

Apple (AAPL)

Highly Attractive

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## **Expecting Strong December Results; All Eyes on Weaker than Expected iPhone Guidance for March-Hand Holding Time (Again)**

Heading into Apple's much anticipated December (FY1Q18) quarter next week the Street has gone into "full panic mode" as supply chain checks out of Asia indicate that March iPhone shipments are trending below expectations, neutralizing the positive news from a December all around beat likely on deck when the company reports after the bell on February 1. Overall, we expect iPhone unit shipments of between 81 million-82 million in the December quarter vs. the Street's 79 million estimate, coupled by higher ASPs, thus translating into a robust December upside quarter. That said, all eyes will be on March guidance with fears running rampant on the Street that Apple will guide significantly below expectations for this upcoming quarter. To this point, we continue to believe the Apple bull story for 2018 is well intact and it's time to take a deep breath as despite soft demand spots from the flagship iPhone X coming out of China and the US over the last month, the monster product cycle thesis out of Cupertino is delayed/elongated rather than gone in our opinion. Seeing the forest through the trees, we estimate Apple has roughly 350 million iPhones that are in the window of opportunity to upgrade over the next 12 to 18 months, now it's about which model and price point "strike a chord" for these customers to ultimately upgrade as the iPhone X demand has softened since reaching a supply/balance level in late December. To this point, we still expect three new iPhone releases (5.8 inch to 6.5 inch OLED designs with an LCD model) staggered over the next 6-9 months to hit the market that will help capture the underlying demand/upgrades among customers that have decided to bypass the 8/8+/X cycle this time around, with price points and features that catalyze fence sitting iPhone customers onto their next smartphone during the course of 2018.

While we now expect iPhone shipments for FY2018 closer to 240 million units vs our 255 million estimate, we believe the combination of stronger than expected ASPs, a "push out" of roughly 15-20 million iPhones from FY18 into FY19, repatriation/buyback tailwinds, multiple device launches on the horizon, and a China growth story which is showing signs of renewed growth prospects (albeit

with some soft spots) gives us confidence that Apple will be able to navigate near term headwinds and emerge a stronger fundamental story exiting 2018. While questions remain on the iPhone X demand trajectory, competitive pressures from Samsung, and around any lingering customer effects/upgrade delays from the exposed battery headache, we ultimately believe the "super cycle" potential still exists in the field/installed base with Cook & Co. having a major prove me period ahead in 2018 kicking off with next week's conference call/guidance. Overall, based on supply chain checks and weaker demand out of China, we expect iPhone unit shipment guidance of between 57 million to 61 million units for the March quarter (FY2Q) vs the Street at ~62 million units, although higher than modeled ASPs should help somewhat soften the revenue guide. While this is a hand holding period, we believe near term turbulence does not change our long term bullish thesis on Apple and the underlying demand/upgrade drivers for the next 12 to 18 months remain intact as **we maintain our Highly Attractive rating and \$205 price target.**