



Apple Inc. (AAPL)

Updated January 29th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$326	5 Year CAGR Estimate:	-0.2%	Market Cap:	\$1.4 T
Fair Value Price:	\$216	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/07/20
% Fair Value:	151%	5 Year Valuation Multiple Estimate:	-7.9%	Dividend Payment Date:	02/13/20
Dividend Yield:	0.9%	5 Year Price Target	\$303	Years Of Dividend Growth:	8
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	5.5%

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. The company was founded in 1976, is headquartered in Cupertino, CA and is valued at \$1.4 trillion.

On January 28th, 2020 Apple reported Q1 fiscal year 2020 results for the period ending December 28th, 2019. (Apple's fiscal year ends the last Saturday in September.) For the quarter Apple generated revenue of \$91.8 billion (higher than the previous \$85.5 to \$89.5 billion guidance and a new record), which was up 8.9% compared to Q1 2019. Respective gains of 7.6%, 40.0% and 16.9% in the iPhone, Wearables and Services segments, were offset slightly by -3.5% and -11.1% declines in the Mac and iPad segments. Net income equaled \$22.2 billion, an 11.4% increase, while earnings-per-share totaled \$4.99 compared to \$4.18 previously, a 19.4% gain due to a substantially lower share count. During the quarter Apple paid out \$3.5 billion in dividends and used \$20 billion to repurchase shares.

Apple also provided guidance for Q2 2020. The company anticipates revenue of between \$63 billion and \$67 billion, with a 38% to 39% gross margin and \$9.6 billion to \$9.7 billion in operating expenses.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.16	\$3.95	\$6.31	\$5.68	\$6.45	\$9.22	\$8.31	\$9.21	\$11.91	\$11.89	\$13.50	\$18.93
DPS	---	---	\$0.38	\$1.63	\$1.81	\$1.98	\$2.18	\$2.40	\$2.72	\$3.00	\$3.08	\$4.74
Shares¹	6,412	6,505	6,575	6,295	5,866	5,579	5,336	5,126	4,755	4,443	4,300	3,900

Apple is among the largest publicly traded corporations in the world. Since 2012 Apple's earnings-per-share have grown by 11.2% annually, which is an attractive growth rate, although it is substantially lower than the growth rates Apple produced in the years prior to 2012. The bigger the bottom line gets, the harder it becomes 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, which saw a significant decline 2019, but picked up recently. In the long run Apple should be able to grow its iPhone sales, albeit in an irregular fashion. Moreover, in emerging countries where consumers have rising disposable incomes, Apple should be able to increase the number 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 revenue.

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 significant revenue growth rate during the last couple of quarters. Services revenues grow substantially faster than other segments and produce high-margin recurring revenues.

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. Apple should continue to lower its share count further through 2020 and beyond. Taking these items collectively – a strong "cash cow" legacy business, growing Services revenue and a shrinking share count – we are forecasting 7% annual growth over the intermediate-term.

¹ In millions.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.2	12.4	12.0	12.3	13.0	12.8	12.6	14.9	15.3	16.1	24.1	16.0
Avg. Yld.	---	---	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	1.5%	1.6%	0.9%	1.6%

In the 2011 through 2016 stretch shares of Apple routinely traded with an average price-to-earnings multiple between 13- and 14-times earnings. In the years since the earnings multiple has expanded tremendously, but the company is not growing significantly faster. With shares now trading at 24 times expected earnings, the company's highest mark in the last decade, we believe there is the potential for a significant valuation headwind in the years to come. This view could be too conservative if the valuation remains elevated, but we are not yet ready to make that leap.

While the dividend yield is not spectacular, it is very well covered with the propensity to grow over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	6%	29%	28%	22%	26%	26%	23%	25%	23%	25%

Apple started paying a dividend in 2012. Since then, the dividend has been increased regularly, but more or less in-line with the company's earnings-per-share growth, which is why the dividend payout ratio has remained in the 20% range. This, coupled with the company's enviable balance sheet, makes Apple's dividend look quite safe.

