

Apple (AAPL)

Highly Attractive

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Apple Shareholder Meeting on Deck; Could Provide Some Clues to Strategic Direction and Timing of Buybacks/Dividends

This Tuesday Apple will be holding its annual shareholder meeting at the Steve Jobs Theater on its Cupertino campus with all eyes on Tim Cook and his strategic outlook for the coming year. This meeting comes at a crucial time for Apple as the company has seen a myriad of challenges over the last few months including softer than expected demand on its flagship iPhone X model, a delayed HomePod which missed the crucial holiday season, and shares which have been under considerable pressure and causing agita for tech investors thus far in 2018. While many have thrown in the white towel on the name, we continue to believe the compelling valuation (12x FY19 EPS), massive cash outlay on the horizon for investors, and three pronged (2 OLED devices, 1 LCD) iPhone product cycle slated for the next 9 months that will help capture the 350 million iPhones in the window of an upgrade opportunity, gives us high conviction in owning this name during this period of turbulence as we see the forest through the trees on Apple. The massive uptick in ASPs (~\$800) that Apple has experienced on the heels of a modestly successful iPhone X launch, a services business which we forecast is on a trajectory to be a \$50 billion annual revenue stream by FY20, and an unparalleled consumer franchise which now has 1.3 billion active devices worldwide speaks to the clear tailwinds that Cook & Co. has for the foreseeable future in our opinion as it further penetrates its massive installed base. That said, Apple continues to transition from a growth to value name as the company's massive war chest and \$200 billion+ of repatriated cash is now front and center for the Street as investors hope to get some further tea leaves on Apple's cash strategy/timing as well as product vision for 2018 at this week's highly anticipated shareholder meeting.

- **\$300 billion buyback program on the horizon plus cash dividend.** To this point, we believe the combination of a new \$300 billion buyback program, a dividend hike of between 10% to 15%, and a special cash dividend of \$15 billion could be announced in the April timeframe as Apple deploys all of its repatriated cash. The wild card remains M&A as Apple historically has focused on smaller deals (less than a \$1 billion) although

the big question now is will Cook raise the ante and look to acquire significant content sources (e.g. movie studio, streaming service) to beef up its video streaming service ambitions as this content arms race (Netflix, Disney/Fox, Amazon) is well underway and heating up in 2018. In a nutshell, while the very choppy market waters and Apple's March guidance have been a tough "1-2 punch" for investors to digest, we believe the strong fundamental picture for Apple for the next 12 to 18 months, attractive risk/reward, and a massive capital return to shareholders (which we hope to hear more about this week) will be enough to move shares back into the \$180-\$200 range by year-end despite a near-term hand holding period ahead as Apple yet again becomes a "prove me" name. **We maintain our Highly Attractive rating and \$205 price target.**