Apple Inc. (AAPL)

Updated August 1st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$191	**5 Year CAGR Estimate:**	7.6%	**Volatility Percentile:**	64.4%
Fair Value Price:	$173	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	80.5%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Valuation Percentile:**	44.3%
Dividend Yield:	1.5%	**5 Year Price Target**	$255	**Total Return Percentile:**	48.0%

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, and subscriptions. Apple was founded in 1976, is headquartered in Cupertino, CA and is currently valued at $983 billion.

Apple reported its third quarter earnings results on July 31. The company earned $2.34 during Q3, an increase of a whopping 40% year over year. Apple's revenues grew by a very compelling rate of 17%. The top line crossed $53 billion during the quarter. Apple has guided for earnings per share of roughly $2.65 for its fiscal fourth quarter.

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. In emerging countries, on the other hand, 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 third 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, which is 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	***17.1***	***15.5***
Avg. Yld.	-	-	-	-	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	***1.5%***	***1.8%***

Apple's shares are trading at 17 times this year's earnings right now. Shares were, in our opinion, undervalued throughout the majority of the last decade. We believe that shares are fairly valued at a 15.5 times PE ratio.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Apple offers a dividend yield of 1.5% right now. Its dividend has ample room to grow further, which could make Apple attractive as an income investment in the future.

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 started declining 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. Since most of that cash was held offshore Apple has taken on a significant amount of debt, which has made its debt to assets ratio rise over the years.

Apple is not highly leveraged at all, though, thanks to its cash holdings the company generates positive interest income.

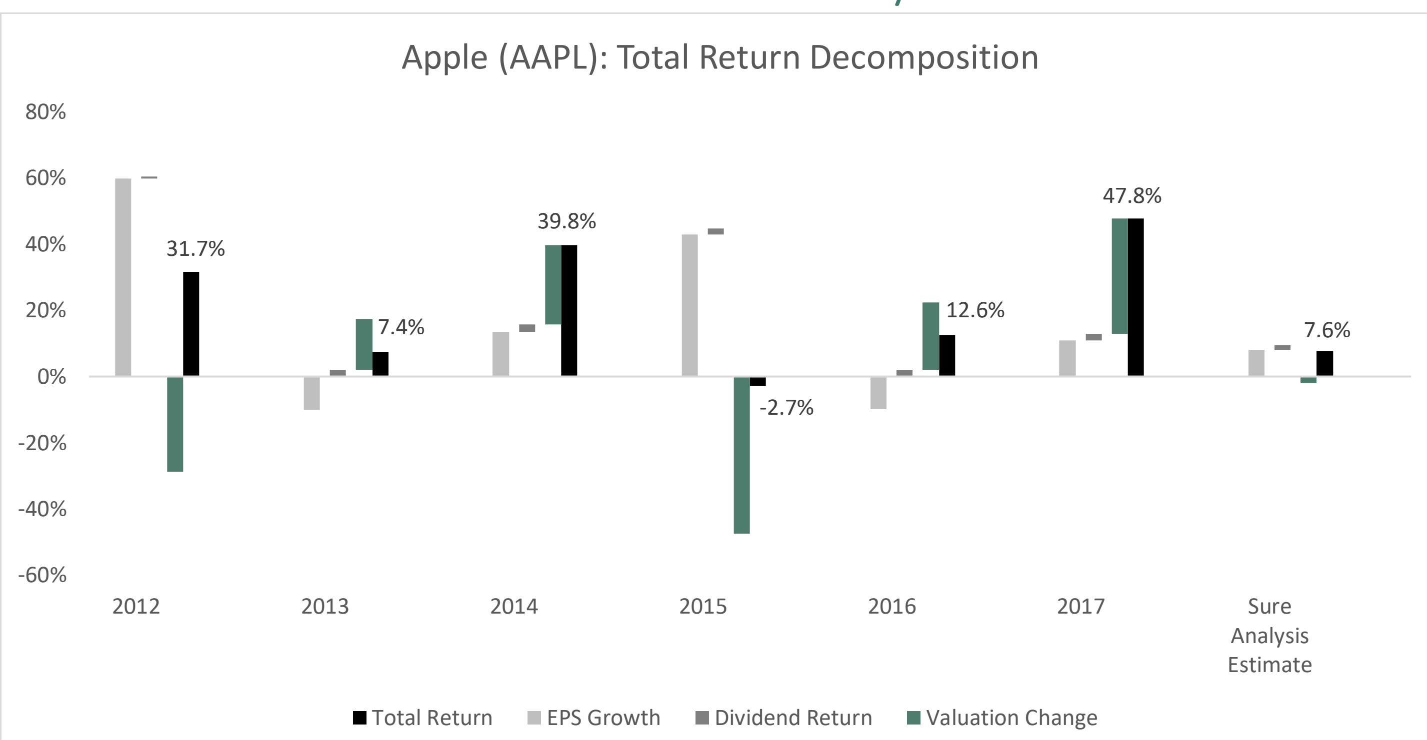
Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. That is unlikely to change, and with Apple's service business becoming bigger and bigger Apple will be able to benefit from an increasing stream of recurring revenues. During the last financial crisis Apple's profits rose, but that was during the hyper-growth phase. As Apple is still highly dependent on sales of relatively high-cost smartphones. A significant economic recession would likely hurt its profits considerably.

Final Thoughts & Recommendation

Apple truly is a giant among global corporations, and yet the company still manages to grow further. Going forward the growth outlook remains solid, and Apple will continue to return massive amounts of cash to its owners.

We forecast mid-to-high-single digits total returns over the coming years, but believe that shares are not a buy right here. In our opinion Apple's shares are a hold, and will become a buy once shares trade at or below fair value.

Total Return Breakdown by Year



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