From: Richard Kahn [redacted]
Sent: Thursday, January 19, 2017 12:58 PM
To: jeffrey E.
Subject: Fwd: AAPL US: Apple Inc.: Price Objective Change - iPhone 8 likely to be a super-long cycle instead of boom-bust; Raising PO to $140 - BUY - United States

Richard =ahn
HBRK Associates Inc.
575 Lexington =venue 4th Floor
New York, NY 10022
[redacted]

Begin forwarded message:

From: =/b>"Ens, Amanda" <amanda.ens@baml.com>

Subject: =/b>AAPL US: Apple =nc.: Price Objective Change - iPhone 8 likely to be a super-long cycle =nstead of boom-bust; Raising PO to $140 - BUY - United States

Date: =/b>January 19, 2017 at 7:55:27 AM =ST

To: =/b>"Rich Kahn"<richardkahn12@gmail.com>

Reply-To: =/b>"Ens, Amanda" <amanda.ens@baml.com>

Raising Price Objective to =140 from $125

Global Research

Apple Inc.

iPhone 8 likely to be a super-long cycle =nstead of boom-bust; Raising PO to $140

Reiterate Rating: BUY

PO: 140.00 USD | Price: 119.99 USD

Equity | 19 January =017

Key takeaways

· =/span>OLED on one iPhone model can lead =o a longer iPhone 8 cycle with F18, F19 units growing high single =igits, ASPs higher

· =/span>Our installed base analysis =uggests replacement demand remains strong heading into the iPhone 8 =ycle

· =/span>Although we cut our near term =stimates, we view shares of Apple as attractive and Reiterate Buy. Our =O moves to $140

FULL REPORT

Strong cycle constrained =y OLED will become a long cycle

We raise our revenue and ASP =ssumptions on the iPhone 8 but take a more normalized multi-year view =n the iPhone 8 cycle (unlike the iPhone 6 cycle of 37% growth followed =y 8% unit decline). Given our expectation that Apple will introduce =hree models (7S, 7S+, 8) this fall (see our Asia iPhone Supply Chain =/span>note), we expect demand for 8 (OLED) will =utstrip supply for a longer term based on OLED panel supply as well as =trong upgrade demand from the installed base. Although we cut our near =erm estimates we view shares of Apple as attractive given (1) near term =eakness well understood, (2) potential for significantly tax advantaged =ash repatriation, (3) longer iPhone 8 cycle driving close to two years =f ~10% growth, (4) higher ASP on the iPhone 8 (also higher BOM), (5) =ontinued gross profit dollar growth, (6) strong iPhone upgrade =otential from the installed base and (7) optionality from increased =nshore cash for capital return and M&A. Our PO moves to $140. =eiterate Buy.

Upgrades from the =nstalled base drive growth in F18, F19

Figure 5 shows our iPhone installed base =nalysis in which we estimate the installed base at 560mn units as of =ec 2016. Figure 6 shows that ~70% of our F17/F18/F19 =Phone units are driven by upgrades. In our opinion the pent up demand =rom upgrades (last large cycle was iPhone 6) requires lower net share =ains from Android (which if better could drive additional upside). =/span>

Slightly lowering our =Phone units for Mar and Jun qtrs

We lower our iPhone units for the Mar =nd June quarters from 55mn/47mn to 50mn/44mn. We model 220mn (+4% Y/Y), =40mn (+9% Y/Y) and 266mn (+11% Y/Y) iPhone units for F17, F18 and F19, =espectively, vs. prior 230mn, 254mn and 266mn. Our iPad, Mac, and Watch estimates remain =nchanged.

Adjusting estimates, PO =oves to $140

Our PO moves to $140, from $125, on =2x our C2018 EPS estimate of $11.51. We view the potential =mplementation of a border adjusted tax (see deep dive note), trade conflicts and a stronger USD =s key risks for Apple in 2017.

Wamsi Mohan <mailto:wamsi.mohan@baml.com>
Research Analyst
MLPF&S
+1 646 855 3854

</=able>

This report is intended for amanda.ens@baml.com =o:p class="">

Click here to access the =esearch Library

Read the research report, available through the link above, =or complete information including important disclosures and analyst =ertification(s).

The research report and the link to such report are for the =se of Bank of America Merrill Lynch customers only and all copying, =edistribution, retransmission, publication, and any other dissemination =r use of the contents thereof are prohibited. There may be more recent =nformation available. Please visit one of the electronic venues that =arry BofA Merrill Lynch Global Research reports or contact your Bank of =merica Merrill Lynch representative for further information. "Bank of =merica Merrill Lynch" is the marketing name for the global banking and =lobal markets businesses of Bank of America Corporation.

Click here to stop or =odify the delivery of Research via Emails.

Publication: 60233451-11702391.pdf

Recipient: amanda.ens@baml.com <mailto:amanda.ens@baml.com>

http://rsch.baml.com/r?q=nBH4!KDsfqRKdA3deVNi!A&e=richa=dkahn12%40gmail.com&h=LA5MOw

2201204

=