



# Apple (AAPL.O/AAPL US)

Price as of Feb 2: US150.8

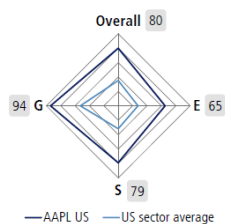
## Apple results – Production of iPhone back on track, but Mac & wearables weaker than expected

### Trading data

Mkt cap (US\$bn)	2,388.4
Outstanding shares (mn)	15,836
Institutional ownership (%)	62.6
3M avg. daily trading (mn)	78.1
52-week trading range (US\$)	124.2-179.6

Performance	3M	6M	12M
Absolute (%)	4.0	(5.7)	(14.2)
Relative (%)	(7.2)	(7.9)	(5.3)

### ESG score card



Source: Refinitiv, KGI Research

### Event

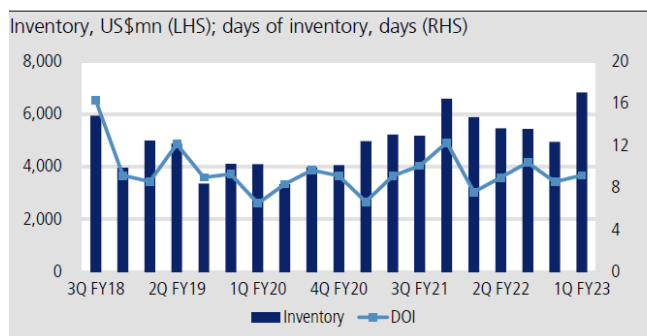
1Q FY23 (FY ends September) results and 2Q FY23 guidance both missed consensus due to supply chain issues for the iPhone, macro weakness affecting Mac and wearables, and forex headwinds. However, we believe the negatives for iPhone shipments are behind us as production issues have been solved, and overall 2023 smartphone shipments may be better than expected. SK Hynix (KR) expects full-year smartphone shipments to arrive flat YoY, versus expectations of a 5% decline. Near-term earnings downgrades, largely on Mac, wearables, and iPad business, will normalize following the earnings call. We see limited negative catalysts before the next earnings call.

### Impact

**Production of iPhone back on track.** 1Q FY23 iPhone shipments totaled 74.3mn units, 4% below consensus, largely due to the supply chain disruptions in China in November and December. However, production is back to the planned output, resulting in in-line iPhone shipment guidance of 56-57mn units in 2Q FY23. Apple (AAPL US) said the iPhone is largely immune to weak macro conditions due to operating in the premium segment. We believe the negatives of iPhone shipments are behind us. We estimate FY23 iPhone shipments of 226mn units, down 7% YoY.

**Mac & wearables are more sensitive to macro weakness.** We estimate Mac shipments of 5.2mn units in 2Q FY23, 16% below consensus, while wearables revenue could be as much as 20% below consensus. We estimate iPad shipments of around 13mn units, 5-10% below consensus. We estimate FY23 Mac shipments will decline 19% YoY.

**Services business guidance in line with consensus.** Paid subscriptions continued to grow strongly at around 20% YoY to 935mn units at the end of last year. This supports in-line revenue guidance for 2Q FY23, despite softness remaining for digital advertising and mobile gaming.

**Figure 1: Apple – Inventory & DOI**


Source: Company data; KGI Research  
 Note: FY ends September

**Figure 2: 2Q FY23 Apple hardware shipment guidance vs. consensus**

Shipment (mn units)	2Q FY23	Consensus	Diff. (%)
iPhone	56.4	56.4	0
iPad	12.8	14.3	(10)
Mac	5.2	6.2	(16)

Source: Company data; Gartner; KGI Research  
 Note: FY ends September

**Figure 3: Apple – 1Q FY23 results**

(US\$bn)	1Q FY23	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Revenue	117.2	30.0	(5.5)	121.1	(3.3)
Gross profit	50.3	32.1	(7.2)	52.0	(3.2)
Gross margin (%)	43.0	70bps	(80bps)	42.9	6bps
Operating profit	36.0	44.7	(13.2)	37.6	(4.2)
Operating margin (%)	30.7	313bps	(273bps)	31.0	(29bps)
Pre-tax profit	35.6	44.5	(13.6)	37.4	(4.8)
Pre-tax margin (%)	30.4	305bps	(287bps)	30.9	(49bps)
Income tax	5.6	43.3	(14.9)	6.5	(13.0)
Tax rate (%)	15.8	(13bps)	(24bps)	17.3	(148bps)
Net profit	30.0	44.7	(13.4)	31.0	(3.1)
Net margin (%)	25.6	261bps	(233bps)	25.6	5bps
Diluted EPS (US\$)	1.88	46.2	(10.3)	1.94	(3.1)

