Apple Inc. (AAPL)

Updated November 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$222	**5 Year CAGR Estimate:**	8.5%	**Volatility Percentile:**	61.7%
Fair Value Price:	$214	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	90.2%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Growth Percentile:**	71.7%
Dividend Yield:	1.3%	**5 Year Price Target**	$314	**Valuation Percentile:**	56.2%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	55.7%

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 $1.07 trillion.

Apple reported its fourth quarter (fiscal 2018) earnings results on November 1. The company generated revenues of $62.9 billion during Q4, an increase of 19.6% year over year. This highly compelling growth rate was possible due to broad growth across all geographic markets. Service revenues (which includes the App Store, Apple Music, and other recurring income streams) grew by 27% year over year, hitting $10 billion. Higher average selling prices for its iPhones allowed Apple to grow its iPhone revenues by 27%. Apple's net profits grew at an even faster pace than its revenues. Due to a declining share count, Apple was able to generate earnings-per-share of $2.91 during Q4 (up 41%). For fiscal 2018 Apple generated total earnings-per-share of $11.87, a 29% increase versus fiscal 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.90	$2.16	$3.95	$6.31	$5.68	$6.45	$9.22	$8.31	$9.21	$11.87	***$13.79***	***$20.26***
DPS	-	-	-	$0.38	$1.63	$1.81	$1.98	$2.18	$2.40	$2.72	***$2.98***	***$4.40***
Shares	6300	6410	6500	6570	6290	5870	5580	5340	5130	4850	***4550***	***3850***

Apple is the largest publicly traded corporation in the world. Since 2012 Apple's earnings-per-share have grown by 11.1% annually, which is an attractive growth rate, although it is substantially lower than the growth rates Apple produced between 2008 and 2012. The bigger the bottom line gets, the harder it gets to grow at a very high pace.

Going forward Apple's earnings growth will be driven by several factors. One of these is the ongoing cycle of 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 ~30% revenue growth rate during the last couple of quarters. Services revenues are growing substantially faster than all other segments, and at the same time this business produces recurring revenues and is not cyclical.

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 should continue to lower its share count further through 2019 and beyond.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.2	15.2	12.4	12.0	12.3	13.0	12.8	12.6	14.9	19.0	***16.1***	***15.5***
Avg. Yld.	-	-	-	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	2.2%	***1.3%***	***1.6%***

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 Inc. (AAPL)

Updated November 2nd, 2018 by Jonathan Weber

Apple's shares trade at 16 times fiscal 2019's earnings right now, which is a marginal premium over our fair value estimate of 15.5 times net profits. Apple's share price has increased by more than 30% over the last year, which explains why the valuation is higher than it used to be throughout most of the last decade. Shares offer a dividend yield of 1.3%, which is not overly attractive. Apple prioritizes share repurchases over dividends, which is unlikely to change moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	36.2%	34.2%	37.6%	39.0%	31.1%	30.4%	31.9%	26.2%	23.5%	27.9%	***29.0%***	***30.0%***
Debt/A	33.5%	36.1%	34.5%	33.0%	40.1%	51.7%	59.0%	60.0%	64.3%	70.8%	***70.0%***	***65.0%***
Int. Cov.	-	-	-	-	-	-	-	-	-	-	***-***	***-***
Payout	-	-	-	6.0%	28.7%	28.1%	21.5%	26.2%	26.1%	22.9%	***21.6%***	***21.7%***
Std. Dev.	31.8%	24.7%	22.1%	33.7%	27.8%	20.4%	23.2%	25.5%	19.3%	21.8%	***22.0%***	***23.0%***

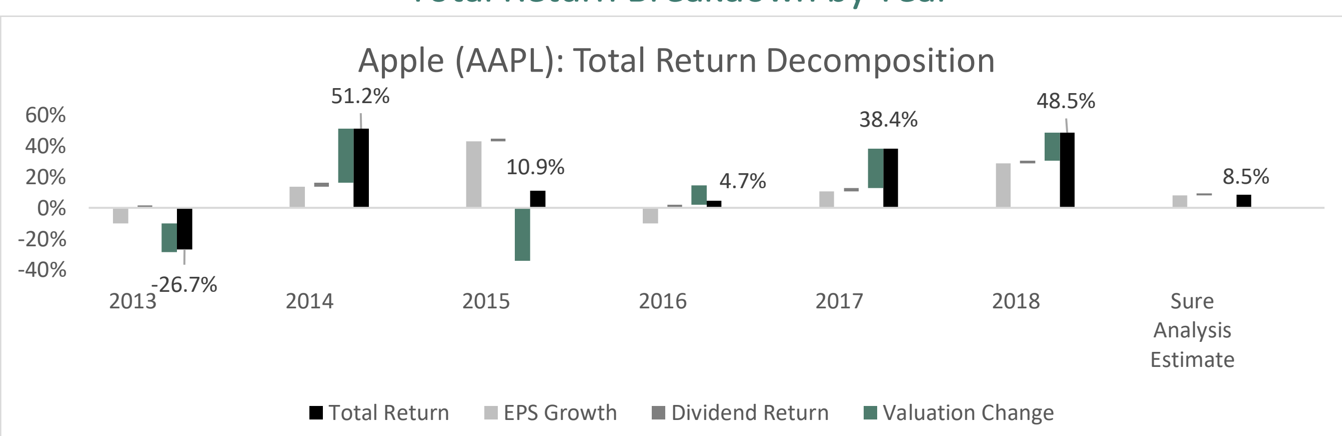
Apple's gross profits to assets ratio started declining in 2013. At the same time Apple's debt to assets ratio has started to rise. Apple's enormous cash generation has made Apple's cash pile grow, which has inflated the company's asset base. Since most of that cash was held offshore, Apple has taken 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. Due to tax law changes Apple can now access its offshore cash, which is why long term debt and cash levels have both started to decline. Going forward this trend should continue.

