

4Q14 GM missed, but haptics looks brighter

Acoustic earnings disappointed; but, we turn more optimistic on AAC's haptics outlook

Action: Neutral maintained; TP raised to HKD54

AAC's 4Q14 GM (41.1% vs expectation ~42%) missed on worse-than-expected cost hikes (labour, molding) from new product ramps, as this is the first time that is was a major source for multiple components (acoustic parts and haptics) in new iPhones. However, we turn more optimistic on its haptics, as Apple looks serious in adopting Force Touch for more devices in the future (from MacBooks and Watch, to potentially iPhones and iPads), and haptics actuator is an important element to enable Force Touch. Hence, we raise our 2015/16F earnings by 4.4%/12.5% by factoring-in haptics' value increase from new iPhones in 2H15F and iPads from 2016F. We maintain our Neutral rating but raise our TP to HKD54 (based on 15x 2H15-1H16F EPS of CNY2.86).

4Q14 earnings missed on weak GM, 1Q15F outlook roughly in line

AAC reported 4Q14 EPS of CNY0.64 (+30% y-y, +43% q-q), missing consensus by 11%, mainly due to weak GM. 4Q14 GM of 41.1% was meaningfully below expectations of ~42%, due to labour cost hike, new product ramp-up costs, and ASP pressure on mature products. However, given that the GM of haptics+RF reached 47.9% in 2H14, we believe most margin issues were with acoustic products (acoustics GM fell from 45.7% in 1H14 to 42% in 2H14). Management expects 1Q15F sales to meet consensus estimates (-18~20%q-q) and 1Q15F GM at 4Q14 level (in line). Management believes acoustic revenues will resume growth in 2015 (vs -10% in 2014), driven by rising adoption of speaker boxes in USD100-150 smartphones.

We turn more optimistic on haptics, given the trend of Force Touch

For haptics, we turn more positive, as more indications (see [Apple's Spring Forward launch](#)) show that Apple (AAPL US, Neutral) may adopt Force Touch across its product lines. We believe haptics is an important element to enable Force Touch (see Figs 1 and 2). We think AAC will benefit from iPhone haptics' value increase from 2H15F and iPad's new adoption of haptics in 2016F.

Year-end 31 Dec	FY13	FY14F		FY15F		FY16F	
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	8,096	8,807	8,879	10,987	11,923	11,586	12,993
Reported net profit (mn)	2,578	2,414	2,318	3,174	3,315	3,266	3,674
Normalised net profit (mn)	2,578	2,414	2,318	3,174	3,315	3,266	3,674
FD normalised EPS	2.10	1.97	1.89	2.58	2.70	2.66	2.99
FD norm. EPS growth (%)	46.2	-6.3	-10.1	31.5	43.0	2.9	10.9
FD normalised P/E (x)	18.2	N/A	20.2	N/A	14.3	N/A	12.9
EV/EBITDA (x)	16.1	N/A	14.8	N/A	10.2	N/A	8.7
Price/book (x)	5.9	N/A	5.1	N/A	4.1	N/A	3.4
Dividend yield (%)	2.2	N/A	2.0	N/A	2.8	N/A	3.1
ROE (%)	36.7	28.0	27.1	30.4	31.9	26.1	28.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

26 March 2015

Rating Remains	Neutral
Target price Increased from 49.00	HKD 54.00
Closing price 25 March 2015	HKD 48.20
Potential upside	+12%

Anchor themes

AAC's growth in acoustic components is nearing saturation. Exploring non-acoustic component growth opportunities is key for its mid- to long-term outlook.

Nomura vs consensus

Our FY15F earnings are 7% higher than consensus as we are more positive on AAC's haptics sales contribution given the trend of Force Touch in Apple's products.

Research analysts

Asia Technology

Anne Lee, CFA - NITB

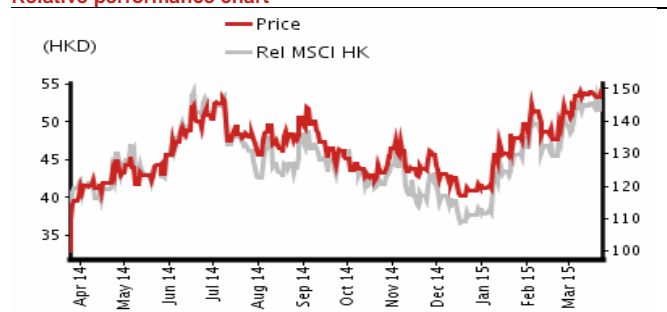
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Key data on AAC Technologies

