



Apple, Inc.

## Strong Beat, But FY21 Likely Peaking

Apple handily beat Jun-Q revenue and EPS with much better GM and OM. iPhone revenue beat by 10% and Services growth accelerated, owing to advertising and Apple Care. GM of 43.4% hit a multi-year high on cost savings and improved services mix. China revenue beat our expectation, up 58% y/y. Sep-Q growth is expected to be below the +36% Y/Y level for Jun-Q on negative FX impact, decelerating services and supply constraints. We raise our estimates and price target, but Maintain our EW rating, mainly on headwinds sustaining current demand levels including IP13 cycle, tougher comps on Mac/iPad, regulatory overhang (App Store, Google TAC) as well as fair valuation.

**The Numbers.** Sales of \$81.4B were 8% better than our above-consensus estimate, with GM% about 139bps above and Opex in-line. Tax rate was also lower. EPS came in at \$1.30 vs. our above-consensus estimate of \$1.04. iPhone sales were 10% above our model on 50% Y/Y growth, while Services and Wearables were 6% and 42% above (could be less inventory correction), respectively. iPad came in 3% higher with Mac below our expectations. FCF was \$19B, above our \$18B.

- **Positives:** DD sales growth for each product category and in each geography. iPhone 12s look like a winner after several stalled cycles, including China strength surpassing our estimates thanks to better mix. Services growth reaccelerated as expected to 33% Y/Y. AAPL was able to mitigate some supply constraints for iPad/Mac for Jun-Q. Product GM benefited from cost savings while Services GM benefited from favorable mix. Paid subs now over 700M, up 40M Q/Q.
- **Concerns:** Decelerating Sep-Q growth impacted by FX, slower services growth and greater supply constraints for iPads and iPhones, although still very strong overall. GM levels expected to be down at 42% mostly on mix. Freight cost pressure.

**Ratings and estimates:** We increase our FY21/FY22e EPS estimates to \$5.64/\$5.60 from \$5.36/\$5.39. Maintain EW rating; PT to \$142 on 25x multiple on CY22 EPS.

### AAPL: Quarterly and Annual EPS (USD)

	2020			2021			2022			Change y/y	
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2021	2022		
Q1	1.25A	1.68A	1.68A	1.68A	1.93E	1.91E	1.79E	34%	14%		
Q2	0.64A	1.40A	1.40A	1.40A	1.16E	1.24E	1.24E	119%	-11%		
Q3	0.65A	1.04E	1.30A	1.01E	1.03E	1.11E	1.07E	100%	-15%		
Q4	0.73A	1.24E	1.26E	1.12E	1.27E	1.34E	1.23E	73%	6%		
Year	3.27A	5.36E	5.64E	5.18E	5.39E	5.60E	5.32E	72%	-0.71%		
P/E	44.9		26.0			26.2					

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 27-Jul-2021; 12:50 GMT

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### Equity Research

Technology | IT Hardware and  
Communications Equipment  
27 July 2021

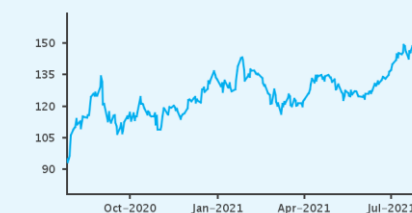
Stock Rating	<b>EQUAL WEIGHT</b> Unchanged
Industry View	<b>NEUTRAL</b> Unchanged
Price Target	<b>USD 142.00</b> raised 6% from USD 134.00

Price (27-Jul-2021)	USD 146.77
Potential Upside/Downside	-3.2%
Tickers	AAPL

Market Cap (USD mn)	2449244
Shares Outstanding (mn)	16687.63
Free Float (%)	94.60
52 Wk Avg Daily Volume (mn)	117.7
Dividend Yield (%)	0.60
Return on Equity TTM (%)	103.40
Current BVPS (USD)	4.15

Source: Bloomberg

Price Performance	Exchange-Nasdaq
52 Week range	USD 150.00-93.25



Source: IDC; Link to Barclays Live for interactive charting

### IT Hardware and Communications Equipment

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IT Hardware and Communications Equipment						Industry View: NEUTRAL	
<b>Apple, Inc. (AAPL)</b>						<b>Stock Rating: EQUAL WEIGHT</b>	

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	274,515	368,925	378,619	384,282	11.9%
EBITDA (adj)	77,344	122,600	125,329	124,642	17.2%
EBIT (adj)	66,288	110,241	108,617	107,440	17.5%
Pre-tax income	67,091	111,037	108,817	107,640	17.1%
Tax rate (%)	14	14	16	16	3.9%
Net income	57,411	95,207	91,407	90,228	16.3%
EPS (reported) (\$)	3.27	5.64	5.60	5.72	20.5%
Diluted shares (mn)	17,574.1	16,885.2	16,297.5	15,759.6	-3.6%
DPS (\$)	0.80	0.86	0.91	0.97	6.6%

