

### Apple share price losses: Is it a buying opportunity?

In the stock market sell off over the past few weeks, Apple seems to have been punished the most among the large US tech stocks, despite the fact that at a 1-year forward P/E of c. 11x it already looks cheap. Last week, Apple shares lost 8.8%, while its share price has dropped by c. 19% since it was added to the Dow on 19 March this year. It is also down c. 23% from an all-time high set earlier this year of \$134.50. On Monday (24 August), the share price plummeted to \$93/share at which point it was down more than 30% from its high.

Markets in general have seen a huge sell-off, with just about every stock dropping which means that, to a large degree, it makes sense that Apple is down too. However, some commentators are also of the view that there is another reason for the sell-off. *Piper Jaffray's* Gene Munster said that he thought it was because of uncertainty in China, while *BGC Partners* believes that investors were starting to wonder whether smartphone sales globally are starting to peak.

Shares of Apple fell to as low as \$92/\$93 in trading on Monday, but closed at \$103.15 (still down 2.5% on the day in the regular trading session), recouping significant losses and c. \$64bn in market cap (yesterday the share closed at \$103.74 – up 0.6% on the day). Apple stemming its drop and briefly outperforming a broad sell-off across the market followed an e-mail from CEO Tim Cook to *CNBC's* Jim Cramer explaining that Apple's business is doing just fine in China and thus acknowledging investor concerns. In the e-mail Cook states that Apple "continued to experience strong growth for our business in China through July and August," and that iPhone activation growth "has actually accelerated over the past few weeks." Apple's Greater China (which includes China plus Hong Kong and Taiwan) revenue rose 112% YoY in 2Q15, and accounted for c. 27% of total revenue.

A number of brokerage houses have also come out with positive comments on Apple:

- *FBR & Co.*, maintained an outperform rating on Apple shares, citing the coming iPhone 6S and a "\$100 billion market opportunity" over the next three years in China. In 3Q15, revenue from the Greater China segment grew robustly by c. 112.4% YoY to c. \$13.2bn. If *FBR & Co* is correct in its estimation then there is still enormous upside for Apple in that market.

- *Wells Fargo* on Tuesday (25 August) upgraded Apple to Outperform with a target price range of \$125-\$135/share and saying that, in its view, shares have "over-corrected".

Is the stock still a buy or are there more troubles ahead? We believe that Apple is a Buy, based on the following:

- Tim Cook confirmed that **China fears are overblown**. Although the company has already seen extremely fast growth from China which has resulted in some pundits fearing that Apple's increasing reliance on the region will see the current economic upheaval in China impact Apple significantly. However, according to Cook's mid-quarter comment/letter to *CNBC* the demand for Apple products remain strong in China with Cook indicating that iPhone activations in China have "actually accelerated" and that "China represents an unprecedented opportunity over the long term."
- Apple's **share price is inexpensive**. The company is now trading at a c. 11x 12M forward P/E which is cheap and considering Apple's iron-clad balance sheet and its ability to generate massive earnings through its expanding ecosystem, we believe significant upside remains over the longer term.

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We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watch-list, which is continually reviewed and updated.



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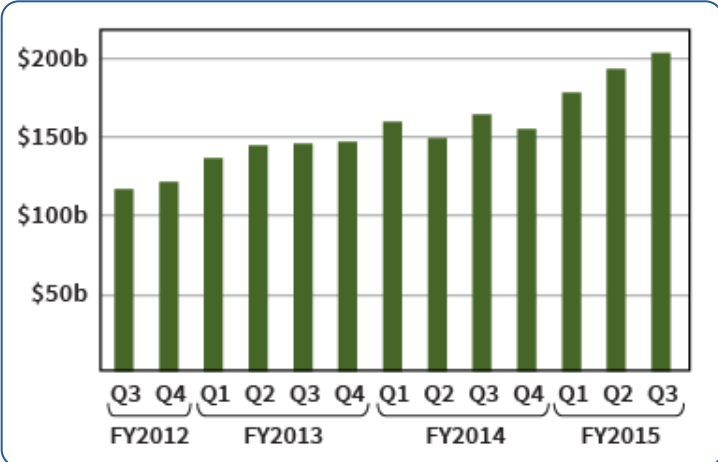
**Apple's metrics:**