Source: Company data; KGI Research  
 Note: FY ends September

**Figure 4: Apple – 2Q FY23 guidance**

(US\$bn)	2Q FY23	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Revenue	92.4	(21.1)	(5.0)	97.1	(4.8)
Gross profit	40.7	(19.2)	(4.5)	42.0	(3.1)
Gross margin (%)	44.0	104bps	25bps	43.2	78bps
Operating profit	26.9	(25.4)	(10.4)	28.2	(4.6)
Operating margin (%)	29.1	(168bps)	(175bps)	29.0	8bps
Pre-tax profit	26.8	(24.9)	(11.2)	28.1	(4.6)
Pre-tax margin (%)	29.0	(145bps)	(202bps)	28.9	6bps
Income tax	4.3	(23.9)	(16.5)	4.7	(8.8)
Tax rate (%)	16.0	21bps	(102bps)	16.7	(73bps)
Net profit	22.5	(25.1)	(10.1)	23.4	(3.8)
Net margin (%)	24.3	(128bps)	(138bps)	24.1	27bps

Source: Company data; KGI Research  
 Note: FY ends September

**Figure 5: Guidance – Comments by key segment**

Outlook comments	- March quarter YoY revenue performance to be similar to the December quarter. - Expected expect a negative YoY impact of 5 percentage points due to FX.
iPhone	- Expect March quarter YoY revenue performance to accelerate relative to the December quarter.
iPad	- Expect decline double digits YoY because of challenging compares and macroeconomic headwinds.
Mac	- Expect decline double digits YoY because of challenging compares and macroeconomic headwinds.
Services	- Expect grow YoY while continuing to face macroeconomic headwinds in areas such as digital advertising and mobile gaming.
Other products	

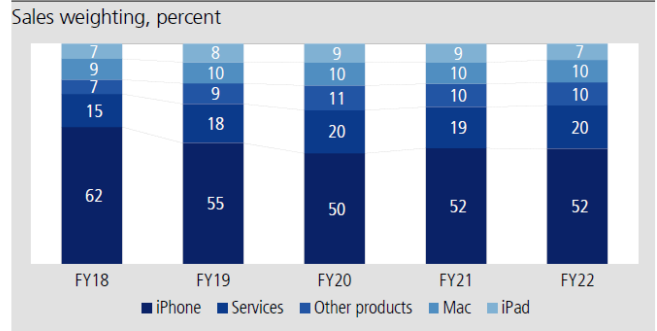
Source: Company data; KGI Research

**Figure 7: Company profile**

Established in 1977, Apple is a global technology company that designs, manufactures, and markets personal electronics, as well as a variety of related services. As one of the most valuable brands in the world, most of Apple's products have a leading market position globally, such as the iPhone (#3), Mac (#4), iPad (#1), Apple Watch (#1), and AirPods (#1). Over the past few years, Apple has been diversifying its growth drivers, with Services and other products accounting for 31% of total revenue in FY20, up from only 13% in FY15.

