



APPLE (AAPL)

Business Model

Apple designs a wide variety of consumer electronic devices, including smartphones (iPhone), tablets (iPad), PCs (Mac), smartwatches (Apple Watch), AirPods, and TV boxes (Apple TV). iPhone sales account for most of Apple's total revenue. In addition, Apple offers its customers a variety of services such as Apple Music, iCloud, Apple Care, Apple TV+, Apple Arcade, Apple Card, and Apple Pay, among others. Apple's products run on internally developed software and semiconductors.

The Company in a Nutshell

- Apple depends on the iPhone's growth to generate the bulk of its cash flows.
- The company generates about 40% of its revenue in the Americas and 60% internationally.
- Apple shares its wealth with shareholders through dividend payments and share buybacks, but still keeps large amounts of cash on hand.

Investment Thesis

There is continued interest among consumers for premium products. AAPL's first growth vector remains its iPhone. It is also seeing double-digit growth in its services division, which generates higher margins; services such as Apple Pay, Apple Music and Apple TV represent just the tip of the iceberg. We think that Services will benefit from rising paid subscribers (+5% in September quarter). As more iPhones are purchased, their users are inclined to purchase the services related to them. Apple's iPhones and IOS are beloved by customers and are a symbol of stability and security in terms of technology. Management has become increasingly shareholder-friendly, as evidenced by strong dividend growth and massive share buybacks. AAPL is among the rare companies that don't need to be first movers in order to impress as the company surprised the market once again, beating estimates by \$0.02 and revenue by \$1.37B in Q3 2022!

VALUATION

Dividend Growth Rate Years 1-10: 7%

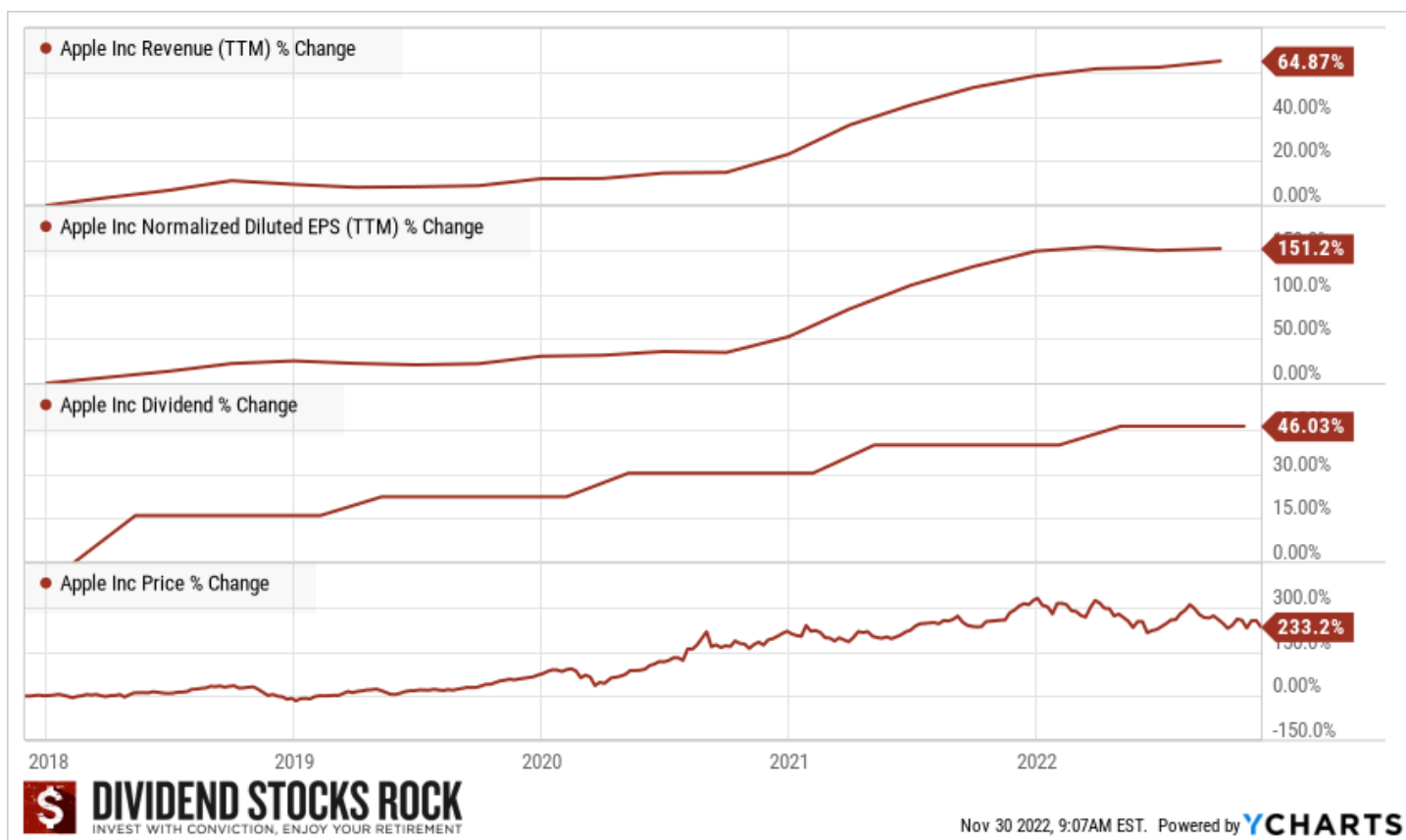
Terminal Dividend Growth Rate: 7%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$107.96	\$54.18	\$36.24
10% Premium	\$98.97	\$49.66	\$33.22
Intrinsic Value	\$89.97	\$45.15	\$30.20
10% Discount	\$80.97	\$40.63	\$27.18
20% Discount	\$71.98	\$36.12	\$24.16



DSR STOCK CARD

11/30/2022



Potential Risks

There aren't many headwinds that we can identify for Apple. We feared the recession would impact Apple's results, but the company still saw many loyal customers upgrade their phones, and it seems like this happened again with the iPhone 13. It is well-known that tech companies need to continually innovate their product offerings to remain on even playing field with their competition. Apple protects its core products with a strong product ecosystem and additional services, however, the introduction of a competitor's new phone that could potentially erode iPhone sales remains a possibility. Finally, the competition in artificial intelligence has many contenders, such as Amazon and Google, just to name a few. Our biggest concern in the short term would be the tech sector's performance, but in the long-term, Apple should continue to perform well.

Dividend Growth Perspective

An investor shouldn't be fooled by the low yield as AAPL will double its payment every 8 years going forward. Both payout and cash payout ratios are very low. With strong sales growth and consistent earnings increases, the company should maintain a double-digit dividend growth rate for years to come. Unfortunately, the latest dividend increase was only of 4.5% (from \$0.22/share to \$0.23/share), but the company is in position to keep increasing its payment. Finally, take advantage of the recent pullback if you want to add AAPL to your portfolio!