Apple Inc. (AAPL)

Updated May 2nd, 2020 by Eli Inkrot

Key Metrics

Current Price:	$289	**5 Year CAGR Estimate:**	1.7%	**Market Cap:**	$1.24 T
Fair Value Price:	$200	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/08/20
% Fair Value:	145%	**5 Year Valuation Multiple Estimate:**	-7.1%	**Dividend Payment Date:**	05/14/20
Dividend Yield:	1.1%	**5 Year Price Target**	$294	**Years Of Dividend Growth:**	8
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.5%

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 $1.2 trillion.

On April 30th, 2020 Apple reported Q2 fiscal year 2020 results for the period ending March 28th, 2020. (Apple's fiscal year ends the last Saturday in September.) For the quarter Apple generated revenue of $58.3 billion (below previous guidance of $63 billion to $67 billion), representing 0.5% growth compared to Q2 2019. Product sales were down -3.4%, with iPhones in particular – making up nearly half of revenue - down -6.7%. However, a 16.6% improvement in Services, a much smaller portion of the business, and an increase in Wearables made up for this. Net income equaled $11.25 billion, a -2.7% decrease, while earnings-per-share totaled $2.55 compared to $2.46 previously, a 3.7% gain due to a substantially lower share count.

Apple also declared an $0.82 quarterly dividend, payable May 14th, representing a 6.5% year-over-year increase, to go along with a $50 billion increase to the company's share repurchase program.

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	***$12.50***	***$18.37***
DPS	---	---	$0.38	$1.63	$1.81	$1.98	$2.18	$2.40	$2.72	$3.00	***$3.28***	***$4.82***
Shares[1]	6,412	6,505	6,575	6,295	5,866	5,579	5,336	5,126	4,755	4,443	***4,300***	***3,700***

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, despite the significant decline in 2019. 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. Increasing the selling prices of its phones could be a tailwind for revenue as well

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.

We have reduced our earnings expectation due to the ongoing COVID-19 crisis, but we believe Apple could generate 8% annual growth from its strong "cash cow" legacy business, growing Services revenue and a shrinking share count.

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[1] In millions.

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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	***23.1***	***16.0***
Avg. Yld.	---	---	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	1.5%	1.6%	***1.1%***	***1.6%***

In the 2011 through 2016 stretch shares of Apple routinely traded with an average price-to-earnings multiple between 12- and 13-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 23 times expected earnings, which have been reduced somewhat this year, 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%	***26%***	***26%***

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.

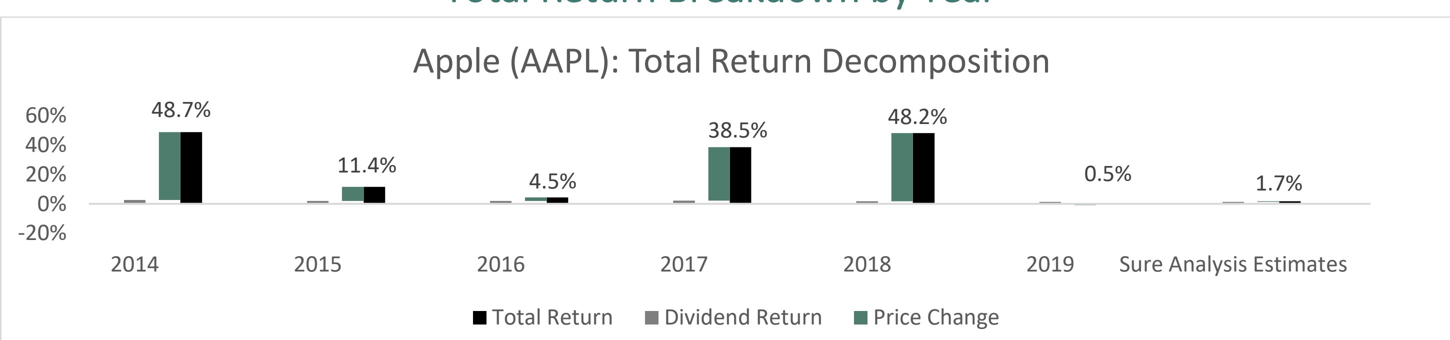
Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. In addition, Apple's Services will bring in an increasing stream of recurring revenues. During the last financial crisis Apple's profits rose, but that was 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.