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. Since Apple is still highly dependent on sales of relatively high-cost smartphones, a major economic crisis would likely hurt its profits considerably.

Final Thoughts & Recommendation

Apple already is the largest technology company in the world, and yet Apple still manages to produce strong growth rates. Even though the earnings-per-share growth will come down going forward, Apple should still be able to produce solid returns for its owners. Shares trade slightly above fair value, which is why we rate them as a hold at current prices. Apple would earn a solid buy recommendation if its shares fell below fair value.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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 Inc. (AAPL)

Updated November 2nd, 2018 by Jonathan Weber

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	42.91	65.23	108.25	156.51	170.91	182.80	233.72	215.64	229.23	265.60
Gross Profit	17222	25684	43818	68662	64304	70537	93626	84263	88186	102B
Gross Margin	40.1%	39.4%	40.5%	43.9%	37.6%	38.6%	40.1%	39.1%	38.5%	38.3%
SG&A Exp.	4149	5517	7599	10040	10830	11993	14329	14194	15261	16705
D&A Exp.	734	1027	1814	3277	6757	7946	11257	10505	10157	10903
Operating Profit	11740	18385	33790	55241	48999	52503	71230	60024	61344	70898
Op. Margin	27.4%	28.2%	31.2%	35.3%	28.7%	28.7%	30.5%	27.8%	26.8%	26.7%
Net Profit	8235	14013	25922	41733	37037	39510	53394	45687	48351	59531
Net Margin	19.2%	21.5%	23.9%	26.7%	21.7%	21.6%	22.8%	21.2%	21.1%	22.4%
Free Cash Flow	8946	16474	30077	41454	44590	49900	69778	52276	50803	64121
Income Tax	3831	4527	8283	14030	13118	13973	19121	15685	15738	13372

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	47.50	75.18	116.37	176.06	207.00	231.84	290.35	321.69	375.32	365.73
Cash & Equivalents	5263	11261	9815	10746	14259	13844	21120	20484	20289	25913
Accounts Receivable	3361	5510	5369	10930	13102	17460	16849	15754	17874	23186
Inventories	455	1051	776	791	1764	2111	2349	2132	4855	3956
Goodwill & Int. Ass.	453	1083	4432	5359	5756	8758	9009	8620	8015	N/A
Total Liab. ($B)	15.86	27.39	39.76	57.85	83.45	120.29	170.99	193.44	241.27	258.58
Accounts Payable	5601	12015	14632	21175	22367	30196	35490	37294	49049	55888
Long-Term Debt ($B)	0	0	0	0	16.96	35.30	64.33	87.03	115.68	114.48
Total Equity ($B)	31.64	47.79	76.62	118.21	123.55	111.55	119.36	128.25	134.05	107.15
D/E Ratio	0	0	0	0	0.1373	0.3164	0.539	0.6786	0.863	1.0685

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	19.7%	22.8%	27.1%	28.5%	19.3%	18.0%	20.5%	14.9%	13.9%	16.1%
Return on Equity	30.5%	35.3%	41.7%	42.8%	30.6%	33.6%	46.2%	36.9%	36.9%	49.4%
ROIC	30.5%	35.3%	41.7%	42.8%	28.6%	27.5%	32.3%	22.9%	20.8%	25.3%
Shares Out.	6300	6410	6500	6570	6290	5870	5580	5340	5130	4850
Revenue/Share	6.76	10.08	16.51	23.65	26.21	29.86	40.34	39.21	43.65	53.12
FCF/Share	1.41	2.55	4.59	6.26	6.84	8.15	12.05	9.50	9.67	12.82

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.