Key Metrics

| Current Price: | $\$ 155$ | 5 Year CAGR Estimate: | $12.8 \%$ | Volatility Percentile: | $65.9 \%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Fair Value Price: | $\$ 179$ | 5 Year Growth Estimate: | $8.0 \%$ | Momentum Percentile: | $60.5 \%$ |
| \% Fair Value: | $87 \%$ | 5 Year Valuation Multiple Estimate: | $2.9 \%$ | Growth Percentile: | $73.6 \%$ |
| Dividend Yield: | $1.9 \%$ | 5 Year Price Target | $\$ 263$ | Valuation Percentile: | $59.4 \%$ |
| Dividend Risk Score: | B | Retirement Suitability Score: | C | Total Return Percentile: | $60.5 \%$ |

## 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 $\$ 732$ billion.
Apple reported its first quarter (fiscal 2019) earnings results on January 29. The company had already pre-announced that its revenues would be lower than originally thought, thus the revenue decline was not a big surprise. Apple's revenues during the first quarter totaled $\$ 84.3$ billion, which represents a decline of $4.5 \%$ compared to the first quarter of fiscal 2018. Apple's revenue performance was quite variant across its segments: iPhone revenues declined by $15 \%$ year over year, whereas revenues of all other product groups and segments rose by a quite strong $19 \%$. Among other positives, Services revenues grew by a highly attractive $19 \%$ year over year, which drove Services revenues to a new alltime high of $\$ 10.9$ billion. Mac revenues as well as revenues for Wearables, Home, and Accessories reached all-time highs as well. During the last several years the iPhone was the main growth driver, but Q1 was vastly different: Apple's performance across its portfolio was strong, with iPhone revenues being the outlier. Apple generated earnings-per-share of $\$ 4.18$ during the first quarter, which set a new record. Earnings-per-share were up $7.5 \%$ compared to the first quarter of fiscal 2018. Apple forecasts revenues of $\$ 55$ billion to $\$ 59$ billion for the second quarter of 2019. Management also forecasts net earnings of $\$ 10.9$ billion for the second quarter, using the midpoint of the guidance range. We have lowered our earnings-per-share estimate for 2019 after Apple's first quarter earnings release.

Growth on a Per-Share Basis

| Year | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ | $\mathbf{2 0 1 9}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| EPS | $\$ 0.90$ | $\$ 2.16$ | $\$ 3.95$ | $\$ 6.31$ | $\$ 5.68$ | $\$ 6.45$ | $\$ 9.22$ | $\$ 8.31$ | $\$ 9.21$ | $\mathbf{\$ 1 1 . 8 7}$ | $\mathbf{\$ 1 1 . 9 5}$ |
| DPS | - | - | - | $\$ 0.38$ | $\$ 17.63$ | $\$ 1.81$ | $\$ 1.98$ | $\$ 2.18$ | $\$ 2.40$ | $\$ 2.72$ | $\mathbf{\$ 2 . 9 8}$ |
| Shares | 6300 | 6410 | 6500 | 6570 | 6290 | 5870 | 5580 | 5340 | 5130 | 4850 | $\mathbf{4 5 5 0}$ |

Apple is among the largest publicly traded corporations 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, although Q1 of 2019 saw lower iPhone revenues. Apple should, in the long run, be able to grow its iPhone sales again, though. In emerging countries, where consumers have rising disposable incomes, Apple should be able to increase the amount of smartphones it is selling over the coming years. Apple also has been increasing the selling prices of its phones over the last couple of years, which is a tailwind for revenues. 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 $\sim 20 \%$ revenue growth rate during the last couple of quarters. Services revenues are growing substantially faster than other segments, and at the same time this business produces high-margin 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. 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 January 29th, 2019 by Jonathan Weber Valuation Analysis

| Year | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ | Now |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Avg. P/E | 19.2 | 15.2 | 12.4 | 12.0 | 12.3 | 13.0 | 12.8 | 12.6 | 14.9 | 19.0 | $\mathbf{1 3 . 0}$ |
| Avg. Y/d. | - | - | - | $0.5 \%$ | $2.3 \%$ | $2.2 \%$ | $1.7 \%$ | $2.1 \%$ | $1.8 \%$ | $2.2 \%$ | $\mathbf{1 . 9 \%}$ |
| A.6\% |  |  |  |  |  |  |  |  |  |  |  |

Apple's shares trade for 13 times this year's earnings right now, assuming Apple earns $\$ 11.95$ per share, which is the consensus analyst estimate for fiscal 2019. This is a quite low valuation compared to how shares were valued during 2018, and it represents a discount versus our fair value estimate. We believe that shares have upside potential towards a price to earnings multiple in the mid-teens range.

## Safety, Quality, Competitive Advantage, \& Recession Resiliency

| Year | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ | $\mathbf{2 0 1 9}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Payout | - | - | - | $6.0 \%$ | $28.7 \%$ | $28.1 \%$ | $21.5 \%$ | $26.2 \%$ | $26.1 \%$ | $22.9 \%$ | $\mathbf{2 4 . 9 \%}$ |
| $\mathbf{2}$ | $\mathbf{2 5 . 1 \%}$ |  |  |  |  |  |  |  |  |  |  |

Apple started paying dividends in 2012. Since then, the dividend has been increased regularly. The dividend growth rate was not overly high, though, but rather in line with Apple's earnings-per-share growth, which is why the dividend payout ratio has remained in the 20 s throughout the last couple of years. This makes Apple's dividend look relatively safe.
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 highcost smartphones, a major economic crisis would likely hurt its profits considerably. Apple holds a massive net-cash position ( $\$ 130$ billion at the end of Q 1 ), which is why the company balance sheet will be able to weather recessions.

## Final Thoughts \& Recommendation

Apple's share price declined substantially over the last couple of months, and shares trade at a relatively low earnings multiple now. We believe that stock buybacks and growth from its services segment should produce solid earnings-pershare growth in the long run. Because of expected total returns in the low teens, Apple earns a buy recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



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Updated January 29th, 2019 by Jonathan Weber
Income Statement Metrics

| Year | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 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 | 102 B |
| 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 | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 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 | $\mathbf{2 0 0 9}$ | $\mathbf{2 0 1 0}$ | $\mathbf{2 0 1 1}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ | $\mathbf{2 0 1 7}$ | $\mathbf{2 0 1 8}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Return on Assets | $\mathbf{1 9 . 7 \%}$ | $22.8 \%$ | $\mathbf{2 7 . 1 \%}$ | $\mathbf{2 8 . 5 \%}$ | $\mathbf{1 9 . 3 \%}$ | $18.0 \%$ | $20.5 \%$ | $\mathbf{1 4 . 9 \%}$ | $\mathbf{1 3 . 9 \%}$ | $16.1 \%$ |
| 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.

## Disclaimer

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