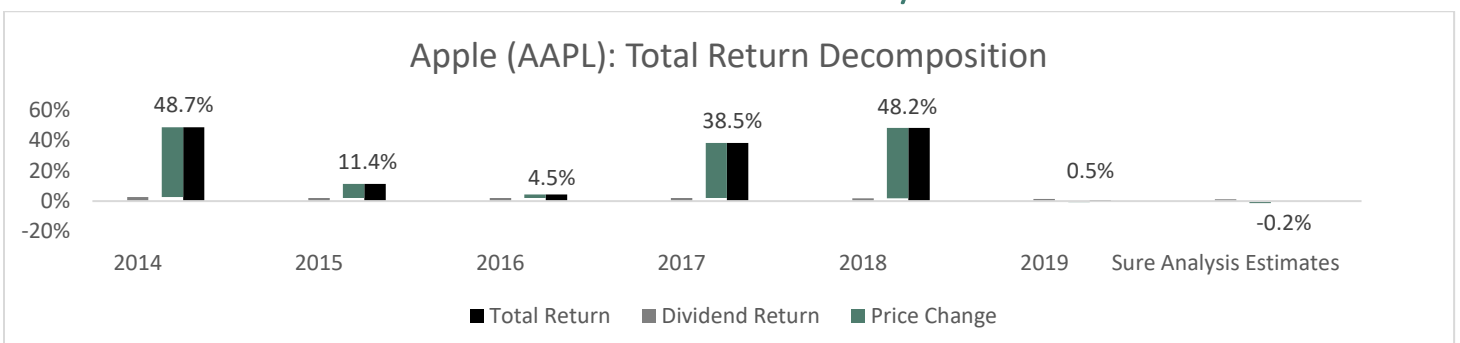
Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. In addition, Apple's Services will bring in an increasing stream of recurring revenues. During the last financial crisis Apple's profits rose, but that was during the hyper-growth phase. Since Apple is still highly dependent on sales of relatively high-cost smartphones, a major economic crisis could hurt its profits considerably.

As of the most recent report Apple held \$107.2 billion in cash and securities, \$163.2 billion in current assets and \$340.6 billion in total assets (of which an additional \$99.9 billion are non-current marketable securities) against \$102.2 billion in current liabilities and \$251.1 billion in total liabilities.

Final Thoughts & Recommendation

Shares are up 31% since our last report and an exceptional 86% since the end of May. While earnings will continue to grow, the share price has increased at a significantly greater rate. We are enthused on a number of fronts, including a business with an extraordinary story, a Services segment that is picking up steam and a balance sheet that provides significant safety in good times or bad. However, in our view, the current valuation has become a major hindrance. We are forecasting -0.2% annual total return potential, stemming from 7% growth and a 0.9% starting yield, offset by a significant valuation headwind as a result of the much higher share price. We are moving our rating from hold to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	65.23	108.2	156.5	170.91	182.8	233.7	215.64	229.2	265.6	
Gross Profit	25684	43818	68662	64304	70537	93626	84263	88186	102B	
Gross Margin	39.4%	40.5%	43.9%	37.6%	38.6%	40.1%	39.1%	38.5%	38.3%	
SG&A Exp.	5517	7599	10040	10830	11993	14329	14194	15261	16705	
D&A Exp.	1027	1814	3277	6757	7946	11257	10505	10157	10903	
Operating Profit	18385	33790	55241	48999	52503	71230	60024	61344	70898	
Op. Margin	28.2%	31.2%	35.3%	28.7%	28.7%	30.5%	27.8%	26.8%	26.7%	
Net Profit	14013	25922	41733	37037	39510	53394	45687	48351	59531	
Net Margin	21.5%	23.9%	26.7%	21.7%	21.6%	22.8%	21.2%	21.1%	22.4%	
Free Cash Flow	16474	30077	41454	44590	49900	69778	52276	50803	64121	
Income Tax	4527	8283	14030	13118	13973	19121	15685	15738	13372	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	75.18	116.37	176.06	207.00	231.84	290.35	321.69	375.32	365.73	
Cash & Equivalents	11261	9815	10746	14259	13844	21120	20484	20289	25913	
Accounts Receivable	5510	5369	10930	13102	17460	16849	15754	17874	23186	
Inventories	1051	776	791	1764	2111	2349	2132	4855	3956	
Goodwill & Int. Ass.	1083	4432	5359	5756	8758	9009	8620	8015	N/A	
Total Liab. (\$B)	27.39	39.76	57.85	83.45	120.29	170.99	193.44	241.27	258.58	
Accounts Payable	12015	14632	21175	22367	30196	35490	37294	49049	55888	
Long-Term Debt (\$B)	0	0	0	16.96	35.30	64.33	87.03	115.68	114.48	
Total Equity (\$B)	47.79	76.62	118.21	123.55	111.55	119.36	128.25	134.05	107.15	
D/E Ratio	0	0	0	0.1373	0.3164	0.539	0.6786	0.863	1.0685	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	22.8%	27.1%	28.5%	19.3%	18.0%	20.5%	14.9%	13.9%	16.1%	
Return on Equity	35.3%	41.7%	42.8%	30.6%	33.6%	46.2%	36.9%	36.9%	49.4%	
ROIC	35.3%	41.7%	42.8%	28.6%	27.5%	32.3%	22.9%	20.8%	25.3%	
Shares Out.	6410	6500	6570	6290	5870	5580	5340	5130	4850	
Revenue/Share	10.08	16.51	23.65	26.21	29.86	40.34	39.21	43.65	53.12	
FCF/Share	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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