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (HKD)	-4.7	17.7	46.5	M cap (USDmn)	7,633.1
Absolute (USD)	-4.7	17.8	46.6	Free float (%)	50.0
Rel to MSCI HK	-5.3	17.1	33.7	3-mth ADT (USDmn)	20.2

Income statement (CNYmn)

Year-end 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Revenue	6,283	8,096	8,879	11,923	12,993
Cost of goods sold	-3,509	-4,637	-5,201	-6,963	-7,575
Gross profit	2,774	3,459	3,678	4,959	5,418
SG&A	-925	-1,083	-1,193	-1,400	-1,455
Employee share expense					
Operating profit	1,849	2,376	2,485	3,559	3,963
EBITDA	2,175	2,813	3,160	4,421	4,951
Depreciation	-326	-437	-675	-862	-987
Amortisation					
EBIT	1,849	2,376	2,485	3,559	3,963
Net interest expense	-12	-11	-14	-15	-15
Associates & JCEs					
Other income	179	470	109	180	180
Earnings before tax	2,016	2,835	2,581	3,724	4,128
Income tax	-259	-263	-270	-410	-454
Net profit after tax	1,757	2,571	2,310	3,315	3,674
Minority interests	6	6	7	0	0
Other items					
Preferred dividends					
Normalised NPAT	1,763	2,578	2,318	3,315	3,674
Extraordinary items					
Reported NPAT	1,763	2,578	2,318	3,315	3,674
Dividends	-740	-1,050	-933	-1,326	-1,470
Transfer to reserves	1,022	1,528	1,385	1,989	2,205

Valuations and ratios

Reported P/E (x)	27.0	18.2	20.2	14.3	12.9
Normalised P/E (x)	27.0	18.2	20.2	14.3	12.9
FD normalised P/E (x)	27.0	18.2	20.2	14.3	12.9
Dividend yield (%)	1.6	2.2	2.0	2.8	3.1
Price/cashflow (x)	31.0	18.4	17.9	10.2	11.1
Price/book (x)	7.8	5.9	5.1	4.1	3.4
EV/EBITDA (x)	21.7	16.1	14.8	10.2	8.7
EV/EBIT (x)	25.6	19.1	18.8	12.6	10.9
Gross margin (%)	44.2	42.7	41.4	41.6	41.7
EBITDA margin (%)	34.6	34.7	35.6	37.1	38.1
EBIT margin (%)	29.4	29.3	28.0	29.9	30.5
Net margin (%)	28.1	31.8	26.1	27.8	28.3
Effective tax rate (%)	12.8	9.3	10.5	11.0	11.0
Dividend payout (%)	42.0	40.7	40.3	40.0	40.0
ROE (%)	25.1	36.7	27.1	31.9	28.8
ROA (pretax %)	23.2	29.8	24.9	28.6	29.4

Growth (%)

Revenue	28.9	28.9	9.7	34.3	9.0
EBITDA	29.3	29.3	12.3	39.9	12.0
Normalised EPS	46.2	46.2	-10.1	43.0	10.9
Normalised FDEPS	46.2	46.2	-10.1	43.0	10.9

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
EBITDA	2,175	2,813	3,160	4,421	4,951
Change in working capital	-105	-105	-885	523	-358
Other operating cashflow	-535	-160	343	-285	-329
Cashflow from operations	1,535	2,548	2,618	4,659	4,264
Capital expenditure	-1,163	-695	-1,900	-1,500	-1,000
Free cashflow	373	1,853	718	3,159	3,264
Reduction in investments	-120	-120	-13	-90	-90
Net acquisitions					
Dec in other LT assets	-66	-66	-327	-6	0
Inc in other LT liabilities	22	22	20	0	0
Adjustments	-12	143	269	46	40
CF after investing acts	196	1,831	668	3,109	3,214
Cash dividends	-417	-740	-1,050	-933	-1,326
Equity issue	0	0	0	0	0
Debt issue	191	-21	0	0	0
Convertible debt issue					
Others	-30	-30	0	0	0
CF from financial acts	-256	-791	-1,050	-933	-1,326
Net cashflow	-60	1,040	-381	2,177	1,888
Beginning cash	1,374	1,314	2,354	1,603	3,779
Ending cash	1,314	2,354	1,973	3,779	5,667
Ending net debt	-1,446	-1,446	-185	-2,361	-4,249

