

Apple (AAPL)

Highly Attractive

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With the Panic Gone Now, All Eyes on iPhone Product Announcements, China Growth, and a Massive Buyback on Tap

With Apple shares up roughly 15% from its lows over the last week on the heels of a broader market snapback, we believe the Street is finally seeing the forest through the trees as the March guidance hangover appears to have dissipated. Now all eyes are on the trifecta of a major iPhone product cycle for 2018, a ~\$300 billion buyback potentially on the horizon to be announced in April, and a multiple re-rating that we believe will move shares back into the \$180-\$200 range over the coming quarters. Importantly 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.

- **Catalysts ahead for Cook & Co; China a key focus.** 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. The main swing factor in our opinion is China as we estimate over a 100 million iPhone installed base in this key region, with over half of these consumers due for an upgrade during the course of FY18/1HFY19.

In particular, we estimate between 60 million and 70 million Chinese iPhones will be in the “upgrade window” over the next 12 to 18 months with iPhone X/and the next launches as a major potential product catalyst in the all important Chinese market, which could see a renaissance of growth on the horizon for Cupertino. In a nutshell, while this is a hand holding period on the name, 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. **We maintain our Highly Attractive rating and \$205 price target.**