Margin and return data	Average				
EBITDA (adj) margin (%)	28.2	33.2	33.1	32.4	31.7
EBIT (adj) margin (%)	24.1	29.9	28.7	28.0	27.7
Pre-tax margin (%)	24.4	30.1	28.7	28.0	27.8
Net margin (%)	20.9	25.8	24.1	23.5	23.6
Operating CF margin (%)	29.4	31.2	28.2	28.0	29.2
ROA (%)	17.5	26.3	24.0	23.0	22.7
ROE (%)	86.8	160.8	212.1	354.2	203.5

Balance sheet and cash flow (\$mn)	CAGR				
Cash and equivalents	191,830	211,795	230,462	248,832	9.1%
Total assets	323,888	359,040	379,576	391,536	6.5%
Short and long-term debt	112,436	136,791	166,791	196,791	20.5%
Other long-term liabilities	54,490	50,383	50,383	50,383	-2.6%
Total liabilities	258,549	300,244	336,554	366,107	12.3%
Net debt/(funds)	-79,394	-75,004	-63,671	-52,041	N/A
Shareholders' equity	65,339	58,796	43,022	25,429	-27.0%
Cash flow from operations	80,674	115,039	106,719	107,712	10.1%
Capital expenditure	-7,309	-10,456	-10,072	-10,721	N/A
Free cash flow	73,365	104,583	96,647	96,991	9.8%
NOPAT	56,724	94,525	91,239	90,061	16.7%

Valuation and leverage metrics	Average				
P/E (reported) (x)	44.9	26.0	26.2	25.7	30.7
EV/sales (x)	8.9	6.7	6.5	6.5	7.1
EV/EBITDA (adj) (x)	31.7	20.0	19.7	19.9	22.8
EV/EBIT (adj) (x)	37.0	22.3	22.7	23.1	26.3
FCF yield (%)	3.0	4.3	3.9	3.9	3.8
P/BV (x)	39.5	42.1	55.6	91.0	57.0
Dividend yield (%)	0.5	0.6	0.6	0.7	0.6

Price (27-Jul-2021)	USD 146.77
Price Target	USD 142.00

**Why Equal Weight?** Apple has a sticky ecosystem, growing services and wearables business, and a large capital return program, providing downside support for long-term investors. We rate Apple Equal Weight as questions persist about the deterioration of iPhone upgrade demand with rising competition in the premium smartphone segment.

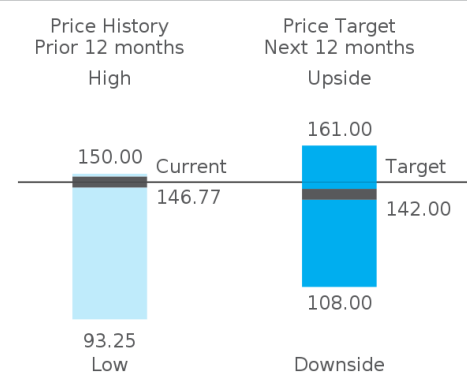
<b>Upside case</b>	<b>USD 161.00</b>
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Potential factors that could drive the upside scenario include faster growth in new services offerings, iPhone unit growth recovering meaningfully, gross margin trends improving, accelerated capital return, or introduction of a successful new product category.

<b>Downside case</b>	<b>USD 108.00</b>
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Potential downside scenarios include continued lack of product innovation and further deterioration for iPhone demand due to elongating replacement cycles, gross margin erosion in hardware, and disappointing customer traction in the newly launched services offerings.

#### Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research

Note: FY End Sep

## Results vs. Expectations & Outlook

FIGURE 1  
Results vs. Expectations

### Apple Inc. Quarterly Results

\$ in millions, except per share data

	Jun-Q Results Barclays			
	Actual	Estimate	Delta	Consensus
<b>Total Revenue</b>	<b>\$81,434</b>	<b>\$75,168</b>	<b>8.3%</b>	<b>73,815</b>
Gross margin %	43.4%	42.0%	139 bps	42.0%
Product margin %	36.1%	34.4%	170 bps	
Services margin %	70.1%	69.0%	107 bps	
OpEx	11,129	11,125	0.0%	11,728
EBIT	24,207	20,444	18.4%	19,274
EBIT margin %	29.7%	27.2%	253 bps	26.1%
Net Income	21,825	17,523	24.6%	16,849
Tax rate	10.7%	14.5%	376 bps	14.8%
<b>EPS</b>	<b>\$1.30</b>	<b>\$1.04</b>	<b>24.6%</b>	<b>\$1.01</b>
Diluted share count	16,782	16,786	(0.0%)	
<b>Segment revenue</b>				
iPhone	\$39,570	\$35,905	10.2%	
iPad	7,368	7,150	3.0%	
Mac	8,235	9,444	(12.8%)	
Services	17,486	16,507	5.9%	
Wearables, Home and Accessories	8,775	6,161	42.4%	
Cash flow from operations	21,094	20,628	2.3%	
Free cash flow	19,001	18,373	3.4%	
Free cash flow as % of revenue	23.3%	24.4%	(111) bps	

