

US EQUITY RESEARCH

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Apple Inc

Analyst
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Phenomenal new products and technological barrier to support growth

Company Overview

Apple Inc. (Apple) designs, manufactures, and markets smartphones, personal computers, tablets, wearables, and accessories and sells a range of related services. The company's products include iPhone (52.3% of FY23 revenue), Mac (7.7%), iPad (7.4%), wearables, home, and accessories (10.4%) like AirPods, Apple TV, Apple Watch, HomePod, and others. The company also has an online services business (22.2%), which provides services like 1) operating platforms like the App Store and iTunes, which allow customers to purchase and download applications and digital content; 2) offering digital content through subscription-based services, including Apple Arcade, Apple Music, Apple News+, Apple TV+, and Apple Fitness+; and 3) providing a range of other services, such as AppleCare, iCloud, Apple Card, and Apple Pay.

Investment Overview

AI iPhone to boost premium model mix. We expect iPhone 16 Pro to set the standard for AI smartphones, with Android manufacturers likely to follow its lead in specification upgrades and user data security infrastructure for their AI-flagship models launching this year. We expect an acceleration in shipment volume growth driven by the implement of AI in the iPhone16 Pro and Pro Max, expecting in October 2024 as Apple commands a 71% share of the premium market with over 150mn users. We maintain the iPhone shipment forecast of 92mn units in 4Q24, resulting in total shipments of 240.5mn units in 2024, ahead of the market consensus by 5%. Premium model exclusive AI is expected to improve the premium model mix to 65% by 2024 from 60% in 2023. We anticipate a boost in earnings growth for FY9/25F, driven by gross margin expansion, as the full impact of the phone replacement cycle is captured, boosted by Apple's first AI phone.

China Weakness. Apple's iPhone sales in China have declined by 17% y/y in 2024, affected by intense competition from local brands like Vivo, Huawei, and Xiaomi, who are capitalising on innovation and targeted subsidies. The gradual implementation of AI features has further delayed iOS user upgrades. Despite retaining leadership in the high-end market, Apple faces persistent challenges, with the outlook remaining subdued until the anticipated launch of the significantly upgraded next-generation iPhone 17/Air, featuring an enhanced AI Siri.

The technology breakthrough in semiconductor design. Apple has made significant strides in semiconductor design, starting with the launch of its first ARM-based M1 chip in November 2020, moving away from Intel chips. The M1-equipped Macs offer superior performance, battery life, and heat efficiency compared to their Intel-based predecessors, driving a 31% increase in Mac sales in 4Q20. Apple has since expanded the M series chips to the iPad Pro and is expected to continue advancing its chip technology for iPhones, Apple Watch, and headsets, strengthening its competitive edge across product lines.

We are HOLD on AAPL with a TP of US\$210 per share. Our TP is based on 28.5x forward PE, 0.5 SD above its peers' average due to its strong user loyalty, which supports long-term product growth and higher shareholder return compared to its peers. AAPL's share price has outperformed the NASDAQ year-to-date, and we believe the short-term drivers have already been factored in. We expect AAPL to achieve steady growth driven by the success of its promising premiumisation and leading product technology in the long run.

Risks

Apple Intelligence launch delays may harm Apple's growth. The launch of Apple Intelligence (AI) in languages other than US English is now expected at some point in 2025. Any further delays in releasing these additional language versions could negatively affect consumer sentiment and sales of iPhone16 in non-English-speaking regions.

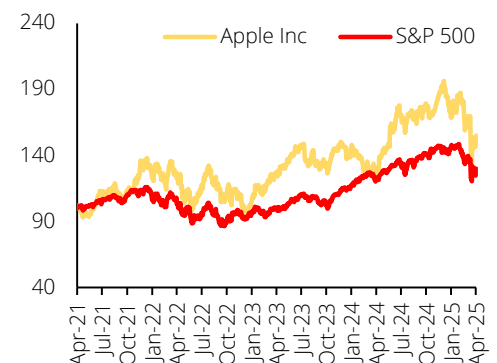
Key Financial Data

Bloomberg Ticker	AAPL US
Sector	Information Technology
Share Price (USD)	199.74
DBS Rating	HOLD
12-mth Target Price (USD)	210.00
Market Cap (USDb)	2901.7
Volume (m shares)	46.7
Free float (%)	97.9
Dividend yield (%)	0.5
Net Debt to Equity (%)	-66.0
Fwd. P/E (x)	29.3
P/Book (x)	63.0
ROE (%)	157.4

Closing Price as of 23 Apr 2025

Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance (Indexed)



Source: Bloomberg

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Financial Summary (USD MN)

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Sales	394,328	383,285	391,035	408,469	440,601
% y/y	7.8	(2.8)	2.0	4.5	7.7
Gross Profit	170,782	169,148	180,683	191,680	208,244
% y/y	11.7	(1.0)	6.8	6.1	8.5
EBITDA	130,541	125,820	134,661	142,773	155,680
% y/y	8.6	(3.6)	7.0	6.0	9.0
Net Profit (Loss)	99,803	96,995	93,736	109,736	119,711
% y/y	5.4	(2.8)	(3.4)	15.7	8.8
FCF	111,443	99,584	108,807	117,466	132,082
% y/y	19.9	(10.6)	9.3	10.8	12.1
CAPEX	10,708	10,959	9,447	10,830	12,005
% y/y	(3.4)	2.3	(13.8)	14.8	10.8
EBITDA Margin (%)	33.1	32.8	34.4	34.9	35.3
Net Margin (%)	25.3	25.3	24.0	26.9	27.2
ROA (%)	28.4	27.5	26.1	30.6	32.8
ROE (%)	175.5	171.9	157.4	179.7	177.2
Tax Rate (%)	16.2	14.7	24.1	15.5	16.2

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
P/E	22.6	27.9	38.3	29.3	26.1
P/B	44.5	43.6	63.0	46.3	35.3
Dividend Yield	0.7	0.6	0.4	0.5	0.5
EV/EBITDA (x)	17.6	21.6	26.6	22.8	20.9
FCF Yield %	4.9	3.7	3.0	3.6	4.2

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2022A	FY2023A	FY2024A	FY2025F	FY2026F
Debt / Equity	237.0	178.8	187.2	152.8	143.6
Net Debt / Equity	1.4	0.8	0.7	0.2	0.0
Debt / Assets	34.0	31.5	29.2	27.5	25.2
Net Debt / Assets	0.2	0.1	0.1	0.0	0.0
EBITDA / Int Exp	44.5	32.0	33.5	41.2	46.1
Debt / EBITDA	0.2	0.1	0.2	0.2	0.2
ST Debt / Total Debt (%)	0.9	0.9	0.8	0.7	0.6
[Cash + CFO] / ST Debt	8.1	10.9	8.8	12.0	15.2
Receivables Days	56.4	58.1	61.8	44.8	45.0
Days Payable	59.3	59.6	64.4	57.6	57.6
Inventory Days	4.6	6.0	6.8	6.2	6.3

Source: Visible Alpha

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Target Price & Ratings History



Source: DBS

Analyst: Jim Au

#	Date of Report	Closing Price	12-m Target Price	Rating
1	03 May'24	183.38	209.00	BUY
2	28 May'24	189.99	243.00	BUY
3	21 Jan'25	229.98	210.00	FULLY VALUED

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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