

# Apple Inc (AAPL)

FORECAST REDUCTION

FOCUS LIST STOCK

Rating	<b>OUTPERFORM</b>
Price (14-Jun-16, US\$)	97.46
Target price (US\$)	150.00
52-week price range	132.07 - 90.34
Market cap (US\$ m)	533,829.84

\*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

\*Target price is for 12 months.

## Research Analysts

Kulbinder Garcha

William Chu

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## Factoring in a muted 7 and the 8 super cycle

- Reiterate Outperform, adjusting estimates.** As details emerge earlier than usual, we now factor in the impact of the iPhone 7 and iPhone 8 (rather than being called the 7s). We conclude that the iPhone 7 will prove to be a modest upgrade, with significant innovations pushed out to the iPhone 8. While this does not change our view of the LT EPS power of the business, we cut our CY16 EPS est by less than 1% (to \$7.80) and our CY17 est by 5% (to \$9.67), and introduce our CY18 EPS est of \$12.32. Given high retention rates, a superior ecosystem, a multi-product compute advantage and a growing services business, we believe FCF of ~\$67bn should be sustainable LT. We reiterate our OP rating and \$150 TP. (Please see the accompanying slide deck.)
- iPhone 7 muted cycle impact (and factoring in the SE ramp).** We see the iPhone 7 coming with modest feature improvements (thinner, more storage, dual camera for Plus). We factor this into our installed base model, keeping the replacement rate at 32 months and modeling down new users. We note that iPhone units will still grow from this year's base, but the recovery is likely to be more muted, up 4.2% yoy to 215mn. Additionally, we factor in the near-term success of the iPhone SE, bringing down ASPs and GM due to a slower 6s/6s Plus cycle. We now model ASP/GM of \$653/38.7%, respectively.
- The iPhone 8 super cycle.** We see a number of features and upgrades, including an OLED screen, full glass display, no home button, enhanced Taptic Engine, improved camera, and wireless charging in the iPhone 8. While this is some time away, we believe the iPhone 8 will be feature and specification rich. These features, coming potentially in September 2017 and even if in just a Pro version of the device, should drive an accelerated replacement cycle and draw in new users and should result in mix improvements. As such, we now assume iPhone units in CY18 of 250mn, up 16.1% yoy, ASPs of \$667 and conservatively model GM at 39.0%.
- Valuation.** Acknowledging the higher level of uncertainty around the quality of the product cycle near-term, we still see solid risk reward arguments. We see a trough valuation on a P/E ex-cash basis of 8.5x and add back ~\$15/share of fully taxed net cash, suggesting support at \$90. Long-term, given Apple's Services growth and an installed base that could grow to ~1.4bn long-term, we see a sustainable, annuity like FCF of \$67bn LT, implying a valuation of \$150.

### Share price performance



On 14-Jun-2016 the S&P 500 INDEX closed at 2075.32  
Daily Jun15, 2015 - Jun14, 2016, 06/15/15 = US\$126.92

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	3.06	2.33	1.85	1.96
2016E	3.28	1.90	1.39	1.62
2017E	2.89	2.07	1.88	2.30

### Financial and valuation metrics

Year	9/14A	9/15A	9/16E	9/17E
EPS (Excl. ESO) (US\$)	6.43	9.20	8.19	9.15
EPS (CS adj., )	6.43	9.20	8.19	9.15
Prev. EPS (CS adj., US\$)	-	-	8.18	9.64
P/E (CS adj.) (x)	15.2	10.6	11.9	10.7
P/E rel. (CS adj., %)	-	60.2	68.2	69.4
Revenue (US\$ m)	182,795.0	233,715.0	213,632.0	217,683.7
EBITDA (US\$ m)	60,449.0	82,487.0	68,929.8	70,404.4
Net Debt (US\$ m)	10,218	22,861	23,137	4,286
OCFPS (US\$)	9.72	14.00	11.98	13.80
P/OCF (x)	10.4	7.9	8.1	7.1
Number of shares (m)	5,477.42			
BV/share (Next Qtr., US\$)	23.1			
Net debt (Next Qtr., US\$ m)	24,889.0			
Dividend yield (%)	-			
Price/Sales (x)				2.49
P/BVPS (x)				4.3
Dividend (current, US\$)				-

