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## Return on Investment

Current Share Price	\$142.92
Target Price	\$165.00
Dividend Yield	0.66%
Implied Return	16.1%
Conviction Rating	2

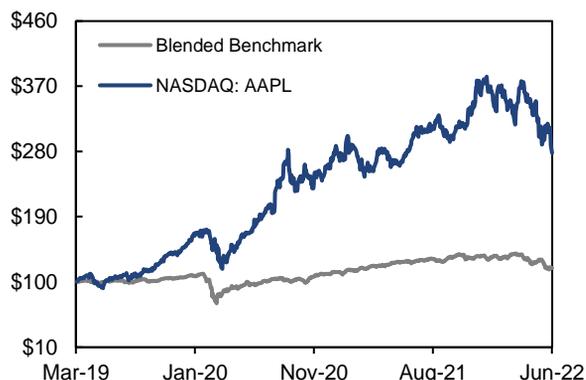
## Market Profile

52-Week Range	\$130.06 - \$181.51
Market Capitalization (US\$B)	\$2,361
Net Debt (US\$B)	\$92
Enterprise Value (US\$B)	\$2,453
Beta (5-Year Monthly)	1.20

## Metrics

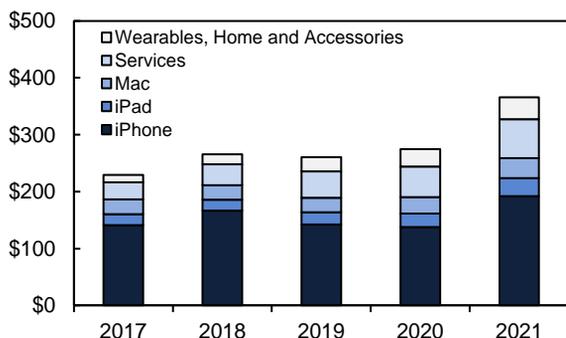
	2022E	2023E	2024E
Revenue (US\$B)	\$407	\$456	\$507
EBITDA (US\$B)	\$139	\$151	\$168
EPS (US\$)	\$6.72	\$7.33	\$8.16
EV/EBITDA	17.7x	16.2x	14.5x

## Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

## Figure 1: Revenue Segmentation (US\$B)



Source: Company Filings

## Business Description

Apple (NASDAQ: AAPL) is a multinational technology company that sells smartphones, computers, tablets, wearables, and accessories. AAPL's key product offerings include the iPhone, iPad, Mac, and the Apple Watch, which are consumer electronics used for entertainment, business, and communication purposes. To supplement its hardware offerings and ensure cross-device continuity, AAPL pre-installs its iOS, macOS, and iPadOS operating systems and provides additional service offerings, including Apple Music, iCloud, and Apple Care. These platforms aim to enhance the user experience and create additional value in the Company's attractive consumer portfolio. Its customers are primarily in the consumer, small and mid-sized business, education, enterprise, and government markets. The Company generates roughly 40% of its revenue from the Americas, with the remainder earned internationally. AAPL was founded in 1976 and remains the most valuable public company globally.

## Industry Overview and Competitive Landscape

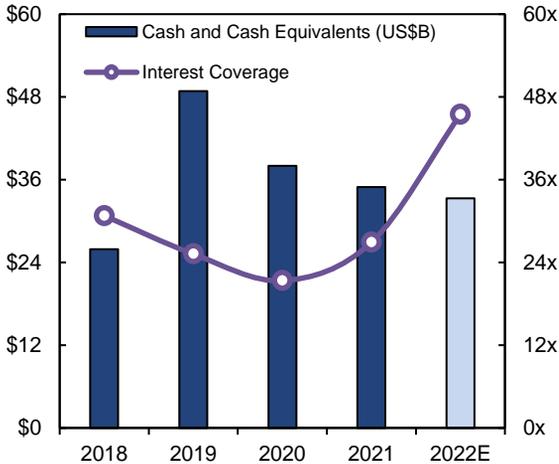
AAPL operates in multiple highly consolidated industries in the information technology sector, particularly the smartphone, computer, tablet, and digital content industries. Unlike its peers, the Company designs and develops nearly the entire value chain for its products, including the hardware, operating system, and numerous applications and services. Its closest competitors include Alphabet (NASDAQ: GOOGL), Samsung Electronics (KSE: 005930), Microsoft (NASDAQ: MSFT), Huawei, and Hewlett-Packard (NYSE: HPE). Supply chain issues have made the industry increasingly competitive for various components (i.e., semiconductors), including those made from multiple sources, that are sometimes subject to industry-wide shortages and significant commodity price fluctuations. Additionally, the sector has been subject to increasingly shortened product life cycles as companies continue to become more competitive on price and performance characteristics.

## Mandate Fit

**Quality Management:** Tim Cook was appointed AAPL's CEO in 2011 after the death of former CEO and co-founder Steve Jobs. He previously served as COO of the Company for six years and Executive VP of Worldwide Sales & Operations, where he was responsible for end-to-end management of AAPL's supply chain, sales activities, service, and support in all markets and countries. He also headed AAPL's Macintosh division and previously played a crucial role in the continued development of strategic reseller and supplier relationships, ensuring flexibility in response to an increasingly demanding marketplace. Since being at the helm, Cook and his team have returned US\$658B in capital to shareholders, and the Company's stock value has realized a total shareholder return of over 1,200%.

