Rapport Disnat GPS

Apple (AAPL, $112.52 USD)

Desjardins Online Brokerage

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Company Description

Apple is one of the largest and most stable companies in the world.

It has a very impressive portfolio of products (iPhone, iPad, Mac, Apple Watch. Apple TV, etc.) and services (Apple Pay, iCloud, etc.).

That said, we must not forget that the iPhone alone accounts for about 66% of the company's sales. Furthermore, sales of the iPhone are relatively concentrated geographically in the US (40%) and China (25%).

In this respect, and without wishing to draw a parallel to different situations, history teaches us to be cautious and remain vigilant with companies that have a large portion of their business tied to a single product.

This cautiousness is even more appropriate when we note that in the cellular business, champions of yesterday – BlackBerry, Nokia or Motorola – are now a shadow of their former selves!

Disnat GPS Portfolio Strategist Comments

To say that Apple is a large company is an understatement. With a market capitalization of about $600 billion, Apple is worth more than the five major Canadian banks combined.

In this context Apple is, in our view, an attractive stock since normally, the larger the company, the more stable it is, which is consistent with our investment philosophy.

However, it is very troubling that in this case, the company's sales depend so heavily on the iPhone.

In our opinion, Apple stock would be even more attractive if sales of goods and services other than the iPhone increased in magnitude.

Despite these concerns, related products are important because they help keep users within the Apple ecosystem, which is a major difference between this company and the BlackBerrys, Nokias and Motorolas of the world.

Financial Health

Fiscal Year	2013	2014	2015
Long term debt (in billions of dollars)	17	29	53
Debt/equity ratio	0.14	0.26	0.45

Apple's financial health is one of the strongest around.

Official figures report a debt of over $50 billion and a debt/equity ratio greater than 0.40, but Apple is actually in a much better position than these figures indicate: currently, the company holds cash of about $200 billion!

However, much of this cash is abroad. This is important because if Apple decides to bring these profits into the United States, the funds would be taxed as profit made within the US at a rate between 20 and 35%.

Although there are too many unknowns for us to make an accurate calculation, even if taxed at 50%, Apple would benefit from a cash influx that would be much greater than its debt.

We can therefore say that Apple has no net debt and clearly has a favourable cash position which must be taken into account in our valuation.

Growth

Compound Yield	1 year	3 years	5 years	10 years
Earnings	27%	14%	29%	32%
Earnings per share	42%	13%	33%	45%

Apple's growth of earnings and earnings per share over the past five or 10 years shows that this company has experienced a period of tremendous growth for a large cap company.

This growth is primarily due to sales of its iPhone. In addition to accounting for 66% of total company sales, this device showed a strong growth of 52% in 2015.

In comparison, sales of PCs ranked second with the Mac accounting for 11% of total sales and growing by only 6%. Sales of the iPad tablet accounted for approximately 10% of total sales, down 23%.

Geographically, sales in the US, which constitute almost 40% of Apple's total sales experienced a strong growth of 17% while China, which now accounts for a quarter of company sales grew by 84% in 2015.

Although the growth of iPhone sales is expected to slow, we believe it will continue to perform well, pending any new flagship products.

Valuation

Key Ratios	Apple	Apple (5 yr avg)	S&P 500
Price/earnings	13.1	14.3	19.8
Forward price/earnings	12.6	n.a.	19.3
Dividend yield	1.9 %	n.a.	2.30%

Apple's valuation, specifically its undervaluation, is one of the main reasons for our interest in this company.

In terms of price/earnings and forward price/earnings ratios, Apple stock currently trades at a significant discount compared to its average over the last five years.

In addition to trading at a discount to its own average, the stock also trades at a very large discount compared to the S&P 500. In this regard, an instant increase of 50% of this stock would result in a price/earnings ratio equal to the S&P 500.

At present, the market assigns much less value to $1 of Apple's earnings than $1 of earnings of an average company in the S&P 500.

We do not agree with the idea that more than 250 companies in the S&P 500 have stronger prospects than Apple.

At Disnat GPS, we believe that the market is not evaluating Apple at its fair value, and we are very pleased to hold the security at its current price in our portfolio of US equities.

Gouvernance

Fiscal Year	2011	2012	2013	2014	2015
Earnings per share ($)	3.95	6.31	5.68	6.45	9.22
Dividend ($)	0.00	0.38	1.63	1.81	1.98
Number of shares (millions)	6,557	6,617	6,522	6,123	5,793

In 2012 Apple introduced a dividend which it increased every year since, and we trust it will continue to do so for many years.

The company regularly buys back its shares. In fact, over the last five years, it has acquired more than 15%. The company maintains a stock repurchase program that it continues to use when conditions permit.

Historically, Apple is not a company that makes large acquisitions, and we believe that this philosophy will continue to apply.

In terms of internal investment, it must be understood that few new products or services can have a large and fast impact on a company the size of Apple.

As many consumers wish to stay within the Apple ecosystem, we can only continue to encourage the company to develop and promote its related products

Explanatory notes

Disnat GPS reports contain five separate sections, each followed by comments from the Disnat GPS Portfolio Strategist regarding the following:

1. Company Description

2. Financial Health

3. Growth

4. Valuation

5. Governance

At Disnat GPS, we believe that the topics, ratios and other financial figures presented here are particularly important.

However, for reasons of space, we can not publish all available data. We therefore invite you to read the additional financial information on the Disnat website.

Furthermore, this report is an analysis of the condition of a company today, with a medium to long term view. It is in no way an adequate tracking of daily activities of the stock market in general or of this particular company.

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