

Apple Inc (AAPL)



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| My Stock Rating | Buy |
|--------------------------------|---------------------|
| 12 – 18 month Price Target | \$225.50 |
| TSX:AAPL Today | \$190.29 |
| 52-Week Range | \$149.16 - \$219.18 |
| Shares Outstanding | 746.1M |
| ROE/ROA | 45.37%/12.22% |
| Market Cap | \$1.04T |
| Dividend/Div Yield | \$2.92/1.36% |
| Common Equity | \$16.7B |
| LT Debt | \$11.9B |
| Beta | 1.14 |
| P/E Ratio | 19.78 |
| Numbers independently verified | |

Investment Thesis

My recommendation is a **BUY**.

Apple Inc is one of the most successful companies of the last half century (\$1.04 Trillion Market Cap). But the real story of Apple's success goes beyond Steve Jobs' closed-system hardware/software offering. Apple has evolved with the leadership of Tim Cook in various key strategic areas. Here is why I am bullish on Apple: Many people evangelize Apple as the proto-typical market darling because the brand itself has intangible market value (goodwill) that exceeds almost any other US company. Global consumers continue to be persuaded by the aesthetic of Apple. Strong revenue in emerging markets as well as developed markets suggest a retained premium valuation. There are doubts because human nature wants a dramatic, negative story. It is human nature to want to take Apple down but for the next 18 months, Apple has a lot to look forward to. The only snags are heuristics; for example, the trade spats with China which is where Apple builds the iPhone series may drive prices up for iPhone consumers. However, consumer demand will absorb costs. The company is resilient and poised for further growth in emerging markets like India where smart phone are still not common place.

Evidence for Thesis

- Revenues, EBIT, EPS are all up at 17%, 17% and 40% according to multiple sources (Macquarie Capital);
- Revenue in China is up 19% and overall revenue is up 17% which is impressive for a large ("mature") company, that's massive growth;
- iPhone X revenues were up 20% to \$29.9Billion, 41.3MM units;
- Revenues have doubled year on year in India, where smart phones are beginning to penetrate an unrealized market;
- Revenue has grown in Mexico, the Middle East, Turkey and Eastern Europe by up to 30% this last year.

Key Worries

- iPhone growth may stall unless the iPhone this September is a killer product ALSO Smartphone are 60% of sales;
- The personal computer market is still dominated by PC/Microsoft user experiences such that Excel and other tools are used in the majority of companies, Apple will continue to struggle to expand its hardware in business contexts;
- Further to the above point, Mac & iPod sales are slowing down, and so the closed-system has limits they have always existed in the late-1980s etc.
- Trade concerns which are a mixed bag that suggests bad outcomes for Apple's overseas production, unless manufacturing is moved over state-side (a common economic nationalism view).

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Corporate Strategy

Five Forces

The Threat of New Entrance [Medium]

Certainly, we know that the computer history is very much susceptible to new entrants into the market. Silicon Valley is not the only place in which computers are being developed for new hardware manufacturers. Apple has been very effective in new markets particular China where economic growth is correlated with private/public capital investment which helps in these fields + manufacturing experience and direct operational skills retained locally. New entrants from China are a primary concern.

Rivalry [Low]

In terms of rivalries, profit erosion has not been the recurring outcome. The market for smart phones continues to grow allowing for more players without much market share disruption. Meanwhile Apple has a premium brand with a strong user-experience focused on defining themselves as the computer for the rest of us. Operationally, Apple has a supply chain that competes with rivals effectively. Google offers the most robust competing operating platform but is a very different beast with a very diversified set of service and product offerings. Their rivalry is not an intense one.

Threats of Substitution [Low]

As long as the sales volume per smart phone does not decline dramatically, Apple is well positioned to continue to innovate in an era where smart phone

addiction is a common public policy concern. Microsoft software offering coupled with a myriad of PC producers constitutes a direct competitor. Microsoft is considered a monopoly if you exclude Apple but clearly Apple is a substitute and vice versa.

Supplier Power [Low]

Apple is likely to command supplier loyalty thanks to continued scale. Apple is not likely to apply undue pressure on suppliers in the manner that Amazon or others might. There are vendors, developers and others involved in the WWDC conference this year, quite a bit smaller or less exciting relatively speaking but developers are still actively focused on the Apple market as a priority over Android. This preference is due to the fact that Apple is the premium product category with scale, unlike the market in the 1990s where the closed-system nearly destroyed Apple's viability. The closed-system is only truly effective if your product can gain critical mass of customers and developers, Apple is likely to continue to grow because of their fierce obsession with product quality controls.

Buyer Power [Low]

The revenue results indicate that buyers are willing to absorb costs in order to enjoy the value that Apple inputs into every product they release. Apple customers have always been treated well by Apple in exchange for a premium price. Generally, Apple customers have very low buyer power. When a new Apple release occurs, there are guaranteed line ups outside the Apple store. That loyalty operates on a spectrum but that affinity is considerably more intense than for most companies.

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