Balance sheet (CNYmn)

As at 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Cash & equivalents	1,314	2,354	1,603	3,779	5,667
Marketable securities	6	2	4	4	4
Accounts receivable	1,854	2,229	3,250	3,577	3,898
Inventories	958	832	1,267	1,741	1,894
Other current assets	475	385	626	626	626
Total current assets	4,607	5,802	6,750	9,727	12,089
LT investments	245	369	380	470	560
Fixed assets	3,624	3,969	5,285	5,923	5,936
Goodwill	12	33	33	33	33
Other intangible assets					
Other LT assets	437	504	831	837	837
Total assets	8,926	10,677	13,279	16,990	19,455
Short-term debt	1,035	908	1,418	1,418	1,418
Accounts payable	809	874	0	1,323	1,439
Other current liabilities	908	896	2,583	2,583	2,583
Total current liabilities	2,751	2,679	4,001	5,324	5,440
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	44	66	86	86	86
Total liabilities	2,796	2,745	4,088	5,411	5,527
Minority interest					
Preferred stock	0	0	0	0	0
Common stock	100	100	100	100	100
Retained earnings	5,979	7,776	9,038	11,426	13,775
Proposed dividends					
Other equity and reserves	52	56	54	54	54
Total shareholders' equity	6,130	7,932	9,192	11,579	13,928
Total equity & liabilities	8,926	10,677	13,279	16,990	19,455

Liquidity (x)

Current ratio	1.67	2.17	1.69	1.83	2.22
Interest cover	153.7	207.2	181.5	236.2	263.0

Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Per share

Reported EPS (CNY)	1.44	2.10	1.89	2.70	2.99
Norm EPS (CNY)	1.44	2.10	1.89	2.70	2.99
FD norm EPS (CNY)	1.44	2.10	1.89	2.70	2.99
BVPS (CNY)	4.99	6.46	7.49	9.43	11.34
DPS (CNY)	0.60	0.85	0.76	1.08	1.20

Activity (days)

Days receivable	92.0	92.0	112.6	104.5	105.3
Days inventory	70.4	70.4	73.6	78.8	87.8
Days payable	66.2	66.2	30.7	34.7	66.7
Cash cycle	96.2	96.2	155.6	148.7	126.4

Source: Company data, Nomura estimates

Haptics is a key by-product of new Force Touch function in Apple's devices

Apple may adopt Force Touch across product lines in the next 1-2 years: from Watch=>MacBooks=>iPhones=> iPads

In Apple's Spring Forward event on 9 March (please see [our report](#)), the major surprise to us was that the new MacBooks (eg, 12" MacBook and 13" MacBook Pro Retina), together with Apple Watch, are all equipped with "Force Touch" function. The new MacBooks have Force Touch Track Pad, with a taptic engine built inside the track pad. Apple Watch, same as announced in Sep 2014, has a taptic engine inside and can do Force Touch.

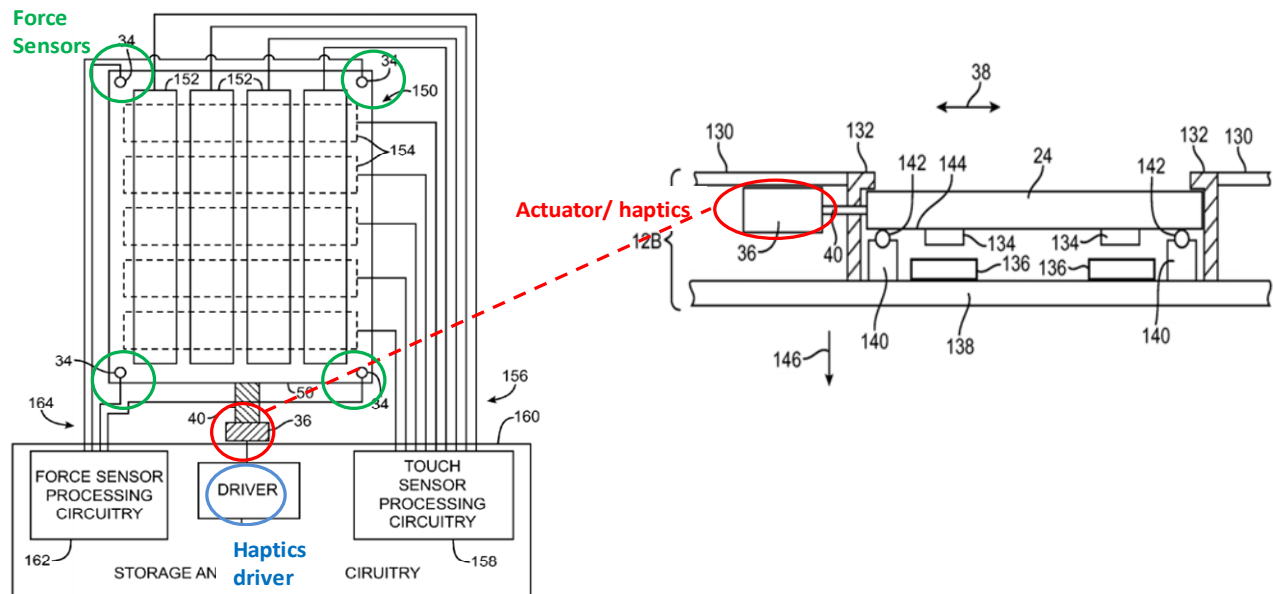
Echoing our highlight in our [Anchor Report of Apple supply chain](#) that the next-generation iPhones in 2015 may adopt 3D-touch (or known as Force Touch) new function, the widening adoption of Force Touch into MacBooks leads us believe that Apple is likely planning to adopt Force Touch function across its different product lines, from Watch and MacBooks, to iPhones and eventually iPads.