Source: Company data, Thomson Reuters, Credit Suisse estimates

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# Apple Inc (AAPL)

Price (14 Jun 2016): **US\$97.46**; Rating: **OUTPERFORM**; Target Price: **US\$150.00**; Analyst: **Kulbinder Garcha**

Income Statement	9/14A	9/15A	9/16E	9/17E
Revenue (US\$ m)	182,795.0	233,715.0	213,632.0	217,683.7
EBITDA	60,449	82,487	68,930	70,404
Depr. & amort.	(7,946)	(11,257)	(9,973)	(8,165)
EBIT (US\$)	52,503	71,230	58,956	62,239
Net interest exp	-0	-0	-0	-0
Associates	-	-	-	-
Other adj.	980	1,285	1,600	1,600
PBT (US\$)	53,483	72,515	60,556	63,839
Income taxes	(13,973)	(19,121)	(15,381)	(16,215)
Profit after tax	39,510	53,394	45,175	47,624
Minorities	-	-	-	-
Preferred dividends	-	-	-	-
Associates & other	0	0	0	0
Net profit (US\$)	39,510	53,394	45,175	47,624
Other NPAT adjustments	0	0	0	0
Reported net income	39,510	53,394	45,175	47,624
Cash Flow	9/14A	9/15A	9/16E	9/17E
EBIT	52,503	71,230	58,956	62,239
Net interest	-0	-0	-0	-0
Cash taxes paid	-	-	-	-
Change in working capital	7,047	11,647	3,518	11,702
Other cash & non-cash items	163	(1,611)	3,610	(2,050)
Cash flow from operations	59,713	81,266	66,085	71,891
CAPEX	(9,571)	(11,247)	(10,744)	(10,545)
Free cashflow to the firm	50,142	70,019	55,340	61,346
Aquisitions	-	-	-	-
Divestments	-	-	-	-
Other investment/(outflows)	(13,008)	(45,027)	(28,162)	0
Cash flow from investments	(22,579)	(56,274)	(38,906)	(10,545)
Net share issue/(repurchase)	(44,270)	(34,710)	(27,872)	(29,179)
Dividends paid	(11,126)	(11,561)	(12,054)	(13,317)
Issuance (retirement) of debt	11,960	27,114	50,081	30,000
Other	(27,502)	(18,478)	(37,609)	(30,000)
Cashflow from financing activities	(70,938)	(37,635)	(27,454)	(42,496)
Effect of exchange rates	-	-	-	-
Changes in Net Cash/Debt	(33,804)	(12,643)	(276)	18,850
Net debt at start	(23,586)	10,218	22,861	23,137
Change in net debt	33,804	12,643	276	(18,850)
Net debt at end	10,218	22,861	23,137	4,286
Balance Sheet (US\$)	9/14A	9/15A	9/16E	9/17E
Assets				
Cash & cash equivalents	25,077	41,601	91,735	140,586
Account receivables	17,460	16,849	9,944	9,985
Inventory	2,111	2,349	1,324	1,583
Other current assets	23,883	28,579	18,396	18,673
Total current assets	68,531	89,378	121,400	170,826
Total fixed assets	20,624	22,471	25,637	30,059
Intangible assets and goodwill	8,758	9,009	9,092	9,092
Investment securities	-	-	-	-
Other assets	133,926	169,621	181,324	182,039
Total assets	231,839	290,479	337,453	392,016
Liabilities				
Accounts payables	30,196	35,490	33,014	35,504
Short-term debt	6,308	10,999	10,498	10,498
Other short term liabilities	26,944	34,121	27,857	27,035
Total current liabilities	63,448	80,610	71,369	73,037
Long-term debt	28,987	53,463	104,374	134,374
Other liabilities	27,857	37,051	31,346	42,671
Total liabilities	120,292	171,124	207,090	250,082
Shareholder equity	111,547	119,355	130,364	141,934
Minority interests	-	-	-	-
Total liabilities and equity	231,839	290,479	337,453	392,016
Net debt	10,218	22,861	23,137	4,286