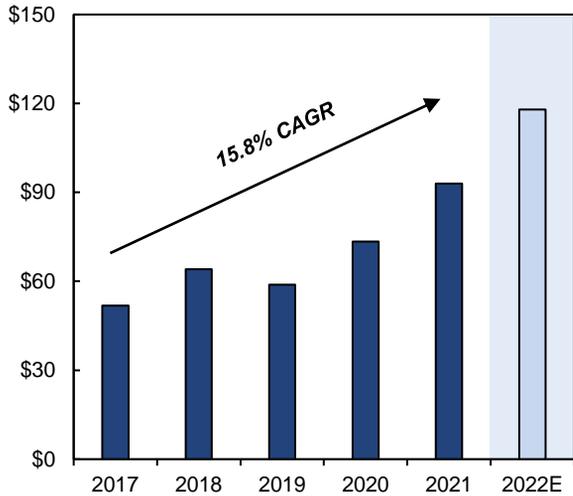
**Competitive Advantage:** The Company has grown a loyal customer base, and as per a study conducted by the UBS Evidence Lab, the iPhone has a customer retention ratio of 87%. This has enabled AAPL to charge a premium on its products compared to its peers. Furthermore, AAPL's exclusive operating systems (iOS, macOS, etc.) elevate customer switching costs, (cont.)

**Figure 2: LHS Cash & Eq. vs RHS Interest Coverage**



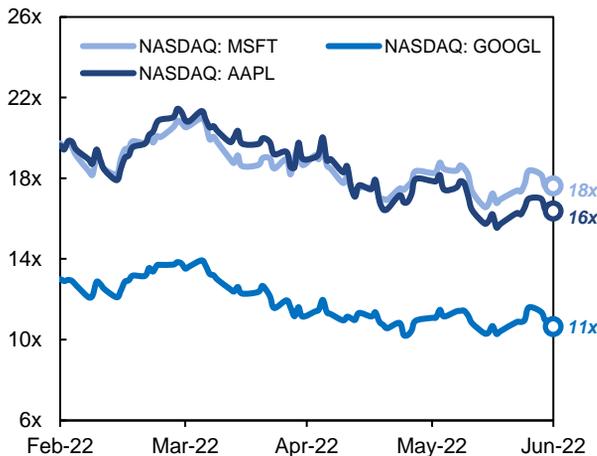
Source: Company Filings

**Figure 3: Free Cash Flow (US\$B)**



Source: Company Filings

**Figure 4: NTM EV/EBITDA vs Peers**



Source: Bloomberg

unlike its peers who compete to offer the best hardware that runs the same Windows or Android operating system. AAPL has capitalized on its proprietary operating system by creating supplemental products (Apple Watch, AirPods, etc.) and enhancing the AAPL ecosystem. Furthermore, AAPL's successful integration of services has reinforced and improved the Company's customer experience.

**Strong Balance Sheet:** AAPL's balance sheet is strong as it maintains a net debt position of US\$92B and cash equivalents of US\$28B as of Q2 2022. Rising interest rates have a limited impact on the Company's debt profile as ~93% of the debt is fixed. Management indicated that a 100 bps increase in interest rates across all maturities in 2021 would have caused a 7% (US\$186mm) increase in the Company's interest expense.

**Growing Free Cash Flow:** AAPL continues to maintain strong FCF generation, with a five-year FCF CAGR of 16%. FCF for 2021 was US\$93B, representing a 27% increase YoY. The Company allocates a significant portion of its FCF to returning capital to shareholders. In 2021, AAPL repurchased US\$86B of shares and paid US\$14B (US\$0.85/share) in dividends. Additionally, growth in the service subsidiary will stabilize FCF through expanding margins and reducing cyclicalities as services are not subject to product life cycles.

**Risks**

Though AAPL controls most of its product development, its reliance on China for parts and manufacturing of its products poses a supply chain and sales risk if geopolitical tensions rise between the U.S. and China. In addition, COVID-19 pandemic-related lockdowns in these regions could result in demand fulfillment issues. AAPL faces the risk of smartphone unit sales stagnation as consumers are holding onto their phones longer due to the marginal improvements in new devices, which could gravitate them to mid-tier products. This could impact AAPL's ability to charge a premium as its features may no longer be unique. The Company's App Store faces regulatory risks in Europe through the newly proposed Digital Market Act that aims to make the digital sector more equal. The act could force AAPL to allow competing app stores to operate in Europe. Furthermore, the Company has ongoing antitrust investigations similar to the 2021 Epic Games lawsuit, which ruled that AAPL can no longer ban developers from routing payment options away from the App Store. As a result, the Fund views regulatory risk as a key issue the Company will be required to carefully navigate to achieve growth projections.

**Revised Valuation and Investment Thesis**

The target price of US\$165 was derived using a 50/50 blend of (1) the Gordon Growth method (using a WACC of 9% and a 2% terminal growth rate) and (2) applying an EV/EBITDA exit multiple of 16x.

In April 2019, the Fund initiated a position in AAPL due to the Company's brand loyalty and management's strong history of strategic execution and disciplined capital allocation. The revised thesis in July 2020 determined that the Company continued to fit our mandate and has made significant progress in expanding successfully from a product-heavy business into streaming and transaction services. In accordance with this financial valuation, the CPMT maintains its original thesis, as the Company continues to meet the mandate. However, the CPMT will not increase conviction in the name due to performance concerns of growth equities during periods of rising rates, resulting in our Hold recommendation.