



Apple Inc. (AAPL)

Updated May 15th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$186	5 Year CAGR Estimate:	8.2%	Quality Percentile:	N/A
Fair Value Price:	\$174	5 Year Growth Estimate:	8.0%	Momentum Percentile:	N/A
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Total Return Percentile:	N/A
Dividend Yield:	1.6%	5 Year Price Target	\$255	Valuation Percentile:	

Overview & Current Events

Apple is a technology company that designs, manufactures and sells products such as smartphones, personal computers and portable digital music players. Apple also has a thriving services business that sells music, apps, etc. Apple was founded in 1976, is headquartered in Cupertino, CA and is currently valued at \$925 billion.

Apple's most recent quarterly results were announced on May 1, the company reported earnings per share of \$2.73, an increase of 30% year over year. Revenues during the quarter totaled \$61 billion (up 16% year over year) and announced a 16% dividend increase as well as a \$100 billion extension to its share repurchase program.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.77	\$0.90	\$2.16	\$3.95	\$6.31	\$5.68	\$6.45	\$9.22	\$8.31	\$9.21	\$11.20	\$16.45
DPS	-	-	-	-	\$0.38	\$1.63	\$1.81	\$1.98	\$2.18	\$2.40	\$2.92	\$4.70

Apple is the largest publicly traded corporation in the world. Since 2012 Apple's profits per share have grown by 7.9% annually, which is a solid growth rate, although it is substantially lower than the growth rates Apple produced in 2008-2012. The bigger the bottom line gets, the harder it gets to grow at a meaningful pace.

Going forward Apple's earnings growth will be driven by several factors. One of those are the ongoing iPhone releases. In the US (where Apple has a very high market share) and other developed countries the market is relatively saturated, but in emerging countries, where consumers have rising disposable incomes Apple can increase the amount of smartphones it is selling. Apple also has been increasing the selling prices of its phones over the last couple of years, which drives revenues further.

Another avenue for growth is Apple's services segment. This business unit, which consists of iTunes, Apple Music, the App Store, iCloud, Apple Pay, etc., has recorded a 31% revenue increase during the most recent quarter and produces close to \$40 billion in annual revenues alone. Services revenues are growing substantially faster than all other segments, and at the same time this business produces recurring revenues and is not dependent on ongoing successful rollouts of new products (contrary to the iPhone, iPad & Mac business units).

Another factor that has played a role in the past is the shrinking share count: Due to its immense cash flows Apple is able to repurchase hundreds of millions of shares, the resulting lower share count means that each remaining share's portion of all profits rises. Apple will continue to lower its share count further. This May they increased the repurchase authorization by another \$100 billion (enough to buy back 11% of all shares).

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	30.4	19.2	15.2	12.4	12.0	12.3	13.0	12.8	12.6	14.9	16.6	15.5
Avg. Yld.	-	-	-	-	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	1.6%	1.8%

Apple's price-to-earnings ratio has been surprisingly low from 2009 and onward. The market simply did not expect the company to continue steadily growing. We believe fair value for Apple is a bit higher than its 10-year historical average. Our fair value price-to-earnings ratio of 15.5 accounts for undervaluation from 2011 through 2016.

Since Apple has started to pay a dividend only a couple of years ago its dividend growth history isn't very meaningful yet, but since 2012 the dividend has been increased every year. Right now the yield is 1.6%, slightly less than the broad market's yield of 1.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	36.5%	36.2%	34.2%	37.6%	39.0%	31.1%	30.4%	31.9%	26.2%	23.5%	24.0%	25.0%
Debt/A	38.4%	33.5%	36.1%	34.5%	33.0%	40.1%	51.7%	59.0%	60.0%	64.3%	65.0%	65.0%
Int. Cov.	-	-	-	-	-	-	-	-	-	-	-	-
Payout	-	-	-	-	6.0%	28.7%	28.1%	21.5%	26.2%	26.1%	26.1%	28.6%
Std. Dev.	59.1%	31.8%	24.7%	22.1%	33.7%	27.8%	20.4%	23.2%	25.5%	19.3%	21.0%	22.0%

Apple's gross profits to assets ratio has been at a high level for years, before starting to decline considerably in 2013. At the same time Apple's debt to assets ratio has started to rise, but there is a good explanation for both trends. Apple's enormous cash generation has made Apple's cash pile grow larger and larger (which has inflated the company's asset base, and therefore led to a lower gross profits to assets ratio). Since most of that cash was held offshore (and therefore was not accessible), Apple has taken on a significant amount of debt, which has made its debt to assets ratio rise over the years. Due to this debt being covered by cash Apple is not overleveraged at all, though, and the company has produced more interest income than interest expenses, which shows that Apple holds a fortress balance sheet.

Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. That is unlikely to change, and with Apple's service business becoming bigger and bigger Apple will be able to benefit from an increasing stream of recurring revenues, which other hardware IT companies have not been able to meaningfully establish. During the last financial crisis Apple's profits rose, but that was during the hyper-growth phase, thus this is not very relevant going forward. As Apple is still highly dependent on sales of (relatively high-cost) smartphones, a big financial crisis would likely hurt its profits considerably (but only temporary).

Final Thoughts & Recommendation

Apple has become the biggest publicly traded company based on both its profits as well as its market capitalization. Going forward the combination of a solid earnings growth rate, a valuation that is not overly high and its dividend should provide decent total returns, although Apple will almost certainly not continue to deliver the explosive growth shareholders experienced over the last decade.

Total Return Breakdown by Year