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	9/14A	9/15A	9/16E	9/17E
No. of shares (wtd avg)	6,145	5,806	5,518	5,208
CS adj. EPS	6.43	9.20	8.19	9.15
Prev. EPS (US\$)	-	-	8.18	9.64
Dividend (US\$)	0.00	0.00	0.00	1.00
Dividend payout ratio	0.00	0.00	0.00	10.93
Free cash flow per share	8.16	12.06	10.03	11.78
Earnings	9/14A	9/15A	9/16E	9/17E
Sales growth (%)	7.0	27.9	(8.6)	1.9
EBIT growth (%)	7.2	35.7	(17.2)	5.6
Net profit growth (%)	6.7	35.1	(15.4)	5.4
EPS growth (%)	13.6	43.0	(11.0)	11.7
EBITDA margin (%)	33.1	35.3	32.3	32.3
EBIT margin (%)	28.7	30.5	27.6	28.6
Pretax margin (%)	29.3	31.0	28.3	29.3
Net margin (%)	21.6	22.8	21.1	21.9
Valuation	9/14A	9/15A	9/16E	9/17E
EV/Sales (x)	2.98	2.38	2.61	2.47
EV/EBITDA (x)	9.2	6.7	8.1	7.9
EV/EBIT (x)	10.4	7.8	9.4	8.6
P/E (x)	15.2	10.6	11.9	10.7
Price to book (x)	5.3	4.7	4.1	3.6
Asset turnover	0.8	0.8	0.6	0.6
Returns	9/14A	9/15A	9/16E	9/17E
ROE stated-return on (%)	33.6	46.2	36.2	35.0
ROIC (%)	0.3	0.4	0.3	0.3
Interest burden (%)	1.02	1.02	1.03	1.03
Tax rate (%)	26.1	26.4	25.4	25.4
Financial leverage (%)	0.32	0.54	0.88	1.02
Gearing	9/14A	9/15A	9/16E	9/17E
Net debt/equity (%)	9.2	19.2	17.7	3.0
Net Debt to EBITDA (x)	0.2	0.3	0.3	0.1
Interest coverage ratio (X)				
Quarterly EPS	Q1	Q2	Q3	Q4
2015A	3.06	2.33	1.85	1.96
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## Share price performance



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**Companies Mentioned** (Price as of 14-Jun-2016)  
**Apple Inc** (AAPL.OQ, \$97.46, OUTPERFORM, TP \$150.0)

## Disclosure Appendix

### Important Global Disclosures

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### 3-Year Price and Rating History for Apple Inc (AAPL.OQ)

AAPL.OQ	Closing Price	Target Price	Rating
Date	(US\$)	(US\$)	
24-Jul-13	62.94	75.00	O
11-Sep-13	66.83	75.00	N
28-Jan-14	72.42	71.43	
24-Apr-14	81.11	80.00	
03-Jun-14	91.08	85.71	
24-Jun-14	90.28	96.00	
14-Oct-14	98.75	110.00	
13-Jan-15	110.22	130.00	O
05-Feb-15	119.94	140.00	
26-Mar-15	124.24	145.00	
28-Oct-15	119.27	140.00	
04-Apr-16	111.12	150.00	



\* Asterisk signifies initiation or assumption of coverage.

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Neutral/Hold*	34%	(18% banking clients)
Underperform/Sell*	10%	(40% banking clients)
Restricted	2%	

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#### Valuation Methodology and Risks: (12 months) for Apple Inc (AAPL.OQ)

**Method:** We derive our target price of \$150 based on our LT Services DCF given our view around Apple's high retention rate, complete eco-system and a growing installed base. As such, we maintain our Outperform rating.

**Risk:** Main risks to our TP of \$150 and Outperform rating include i) slowing smartphone market in unit terms. ii) competitive pressures from other handset manufacturers who are relying on Android operating system, iii) failure to launch innovative products and iv) failure to maintain key media distribution for iTunes and v) regulatory risk. We believe all or any of these potential events may impact our TP and/or rating.

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