle-mounted camera to identify

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Companies featured

Apple Inc. (AAPL.OQ),USD172.22 Hold

2017A 2018E 2019E

|  |  |  |  |
| --- | --- | --- | --- |
| EPS (USD) | 9.21 | 10.45 | 9.70 |
| P/E (x) | 14.9 | 16.5 | 17.8 |
| EV/EBITDA (x) | 7.9 | 9.0 | 9.7 |
| *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.*

objects on the road, simultaneous localization and mapping (SLAM) using real- time video images, and the construction of 3D maps to include traﬃc lights and lane designations.

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Jony Ive resumes day-to-day oversight of design teams

After overseeing the construction of Apple Park, Apple's Chief Design Oﬃcer Jony Ive has resumed his prior role managing Apple's product design teams, according to Bloomberg. Over the past two years, Ive had handed oﬀ some of the day-to- day management of the software and hardware design teams as he focused on Apple's new headquarters. With the project's completion, all of Apple's design leaders are now reporting directly Ive. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2017-12-08/apple-s-ive-regains-)ws/art[icles/2017-12-08/apple-s-ive-regains-](http://www.bloomberg.com/news/articles/2017-12-08/apple-s-ive-regains-) management-of-design-team-after-2-years)

Apple acquires Shazam

Apple has acquired Shazam Entertainment, a U.K.-based developer of music- identiﬁcation technology for $400M, according to Bloomberg. Shazam's technology has been integrated into Apple's Siri digital assistant service since 2014, and the acquisition is expected to help Apple more deeply integrate Shazam’s technology into its music services. (ht[tps://www.bloomberg.com/ne](http://www.bloomberg.com/news/articles/2017-12-11/apple-buys-early-)ws/art[icles/2017-12-11/apple-buys-early-](http://www.bloomberg.com/news/articles/2017-12-11/apple-buys-early-) iphone-app-hit-shazam-to-boost-apple-music)

iMac Pro available at apple.com

The iMac Pro became available on Apple's website this week, priced starting at

$4,999. The PC is mainly targeted at creative professionals with the high-end model featuring an 18-core Xeon processor, 128GB of memory, 4TB of storage, a 5K display and an AMD Radeon Vega GPU.

(https://www.apple.com)

Spotify and Deezer ﬁle complaint with European Commission

Streaming music providers Spotify and Deezer have accused Apple of abusing its dominant market position in the app market in Europe, according to a Financial Times article cited by The Verge. The companies believe large tech companies like Amazon and Apple, who have competing music services are unfairly taking advantage of their size. In particular, the companies are unhappy that Apple takes a 30% of their subscription fees when consumers sign up for their services through Apple's app store. (ht[tps://www](http://www.theverge.com/2017/12/13/16773806/spotify-deezer-eu-regulators-).thev[erge.com/2017/12/13/16773806/spotify-deezer-eu-regulators-](http://www.theverge.com/2017/12/13/16773806/spotify-deezer-eu-regulators-) apple)

Another original series in the works

Apple is planning to produce a sci-ﬁ drama series created by Ronald D. Moore, Matt Wolpert, and Ben Nedivi, according to Variety. Moore is known for the “Outlander” series and work on recent "Star Trek" ﬁlms. Wolpert and Nedivi are known for having contributed to the “Fargo” series. [(http://variety.com/2017/tv/news/apple-ronald-d-moore-series-1202642216/)](http://variety.com/2017/tv/news/apple-ronald-d-moore-series-1202642216/))

GymKit launches in the U.S.

Apple GymKit is now available on some of the ﬁtness equipment at the Life Time Athletic at Sky gym in New York City. GymKit allows the Apple Watch to be synchronized with exercise machines in order to collect and exchange activity and health data between the devices.

(ht[tps://www.engadget.com/2017/12/11/apple-watch-gymkit-syncing-arriv](http://www.engadget.com/2017/12/11/apple-watch-gymkit-syncing-arrives-in-)es-in- us/)

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.