Source: Company Reports, Barclays Research, Bloomberg.

FIGURE 2  
Price Target

\$ in millions, except per share data

	Downside Case	Base Case	Upside Case
CY22E			
P/E multiple	23.0x	25.0x	27.0x
Implied stock price	\$108.00	\$142.00	\$161.00

P&L Scenarios \$ in millions, except per share data	Downside Case	Base Case	Upside Case
Revenue	\$379,993	<b>\$381,996</b>	\$398,439
Y/Y growth %	3.0%	3.5%	8.0%
Operating profit	\$91,198	<b>\$108,974</b>	\$115,547
% of revenue	24.0%	28.5%	29.0%
Interest/other income (expense)	\$200	<b>\$200</b>	\$200
Pre-tax income	\$91,398	\$109,174	\$115,747
Income taxes	\$14,782	<b>\$17,657</b>	\$18,720
Tax rate	16.2%	16.2%	16.2%
Net income	\$76,616	\$91,517	\$97,027
% of revenue	20.2%	24.0%	24.4%
<b>EPS</b>	<b>\$4.70</b>	<b>\$5.67</b>	\$5.95
Y/Y growth %	(16.6%)	0.6%	5.6%
Diluted shares	16,297	<b>16,297</b>	16,297

Source: Company reports &amp; Barclays Research.

FIGURE 3  
Snapshot of Changes to Model

	Sep-Q 21E			C2021E			F2021E			F2022E			F2023E		
\$ in millions, except per share data	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
Total Revenue	\$86,468	\$87,246	-0.9%	\$381,626	\$377,879	1.0%	\$368,925	\$363,437	1.5%	\$378,619	\$377,116	0.4%	\$384,282	\$377,700	1.7%
Y/Y	33.6%	34.9%	(120) bps	29.7%	28.5%	127 bps	34.4%	32.4%	200 bps	2.6%	3.8%	(114) bps	1.5%	0.2%	134 bps
Q/Q	6.2%	16.1%	(989) bps												
Gross margin %	42.2%	41.1%	107 bps	41.8%	41.2%	58 bps	41.8%	41.2%	57 bps	41.6%	40.7%	98 bps	42.1%	39.9%	220 bps
EBIT margin %	28.9%	27.8%	112 bps	29.9%	29.1%	78 bps	29.9%	29.1%	79 bps	28.7%	27.7%	95 bps	28.0%	25.8%	214 bps
Tax rate	16.0%	15.0%	(100) bps	14.8%	15.4%	62 bps	14.3%	14.9%	62 bps	16.0%	16.0%	0 bps	16.2%	16.2%	1 bps
Diluted share count	16,639	16,643	0.0%	16,713	16,716	0.0%	16,885	16,893	0.0%	16,297	16,302	0.0%	15,760	15,764	0.0%
EPS	\$1.26	\$1.24	1.7%	\$5.87	\$5.61	4.5%	\$5.64	\$5.36	5.2%	\$5.60	\$5.39	3.9%	\$5.72	\$5.19	10.2%
Segment revenue															
iPhone	\$46,280	\$44,200	4.7%	\$210,148	\$202,743	3.7%	\$199,385	\$193,640	3.0%	\$201,480	\$190,125	6.0%	\$192,260	\$178,125	7.9%
iPad	6,360	7,000	-9.1%	29,610	31,457	-5.9%	29,970	30,392	-1.4%	29,125	31,000	-6.0%	27,555	27,555	0.0%
Mac	8,778	11,058	-20.6%	34,913	40,652	-14.1%	34,790	38,280	-9.1%	33,190	41,704	-20.4%	34,320	43,185	-20.5%
Services	17,599	17,663	-0.4%	70,708	69,862	1.2%	67,747	66,832	1.4%	76,186	76,422	-0.3%	87,143	87,328	-0.2%
Wearables, Home and Accessories	7,452	7,324	1.7%	36,247	33,165	9.3%	37,034	34,293	8.0%	38,639	37,865	2.0%	43,005	41,507	3.6%
Units (M)															
iPhone	52.0	52.0	0.0%	232.0	231.0	0.4%	231.0	230.0	0.4%	225.0	224.0	0.4%	220.0	216.0	1.9%
iPad	12.0	14.0	-14.3%	58.0	62.0	-6.5%	59.0	60.0	-1.7%	59.0	63.0	-6.3%	57.0	57.0	0.0%
Mac	6.2	7.5	-18.2%	25.9	29.1	-11.1%	26.8	28.6	-6.3%	24.2	29.6	-18.2%	25.0	30.5	-18.2%
Cash flow from operations	\$31,201	\$30,290	3.0%	\$111,698	\$110,045	1.5%	\$115,039	\$113,662	1.2%	\$106,719	\$103,584	3.0%	\$107,712	\$99,692	8.0%
Free cash flow	\$28,607	\$27,673	3.4%	\$102,135	\$100,260	1.9%	\$104,583	\$103,021	1.5%	\$96,647	\$93,570	3.3%	\$96,991	\$89,170	8.8%
Free cash flow as % of revenue	33.1%	31.7%	137 bps	26.8%	26.5%	23 bps	28.3%	28.3%	0 bps	25.5%	24.8%	71 bps	25.2%	23.6%	163 bps

