

Apple Inc. (AAPL)

Updated January 29th, 2019 by Jonathan Weber

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:	В	Retirement Suitability Score:	С	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 all-time 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	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	\$11.95	\$17.56
DPS	-	-	-	\$0.38	\$1.63	\$1.81	\$1.98	\$2.18	\$2.40	\$2.72	<i>\$2.98</i>	\$4.40
Shares	6300	6410	6500	6570	6290	5870	5580	5340	5130	4850	4550	3850

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 ~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.*



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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	13.0	15.0
Avg. Yld.	-	-	-	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	2.2%	1.9%	1.6%

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	6.0%	28.7%	28.1%	21.5%	26.2%	26.1%	22.9%	24.9%	25.1%

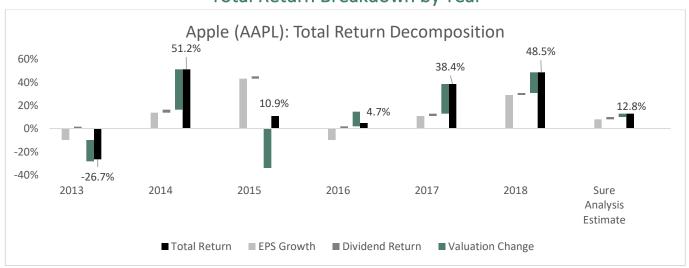
Apple started paying dividends in 2012. Since then, the dividend has been increased regularly. The dividend growth rate was not overly high, though, but rather in line with Apple's earnings-per-share growth, which is why the dividend payout ratio has remained in the 20s throughout the last couple of 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 high-cost smartphones, a major economic crisis would likely hurt its profits considerably. Apple holds a massive net-cash position (\$130 billion at the end of Q1), 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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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

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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.

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