Macro Analysis on Apple Stock In order to determine investment value of Apple

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Abstract: The purpose of this article is to address the question of whether Apple is worth investing in by analyzing investment data on Apple's stock and Apple's own data. In this article, the author assumes 10,000 shares of Apple Inc stock from January 1, 2020, until August 2, 2022, and uses Yahoo Finance's historical data to calculate past earnings levels, combined with the author's macro analysis of Apple's economic conditions and market conditions to conclude that Apple is well worth investing in over the next 3-5 years.

Keywords: Apple stock; Investment value

1. Introduction

Apple is one of the most successful technology companies in the world, and its market value perennially maintain the top three companies in the world. As a result, Apple has been a very popular investment target. Over the decades of Apple's history, its competitors have changed, from IBM to Nokia to Samsung, each of which was a leading technology company of its time, but all of which eventually became the cornerstone of Apple's success. It is because of Apple's extraordinary competitiveness and unparalleled resilience that investors have never given up their enthusiasm for investing in Apple. This can also be seen in Apple's annual conference. Every September, Apple holds its annual launch event, which includes the annual update of the iPhone and the release of other new products. Each year's event attracts hundreds of millions of views, and this is a reflection of Apple's popularity. Therefore, the authors believe that it makes sense to choose such a representative and highly popular stock for investment analysis.

The main contribution of this paper is to provide retail investors with a trustworthy long-term investment target by analyzing macro data to draw a more credible conclusion about the long-term trend of Apple stock. There are still a significant number of retail investors who have doubts about holding the stock for more than one year, and this paper can provide a support point for these doubters to improve their portfolios.

2. The investment value analysis of Apple stock

Looking at the data from the past two years, Apple's stock has generally been on an upward trend, and although there has been a slowdown in growth in recent months, the overall downward trend has been relatively flat and not a cause for concern.

The excellent performance of Apple's stock over the past two years can be reflected in Apple's earnings performance. Apple has been the world's largest cell phone shipper for two consecutive years in 2020 and 2021 and has successfully regained the number one spot in the tablet market. At the same time, Apple's revenue, and net profit in both 2020 and 2021 far exceeded those of its direct competitor Samsung Electronics, and also became the world's No. 1 for two consecutive years. These figures are sufficient to explain Apple's excellent performance in

Fig 1. Monthly value of Apple Inc. stock, y-axis in unit of dollar
the stock market. At the same time, the analysis of the data of the past two years shows that Apple's stock only had negative monthly return in 3 out of the past 31 months, and basically maintained above 50% in the rest of the time (compared to January 1, 2020), which is enough to show that it is a very good decision to hold Apple's stock in the long term in the past two years.

If looking to the future, Apple's stock is also a worthy investment target. Apple just released its performance results after the bell in July 28. Apple's results came in better than many analysts had predicted, easing investors' concerns about slowing consumer demand. Not only that, but Apple's iPhone business has enough resilience as macroeconomic pressures have yet to dampen market demand for the smartphone. Here are some analysts' view on Apple stock. First, Wells Fargo analyst Aaron Rakers said in an analyst report that Apple has delivered good results and an upbeat forward-looking outlook despite a lot of uncertainty in the market and seemingly weak consumer spending. Most notably, Apple did not see any macro factors that could slow iPhone demand. However, Apple's other wearable accessories and digital advertising, for example, could be impacted somewhat." Rakers said Apple, like other companies, is facing pressure from foreign exchange, and economic trends are "quite challenging," but Apple has shown their resilience. Apple should be able to do better than the average personal computer and smartphone peer. Apple stock is therefore rated "Hold" with a price target of $185(Rakers). Secondly, Citi Research analyst Jim Suva also cheered Apple's "excellent performance. Apple's approximately $90 billion share repurchase program will continue to give the stock good support and even a strong boost," he wrote in an analyst report to clients. "Suva also said that iPhone 14 should be ready for release this September as planned, while Apple's foldable phone could enter production by 2024 at the latest. The iPhone 13 was the main driver of Apple's $83 billion in sales in the fiscal third quarter, according to Apple's industry-color report, and Apple's earnings were boosted by the iPhone despite lower-than-forecast sales of Mac computers. In his latest report, he gave a “Buy” rating to Apple, and the target price is also $185(Suva). Last but not least, of Tipranks' 27 analysts, 22 have a "buy" rating on Apple shares, four have a "hold" rating and one has a "sell" rating. The average price target for the one-year term is $183.12(Tipranks).

Moreover, as a blue-chip stock, Apple has been aggressively increasing its free cash flow (FCF) in recent years, and the company's FCF has risen 146.6% since the end of 2011.