Source: Barclays Research.

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Ciena Corporation (CIEN)

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## IMPORTANT DISCLOSURES

## Apple, Inc. (AAPL / AAPL)

USD 146.77 (27-Jul-2021)

Stock Rating

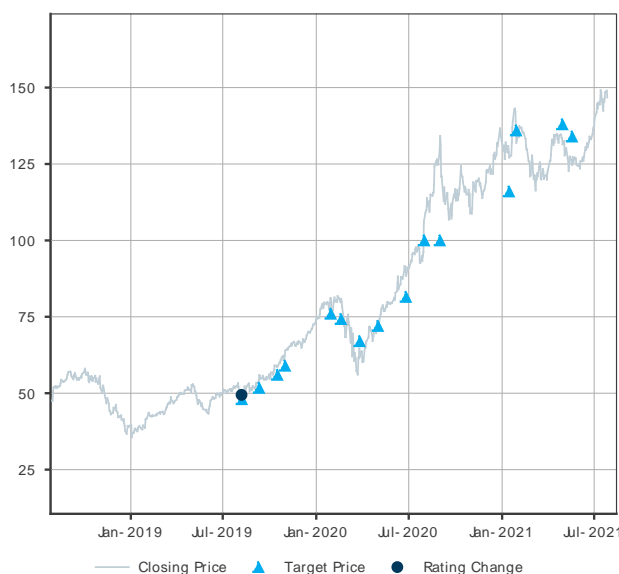
EQUAL WEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - USD (as of 27-Jul-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
18-May-2021	124.85		134.00
29-Apr-2021	133.48		138.00
28-Jan-2021	137.09		136.00
14-Jan-2021	128.91		116.00
31-Aug-2020	129.04		100.00
31-Jul-2020	106.26		100.00
25-Jun-2020	91.21		81.50
01-May-2020	72.27		72.00
26-Mar-2020	64.61		67.00
18-Feb-2020	79.75		74.25
29-Jan-2020	81.09		76.00
31-Oct-2019	62.19		59.00
16-Oct-2019	58.59		56.00
10-Sep-2019	54.18		51.75
07-Aug-2019	49.76	Equal Weight	48.00

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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**Valuation Methodology:** We rate AAPL Equal Weight with a price target of \$142. While many are excited about Services and Wearables, we remain cautious on high Street expectations for the 5G iPhone cycle. We believe EPS growth will come mostly from buybacks. Our \$142 PT is based on a 25x P/E multiple on our CY22e EPS estimate of \$5.67.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** 1) iPhone growth. Apple market share peaked several years ago, and the company has not had a hit phone in a few years. 5G iPhones could help AAPL regain share after Huawei sanctions, but the hefty valuation already prices in a very successful iPhone 5G cycle, leading to more downside than upside risks.

2) Installed base impact on Services. Services have been a great growth business, but if the installed base grows more slowly or starts to shrink the segment could be materially affected.

3) Valuation. AAPL is trading at all time high multiples despite little operating income growth, falling gross and operating margins, and share losses in the core business.

4) Regulation. We expect to see increasing regulatory scrutiny on AAPL's practices in its App Store. Increasing regulation could lead to a change in its business model, or lower cut from app developers.



**Other Material Conflicts:** One of the Research Analysts on the fundamental equity coverage team (and/or a member of his or her household) has a long position in Vanguard Information Technology Index Fund (NYSEARCA:VGT) which primary holding is in Apple Inc. (NASDAQ: AAPL).

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