Close (\$)	103.74
Mkt Cap, \$bn	618
12M trailing P/E	12.51
12M fwd P/E	10.70
10-year average P/E	50.2
10-year average DY	1.42
P/Book ratio	4.92
12M trailing DY	1.83
12M fwd DY	1.83

Source: Bloomberg, Anchor Capital

- Although a **dividend yield** of just below 2% might not sound very high, if taken in consideration with the company's **share repurchase plan**, it's clear that Apple is committed to returning as much capital to shareholders as possible. In 3Q15 alone, Apple spent c. \$14bn in share buybacks and dividends and in the long term, dividends and buybacks like this are huge positives for any shareholder.
- A **huge cash pile**: Apple has c. \$200bn-plus in cash and investments – more than a third of its market value. This stockpile also seems to keep growing in spite of the company's dividend payments and share repurchases and to a degree the cash is a hedge against future declines. At the same time it offers the company an unprecedented resource for future deals, research and development etc.

**Apple's cash hoard:**



Source: USA Today

and a future Apple car, which according to recent media reports seems more and more likely) and to increase its own software ecosystem, which should allow it to thrive for many years to come.

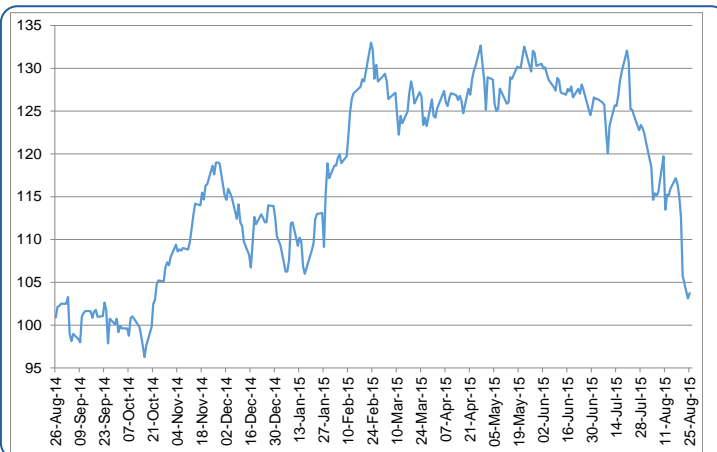
Apple is a solid business with an extremely skilled management team and a history of stellar earnings. For investors with a long-term time horizon we would recommend a buy at current levels.

**Apple Bloomberg forecasts:**

September y/e	FY14	FY15E	FY16E	FY17E
EPS (\$)	6.5	9.1	9.8	10.7
% growth		41%	7%	10%
DPS (\$)	1.8	2.0	2.2	2.4
P/E	15.98x	11.4x	10.6x	9.7x
DY	1.8%	1.9%	2.1%	2.3%
Share price (\$)	103.74			
12-mnth fwd P/E	10.7x			

Source: Bloomberg consensus forecasts, Anchor Capital

**Apple share price performance 26 August 2014 to date:**



Source: IRESS, Anchor Capital

**Marco de Matos**

In our view, the current underperformance of the Apple share price is a temporary blip on the radar. While investors would likely be more inclined to purchase the share if Apple comes out with another revolutionary product such as the iPhone (or iPad), we do believe that despite the current absence of this, Apple remains an extremely innovative company and a powerful worldwide brand. We also think that new products (such as the watch and Apple Pay) will start to contribute more to the bottom line over time, while any decline in future smartphone sales is now priced in.

At the same time, the company continues to set up different product lines (including streaming TV, Internet of Things,



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