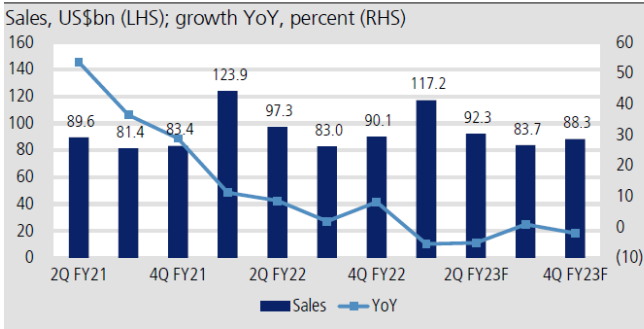
Source: Company data; KGI Research

**Figure 8: Revenue by end market**



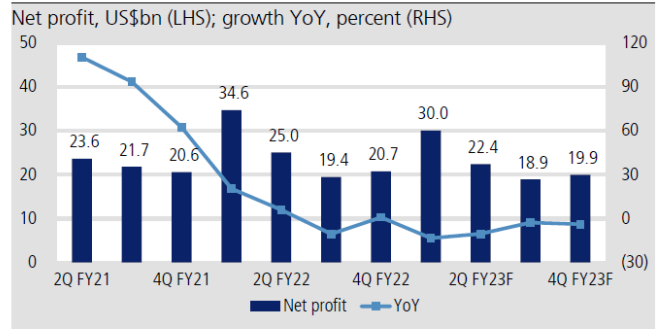
Source: Company data; KGI Research

**Figure 9: Sales & YoY**



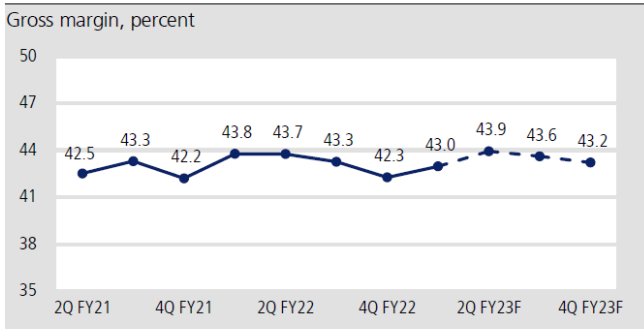
Source: Company data; KGI Research

**Figure 10: Net profit & YoY**



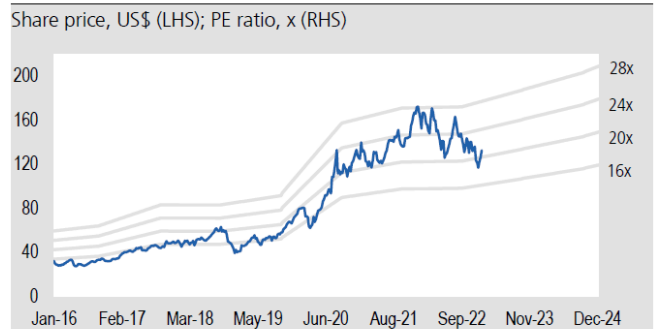
Source: Company data; KGI Research

**Figure 11: Gross margin**



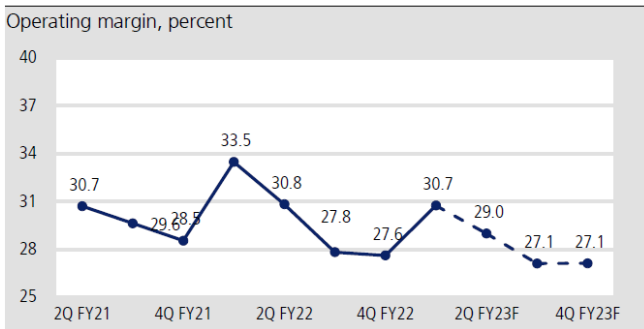
Source: Company data; KGI Research

**Figure 12: 12M forward PE band**



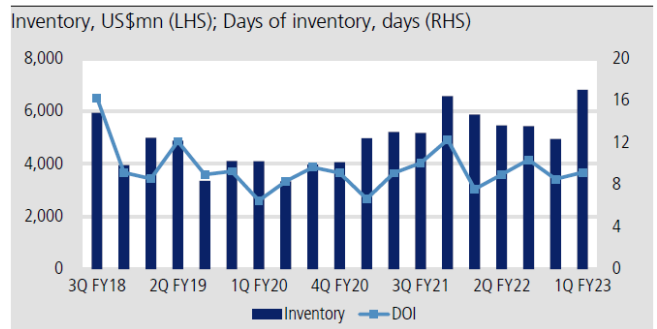
Source: Bloomberg; KGI Research

**Figure 13: Operating margin**



Source: Company data; KGI Research

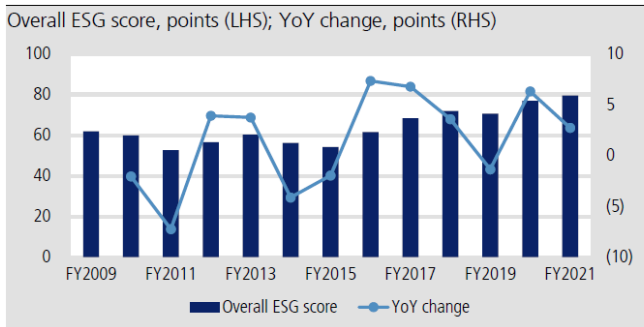
**Figure 14: Inventory & DOI**



Source: Company data; KGI Research

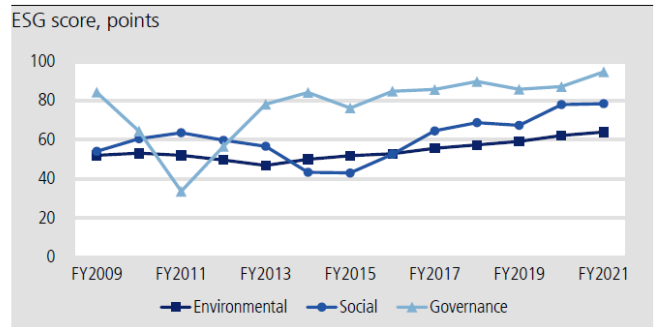
Apple (AAPL US)

