

Apple (AAPL:NASDAQ)

Value Investor Analysis at price \$186.12

Data from 2018 Annual report, which covers the period to 30 September 2018. Special section on Q1 2019 unaudited results.

Is the company large, prominent and important?

Market cap of \$865 billion and total capitalisation of \$1 trillion - yes

Current assets	Current liabilities	Ratio
\$131,339,000,000	\$116,866,000,000	1.12

Conservatively financed

AAPL has a current ratio of 1.13, which means AAPL can meet all its short term obligations. The ratio does not meet the formal minimum requirement of 2 to satisfy a defensive value investor, but the ratio is acceptable.

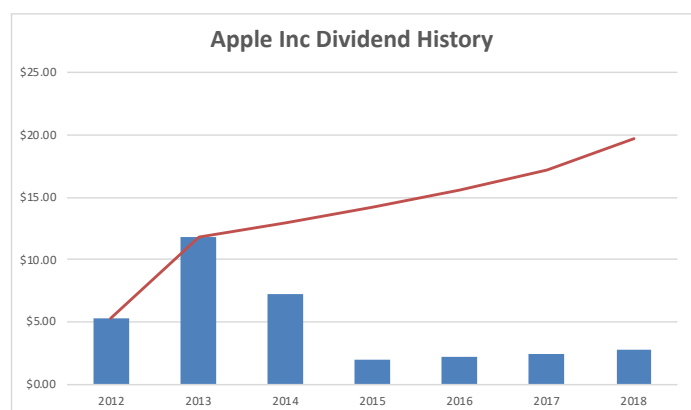
AAPL has total long term liabilities of \$142 billion, of which the funded debt is \$93 billion. The market capitalisation of the common stock is just over 10 times the value of the funded debt, so AAPL is conservatively financed on this measure.

Reported earnings before tax cover interest payments over 22 times, which is a very conservative ratio. This figure relates to the actual interest paid by AAPL on its debt. AAPL actually has a net interest income from its financial assets so AAPL has no problem meeting its interest obligations. AAPL is conservatively financed for a defensive value investor when considering the capacity of the company to meet its interest obligations.

Long term debt is less than current assets, which is also a conservative indicator.

Dividend

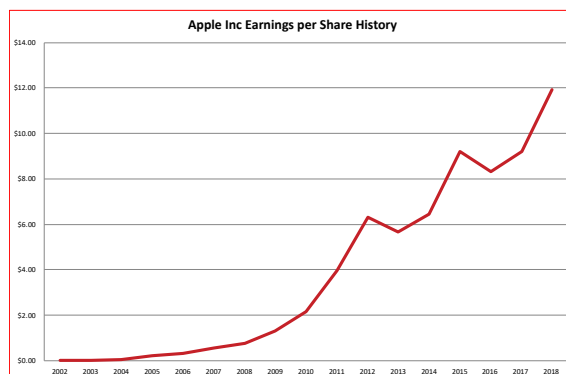
A regular dividend has only been paid since 2012 so AAPL does not meet the defensive value investor criterion for regular dividends. Estimated yield in 2019, is 1.52%, based on a total dividend of \$2.82 per share. The chart shows the actual dividend per share in blue bars and the dividend multiplied by 7 to show how the dividend has increased taking into account the share split in 2014. Apple has steadily



increased the dividend since 2012, which gives some confidence in future dividends. The dividend in 2019 is likely to increase so new purchasers are likely to get a higher yield.

Earnings

Reported earning per share needs to rise by at least one third over a reasonable time period of something like 10 years to meet the defensive investor criterion for earnings growth. Apple earnings have risen nearly 16 times in the last 10 years so easily meets the defensive value investor criterion for earnings growth.



The average earnings per share over the last three years is US\$9.81, which gives an average P/E ratio for the last three years of 18.978, which makes AAPL look somewhere around fair value to a tiny bit expensive at current prices. The current P/E ratio based on 2018 earnings is 15.6 so the current P/E makes AAPL look fair value to a little cheap. The P/E is being measured at a fairly high earnings level so there is some risk when looking at the PE. To balance the risk when looking at the 2018 earnings the Q1 earnings data makes AAPL look cheap. I will make some more comments on the Q1 data in the special section at the end of the report.

Depreciation

	2018	2017	2016
Depreciation and amortisation	\$10,903,000,000.00	\$10,157,000,000.00	\$10,505,000,000.00

Analysis, including depreciation and amortisation, is not included in the defensive investor criteria, but would be appropriate for a more entrepreneurial value investor. Depreciation at AAPL is very consistent and the values are small in comparison to earnings and market capitalisation so does not impact the analysis of AAPL's earnings numbers. Capex in 2018 was \$16.7 billion so capex is more than depreciation so the asset base at AAPL is increasing.

Price to book

Price to Book ratio is 8.68 so the price looks expensive in comparison with book value. AAPL has a relatively consistent price to book ratio around 8.5.

Defensive Value Investor-Conclusion

Defensive investor criteria	Pass or Fail
Large, prominent and important	Pass
Conservatively financed	Pass
Dividend Record	Fail
Earnings Record	Pass
Book value	Fail

Apple does not pass all the Defensive Value Investor tests. However, the dividend failure is a technical fail only as it is likely that the dividend will be consistent in the future. The price to book ratio makes Apple look expensive, but has been relatively consistent over the last few years. A defensive value investor could make an investment at something around current prices.

Enterprising Value Investor- Conclusion

An enterprising value investor with an understanding of how good AAPL is at using financial assets can make an investment at current prices. The Return on Equity (RoE) in 2018 was 55% up from 36% in 2017. Either way the, return on equity is excellent and will eventually be reflected in higher stock prices and dividends.

Q1 2019 Results

AAPL's unaudited results for Q1 2019 were released on January 29 2019. The highlight of the results is the Earnings per share (EPS) number of \$4.18. If this number was roughly repeated over the next three quarters the EPS for 2019 would be \$16.72. If 2019 EPS was \$16.72 the PE at the current price is around 11. AAPL has traded around a PE of 11 twice in the last 10 years and both times were good times to buy the stock for capital appreciation. A PE of 11 makes AAPL look cheap at current prices.