As of the most recent report Apple held $94.1 billion in cash and securities, $143.8 billion in current assets and $320.4 billion in total assets (of which an additional $98.8 billion are non-current securities) against $96.1 billion in current liabilities and $242 billion in total liabilities. Combined with a powerful earning base, Apple is in excellent financial shape.

Final Thoughts & Recommendation

Shares are down -11% since our last update, but up 88% since the end of fiscal 2017. While earnings will continue to grow, the share price has increased at a significantly greater rate in the last few years. We are enthused on a number of fronts, including an extraordinary business story, a Services segment that is picking up steam and a balance sheet that provides significant safety. However, in our view, the current valuation remains a major hindrance. We are forecasting 1.7% annual total return potential, stemming from 8% growth and a 1.1% starting yield, offset by a significant valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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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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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	260.2
Gross Profit	25684	43818	68662	64304	70537	93626	84263	88186	102B	98392
Gross Margin	39.4%	40.5%	43.9%	37.6%	38.6%	40.1%	39.1%	38.5%	38.3%	37.8%
SG&A Exp.	5517	7599	10040	10830	11993	14329	14194	15261	16705	18245
D&A Exp.	1027	1814	3277	6757	7946	11257	10505	10157	10903	12547
Operating Profit	18385	33790	55241	48999	52503	71230	60024	61344	70898	63930
Op. Margin	28.2%	31.2%	35.3%	28.7%	28.7%	30.5%	27.8%	26.8%	26.7%	24.6%
Net Profit	14013	25922	41733	37037	39510	53394	45687	48351	59531	55256
Net Margin	21.5%	23.9%	26.7%	21.7%	21.6%	22.8%	21.2%	21.1%	22.4%	21.2%
Free Cash Flow	16474	30077	41454	44590	49900	69778	52276	50803	64121	58896
Income Tax	4527	8283	14030	13118	13973	19121	15685	15738	13372	10481

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	75.18	116.37	176.06	207.00	231.84	290.35	321.69	375.32	365.73	338.52
Cash & Equivalents	11261	9815	10746	14259	13844	21120	20484	20289	25913	48844
Accounts Receivable	5510	5369	10930	13102	17460	16849	15754	17874	23186	22926
Inventories	1051	776	791	1764	2111	2349	2132	4855	3956	4106
Goodwill & Int. Ass.	1083	4432	5359	5756	8758	9009	8620	8015	N/A	
Total Liab. ($B)	27.39	39.76	57.85	83.45	120.29	170.99	193.44	241.27	258.58	248.03
Accounts Payable	12015	14632	21175	22367	30196	35490	37294	49049	55888	46236
Long-Term Debt ($B)	0	0	0	16.96	35.30	64.33	87.03	115.68	114.48	108.05
Total Equity ($B)	47.79	76.62	118.21	123.55	111.55	119.36	128.25	134.05	107.15	904.88
D/E Ratio	0	0	0	0.1373	0.3164	0.539	0.6786	0.863	1.0685	1.19

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%	15.7%
Return on Equity	35.3%	41.7%	42.8%	30.6%	33.6%	46.2%	36.9%	36.9%	49.4%	55.9%
ROIC	35.3%	41.7%	42.8%	28.6%	27.5%	32.3%	22.9%	20.8%	25.3%	26.3%
Shares Out.	6410	6500	6570	6290	5870	5580	5340	5130	4850	4443
Revenue/Share	10.08	16.51	23.65	26.21	29.86	40.34	39.21	43.65	53.12	55.96
FCF/Share	2.55	4.59	6.26	6.84	8.15	12.05	9.50	9.67	12.82	12.67

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