That said, FCF has grown at a compound annual rate of 9.45% over the past 10 years, but this is due to the economic slowdown of the last year. Apple EBITDA margins have shown very good growth momentum over the last 20 years, and against the backdrop of EBITDA growth itself, this means the likelihood of further FCF growth for Apple over the next few years is quite high. With strong cash flow that has grown substantially over decades, Apple has been building cash on its balance sheet for years, eventually using it for new projects. Among those projects, AR/VR and Apple Cars are the focus of market attention and the reason Morgan Stanley raised its price target for Apple to $200 per share. Today, we know that Apple is developing products to address two huge markets - AR/VR and self-driving cars - and as we get closer to these products becoming a reality, we believe the valuation needs to reflect the optionality of these future opportunities." Two market segments will enrich Apple's portfolio, but more importantly provide a new wave of growth opportunities for Apple. The global autonomous car and AR/VR markets are expected to grow at long-term CAGRs of 22.7% and 46%, respectively. According to Statista, global autonomous car market share revenues are expected to reach $64.88 billion by 2026(Placek), and according to PR Newswire, the AR and VR market will reach $162.71 billion by 2025(Technavio). For this reason, long-term investors should not be deterred by Apple's current trading multiples, after all, the stock is likely more expensive in terms of P/E or EV/EBITDA.
Moreover, the expected growth in EBITDA and EPS proves that Apple remains an interesting and undervalued target from a long-term investment perspective.

![Fig 5. Apple Inc EBITDA Estimates and EV to EBITDA comparison](image)

People might concern that Apple is facing a potential pullback, but every stock rally has a cycle: stocks do not go up continuously. As stocks reach new highs, the upside momentum will become increasingly fragile. Add to that the fact that Apple is facing a series of problems, that might explain why analysts are starting to predict a slowdown in growth in the next few years when Apple is only looking at the future, developing self-driving cars and “dabbling” in developing the “Metaverse”. After all, Apple may not reap the major fruits of these projects until after 2025. Moreover, Apple's stock price has shown a declining trend. The recent Fed's aggressive rate hike policy has largely impacted the S&P, and Apple's technology sector has been the hardest hit. At the same time, Apple's stock price has been at its peak for a long time, and the Fed's aggressive rate hike policy in response to hyperinflation is likely to be an inflection point for Apple's stock price correction. Apple itself is facing many challenges against the backdrop of the black swan event of the new crown epidemic. The first is that supply chain problems caused by the outbreak could be amplified by Apple's product releases in the new quarter. As Apple's new generation of iPhones and other devices such as Air Pods, Apple Watch, iPad, etc. are equipped with Apple's most advanced chips, the chip shortage problem is likely to affect Apple's production capacity leading to a decline in supply capacity. Secondly, in the context of interest rate hikes and inflation, consumers' desire to consume in the post-epidemic era may be reduced, which may lead to Apple's new product sales hardly meeting expectations and may also lead to Q4 earnings report difficult to convince many investors. All things considered, Apple's share price is at risk of falling in the short term, but it is a positive for long-term investors. Because Apple's long-term goals are worth looking forward to, and the company will remain a leader in the next few years, so if Apple's stock price can fall 5%-10% from its highs, it will create a good buying opportunity for long-term investors.

3. Conclusion

Overall, the future performance of Apple stock is worth waiting for. Although the existing analysis shows that Apple's stock growth will slow down in the next few years, the overall growth will not stop, and Apple will still be able to maintain its position as a leading technology company in the next few years. Apple is not late to the game in terms of self-driving and VR, and we can expect high growth in these two markets in the next three to five years. If Apple can successfully launch competitive products, then we can even be more aggressive in our predictions for Apple's stock. Of course, even if Apple fails to catch up, Apple's current product line alone is enough to keep it competitive and maintain its stock growth. So, investment forecasts for Apple stock can be optimistic, and Apple has performed well enough to convince investors that Apple is a worthy long-term investment target.

Through the analysis of Apple's stock, the authors found that even a company like Apple, which has long been a leader in its industry, faces crises and risks. Of course, companies with sufficient volume, such as Apple, are more resilient to black swan events, so they can maintain their stock price or even rise against the trend in a downward environment, but no company can maintain its stock at all-time highs, so Apple is also at risk of a correction in its stock price in the near future. For investors, it is important to take advantage of the expected downward price movement and to see what the future holds to turn risk into opportunity. As discussed in the article, even though Apple's stock price will fall in the short term due to supply chain shortages and Fed rate hikes, it is still a stock worth holding in the long term. So, investors should also take advantage of the price correction window to buy stocks with upside potential.

References


