



Apple Inc. (AAPL)

Updated January 28th, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$167	5 Year CAGR Estimate:	-0.4%	Market Cap:	\$2.8 T
Fair Value Price:	\$113	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	02/04/22
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.6%	Dividend Payment Date:	02/10/22
Dividend Yield:	0.5%	5 Year Price Target	\$158	Years Of Dividend Growth:	9
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	7.3%

Overview & Current Events

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today the technology company designs, manufactures and sells products such as iPhones, iPads, Mac, Apple Watch and Apple TV. Apple also has a services business that sells music, apps, and subscriptions. The company was founded in 1976, is headquartered in Cupertino, CA and is valued at \$2.8 trillion.

On April 28th, 2021, Apple declared a \$0.22 quarterly dividend, marking a 7.3% year-over-year increase.

On January 27th, 2022, Apple reported Q1 fiscal year 2022 results for the period ending December 25th, 2021. (Apple's fiscal year ends the last Saturday in September). For the quarter Apple generated revenue of \$123.9 billion, an 11.2% increase compared to Q1 2021. Product sales were up 9.1%, led by a 9.2% increase in iPhones (58% of total sales). Service sales increased 23.8% to \$19.5 billion and made up 16% of all sales in the quarter. Net income equaled \$34.63 billion or \$2.10 per share compared to \$28.76 billion or \$1.68 per share in Q1 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.58	\$1.42	\$1.61	\$2.31	\$2.08	\$2.30	\$2.98	\$2.97	\$3.28	\$5.61	\$6.25	\$8.77
DPS	\$0.09	\$0.41	\$0.45	\$0.50	\$0.55	\$0.60	\$0.68	\$0.75	\$0.80	\$0.85	\$0.88	\$1.56
Shares¹	26,298	25,178	23,465	22,315	21,345	20,505	19,020	17,773	16,977	16,865	16,500	14,500

In the 2012 through 2021 stretch, Apple grew its earnings-per-share by 15.1% annually. Naturally this is an attractive growth rate, although it is lower than the growth rates Apple produced in the years prior to 2012. The larger the bottom line gets, the harder it becomes to grow at a very fast pace.

Going forward Apple's earnings growth will be driven by several factors. One of these is the ongoing cycle of iPhone releases, which creates lumpy results. 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 in the coming years. In addition, Apple's Services unit which consists of iTunes, Apple Music, the App Store, iCloud, Apple Pay, etc., has recorded a significant revenue growth rate in recent years. Services revenues grow at a fast rate 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 boosting EPS.

The ongoing COVID-19 pandemic does not appear to be materially impairing the company's underlying earnings power. Over the intermediate term we believe Apple could generate 7% annual growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.0	12.3	13.0	12.8	12.6	14.9	15.3	16.1	24.7	23.4	26.7	18.0
Avg. Yld.	0.5%	2.3%	2.2%	1.7%	2.1%	1.8%	1.5%	1.6%	1.0%	0.6%	0.5%	1.0%

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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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. With shares now trading at 27 times expected earnings, 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 and instead forecast a high-teens multiple. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	6%	29%	28%	22%	26%	26%	23%	25%	24%	15%	14%	18%

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 low. This, coupled with the company's enviable balance sheet, makes Apple's dividend look quite safe.

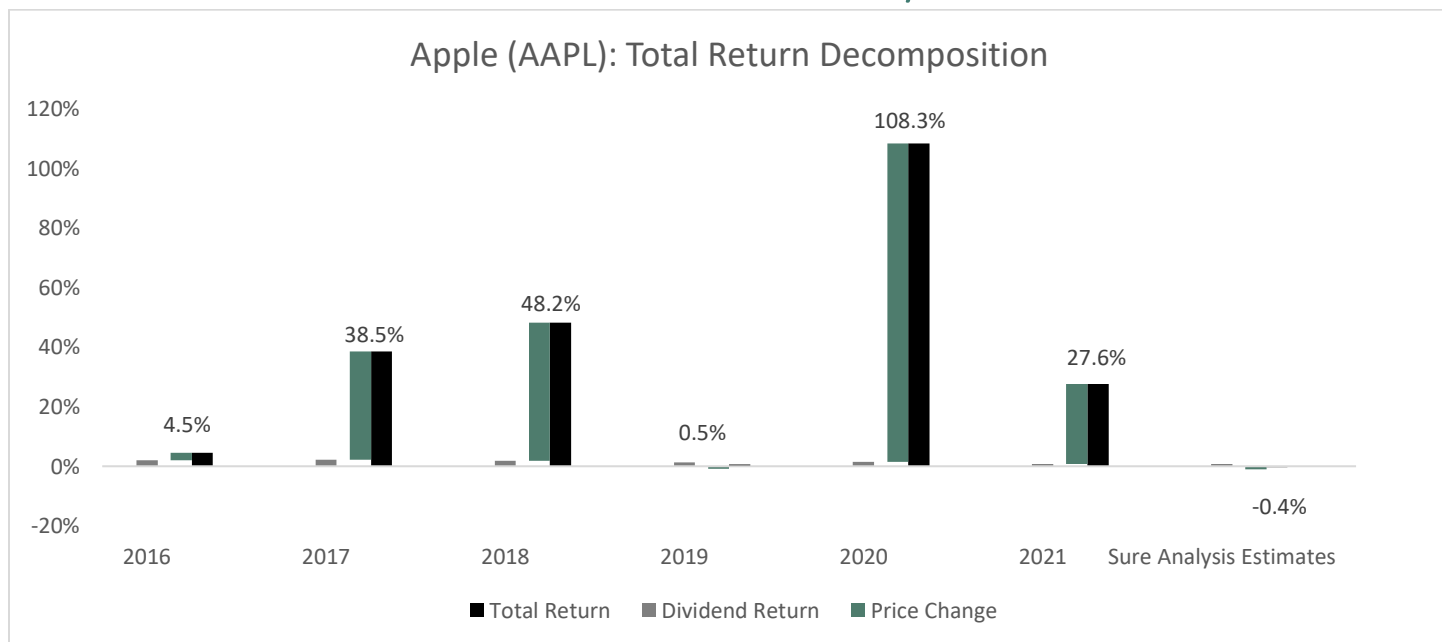
Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. In addition, Apple's Services will bring in an increasing stream of recurring revenues. During the last financial crisis Apple's profits rose, but that was 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 \$63.9 billion in cash and securities, \$153.2 billion in current assets and \$381.2 billion in total assets (of which an additional \$138.7 billion are non-current securities) against \$147.6 billion in current liabilities and \$309.3 billion in total liabilities.