Figure 15: Apple – Overall ESG score



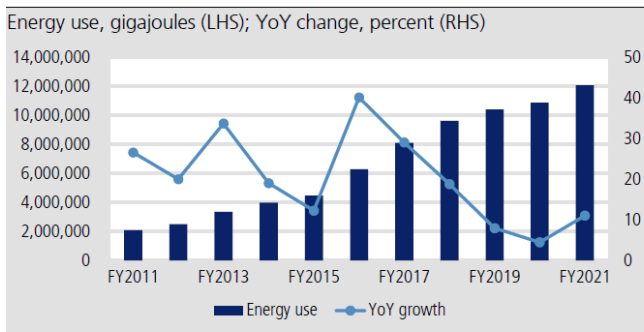
Source: Refinitiv, Company data

Figure 16: Apple – ESG score by category



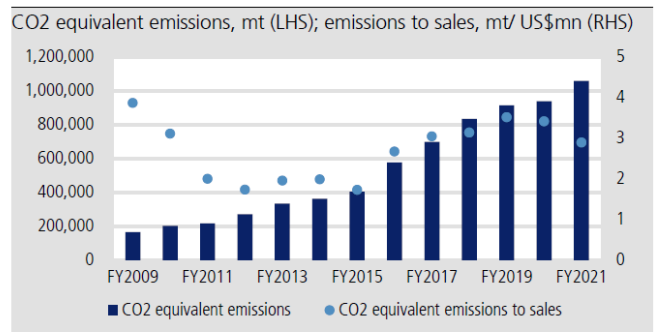
Source: Refinitiv, Company data

Figure 17: Apple – Energy use



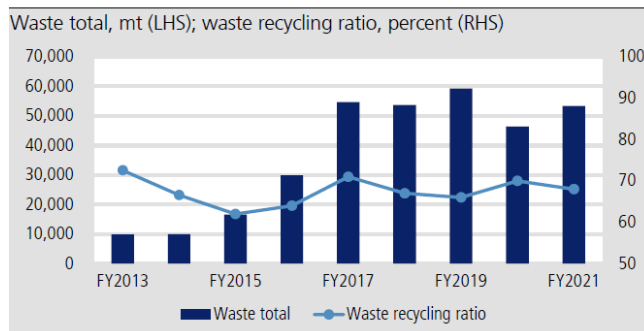
Source: Refinitiv, Company data

Figure 18: Apple – CO2 equivalent emissions



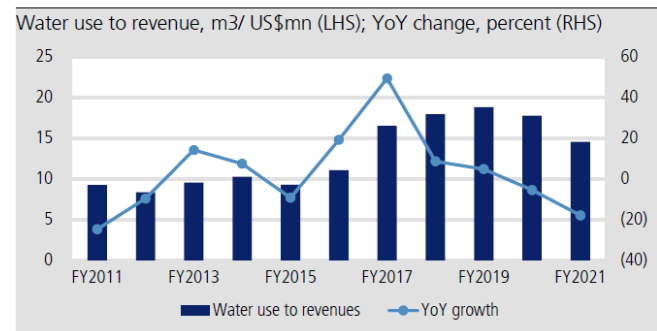
Source: Refinitiv, Company data

Figure 19: Apple – Waste total



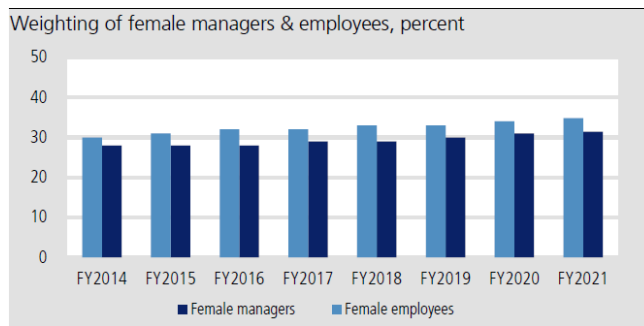
Source: Refinitiv, Company data

Figure 20: Apple – Water use to revenue



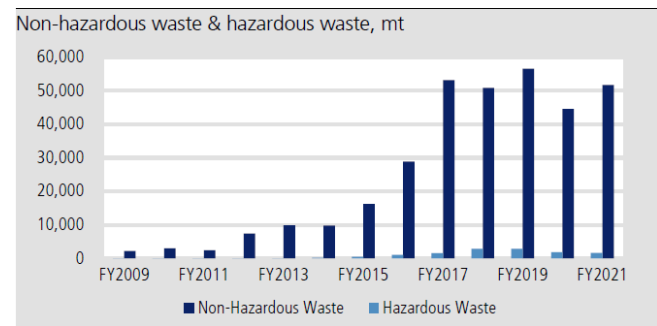
Source: Refinitiv, Company data

Figure 21: Apple – Gender diversification



Source: Refinitiv, Company data

Figure 22: Apple – Hazardous waste



Source: Refinitiv, Company data

Item	Definition
Energy use	Total direct and indirect energy consumption in gigajoules. - the total amount of energy that has been consumed within the boundaries of the company's operations - total energy use = total direct energy consumption + indirect energy consumption - purchased energy and produced energy are included in total energy use - for utilities, transmission/ grid loss as part of its business activities is considered as total energy consumed and data does not consider electricity produced to answer energy use (utility company produces to sell) - for utilities, raw materials such as coal, gas or nuclear used in the production of energy are not considered under 'total energy use'
Renewable energy purchased	Total primary renewable energy purchased in gigajoules. - energy consumed by the company from various sources and among the purchased energy, how much energy is renewable in nature (solar, wind, hydro, biomass, geothermal) are in scope - if there is no evidence that renewable energy is produced by the company, then we consider the reported energy figure as renewable energy purchased
Renewable energy use ratio	Renewable energy to total energy used
CO2 equivalent emissions	Direct CO2 and CO2 equivalent emissions in metric tons. - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)
CO2 equivalent emissions to sales	Direct CO2 and CO2 equivalent emissions (metric tons) to sales (NT\$m) - direct emissions from sources that are owned or controlled by the company (scope 1 emissions) - following gases are relevant: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorinated compound (PFCS), sulfur hexafluoride (SF6), nitrogen trifluoride (NF3)
Waste total	Total amount of waste produced in metric tons. - total waste = non-hazardous waste + hazardous waste - only solid waste is taken into consideration, exceptionally if liquid waste is reported in metric tons, then we do the summation to derive total including liquid waste - for sectors like mining, oil & gas, waste generation like tailings, waste rock, coal and fly ash are also considered
Waste recycling ratio	The waste recycling ratio as reported by the company. - waste recycling ratio = waste recycled/total waste*100 - waste to energy or waste incinerated with energy recovery are considered as waste recycled - waste recovered via composting is considered as recycled waste
Water withdrawal total	Total water withdrawal in cubic meters. - the total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities - different sources of water like wells, town/utility/municipal water, river water, and surface water are considered
Environmental expenditures	Total amount of environmental expenditures - all environmental investment & expenditures for environmental protection or to prevent, reduce, control environmental aspects, impacts, and hazards. It also includes disposal, treatment, sanitation, and clean-up expenditures
Turnover of employees	Percentage of employee turnover. - includes employees who left the company for any reason (voluntary or involuntary), such as resignations, retirement, natural departure/death, medical incapacitation, redundancy, layoffs, restructuring, dismissal, retrenchment or end of a fixed-term contract - employees turnover rate = (employees leaving/average number of employees)*100 - where the average number of employees = (employees at the end of the current year + employees at the end of the previous year)/2 - employees at the end of the current fiscal year = employees at the end of the previous fiscal year + new employees - employees leaving
Women managers	Percentage of women managers. - percentage of women managers among total managers of the company - if there is a breakdown by category in percentage, such as top, senior, middle, and junior management, then we consider the percentage of middle women managers - percentage of women managers = number of women managers/total number of managers*100
Women employees	Percentage of women employees. - percentage of women employees to the total number of employees of the company - percentage of women employees = number of women/total number of employees*100
Training hours total	Total training hours performed by all employees. - consider only employee training hours - includes all types of training given to general employees (such as health & safety, environmental, emergency response, skills & career development training) - if the value is given in days, multiply by 8, assuming that 1 day = 8 hours worked
Training hours per employee	Training hours per employee per year
Shareholders score	Shareholders category score measures a company's effectiveness towards equal treatment of shareholders and the use of anti-takeover devices.
Management score	Management category score measures a company's commitment and effectiveness towards following best practice corporate governance principles.
Product responsibility score	Product responsibility category score reflects a company's capacity to produce quality goods and services integrating the customer's health and safety, integrity and data privacy.
Community score	Community category score measures the company's commitment towards being a good citizen, protecting public health and respecting business ethics.
Workforce score	Workforce category score measures a company's effectiveness towards job satisfaction, healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce.
Resource use score	Resource use category score reflects a company's performance and capacity to reduce the use of materials, energy or water, and to find more eco-efficient solutions by improving supply chain management.

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