Final Thoughts & Recommendation

Shares are up 27% in the last year. We are enthused on several fronts, including an extraordinary business story, a growing Services segment and a balance sheet that provides significant safety. However, in our view, the current valuation remains a hindrance. We are forecasting -0.4% annual total return potential, stemming from 7% growth and a 0.5% starting yield, offset by the potential for a valuation headwind. Due to the valuation shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (\$B)	156.5	170.91	182.8	233.7	215.64	229.2	265.6	260.2	274.5	365.8
Gross Profit	68662	64304	70537	93626	84263	88186	102B	98392	105B	153B
Gross Margin	43.9%	37.6%	38.6%	40.1%	39.1%	38.5%	38.3%	37.8%	38.3%	41.8%
SG&A Exp.	10040	10830	11993	14329	14194	15261	16705	18245	19920	21970
D&A Exp.	3277	6757	7946	11257	10505	10157	10903	12547	11060	11280
Operating Profit	55241	48999	52503	71230	60024	61344	70898	63930	66290	109B
Op. Margin	35.3%	28.7%	28.7%	30.5%	27.8%	26.8%	26.7%	24.6%	24.1%	29.8%
Net Profit	41733	37037	39510	53394	45687	48351	59531	55256	57410	94680
Net Margin	26.7%	21.7%	21.6%	22.8%	21.2%	21.1%	22.4%	21.2%	20.9%	25.9%
Free Cash Flow	41454	44590	49900	69778	52276	50803	64121	58896	73360	92950
Income Tax	14030	13118	13973	19121	15685	15738	13372	10481	9680	14530

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	176.06	207.00	231.84	290.35	321.69	375.32	365.73	338.52	323.9	351
Cash & Equivalents	10746	14259	13844	21120	20484	20289	25913	48844	38020	34940
Accounts Receivable	10930	13102	17460	16849	15754	17874	23186	22926	16120	26280
Inventories	791	1764	2111	2349	2132	4855	3956	4106	4061	6580
Goodwill & Int. Ass.	5359	5756	8758	9009	8620	8015	---	---	---	---
Total Liab. (\$B)	57.85	83.45	120.29	170.99	193.44	241.27	258.58	248.03	258.6	287.9
Accounts Payable	21175	22367	30196	35490	37294	49049	55888	46236	42300	54760
Long-Term Debt (\$B)	0	16.96	35.30	64.33	87.03	115.68	114.48	108.05	112.4	124.7
Total Equity (\$B)	118.21	123.55	111.55	119.36	128.25	134.05	107.15	904.88	63340	63.1
D/E Ratio	0	0.1373	0.3164	0.539	0.6786	0.863	1.0685	1.19	1.72	1.98

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	28.5%	19.3%	18.0%	20.5%	14.9%	13.9%	16.1%	15.7%	17.3%	28.1%
Return on Equity	42.8%	30.6%	33.6%	46.2%	36.9%	36.9%	49.4%	55.9%	73.7%	147.4%
ROIC	42.8%	28.6%	27.5%	32.3%	22.9%	20.8%	25.3%	26.3%	30.5%	51.8%
Shares Out.	26,298	25,178	23,465	22,315	21,345	20,505	19,020	17,773	16,977	16,860
Revenue/Share	5.91	6.55	7.46	10.09	9.80	10.91	13.28	13.99	15.66	21.69
FCF/Share	1.57	1.71	2.04	3.01	2.43	2.46	3.21	3.17	4.19	5.51

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

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