Haptics is a key element to enable Force Touch

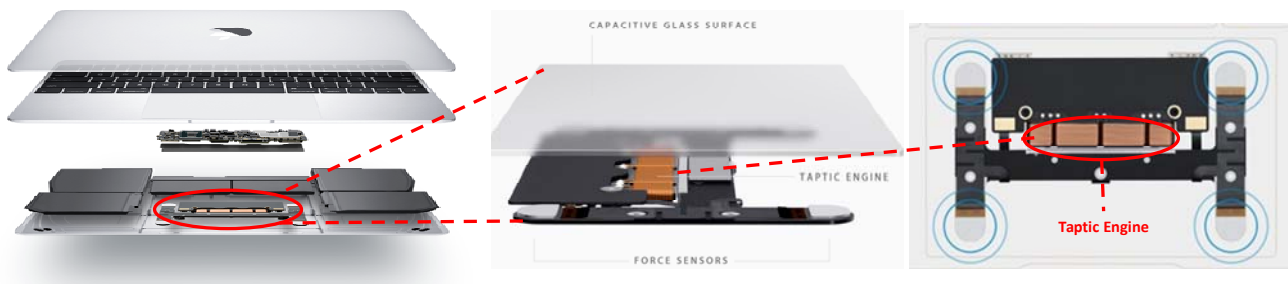
Apple's US patent No. 8,633,916, which looks similar to the design principles of MacBook's Force Touch Track Pad (See Fig 1 versus Fig 2), states:

*"When actuator 36 is driven by a control signal, actuator 36 drives arm 40 toward and/or away from planar touch pad member 24 (e.g. in lateral directions 38 parallel to the X-axis in the FIG.2 example). **The movement imparted by actuator 36 is sometimes referred to as tactile feedback, because this type of movement may be provided in response to a button actuation event.** Users tend to expect that button actuation events will result in a clicking feel and sound. By driving actuator 36 appropriately, vibrations or other movement in touch pad 24 may produce a desired tactile experience for the user (e.g. in the tips of fingers 26). For example, it may feel to the user as if pad 24 moved downwards and engaged a conventional mechanical switch, when in actuality, for sensors 34 allowed relatively little vertical movement of member 24 because touch pad member 24 is mounted in a substantially fixed location within housing 12B. If desired, actuator 36 can impart force to bar 40 and therefore touch pad member 24 in response to other criteria (e.g., when certain software conditions arise, when the user makes certain gestures that are sensed using the touch sensor portion of touch pad 20, etc.). "*

In Apple Watch (Fig 3), taptic engine is also an important element, coming together with Force Touch, to provide more sophisticated notices for different user scenarios.

Fig. 1: Apple's Force Touch Track Pad patent (US 8,633,916)

Source: Apple, USPTO

Fig. 2: Force Touch Track Pad of 12" new MacBook: Taptic Engine is an important element of the Force Touch Track Pad

Source: Apple

Fig. 3: Apple Watch has Force Touch function, and Taptic Engine is one of the key parts inside.

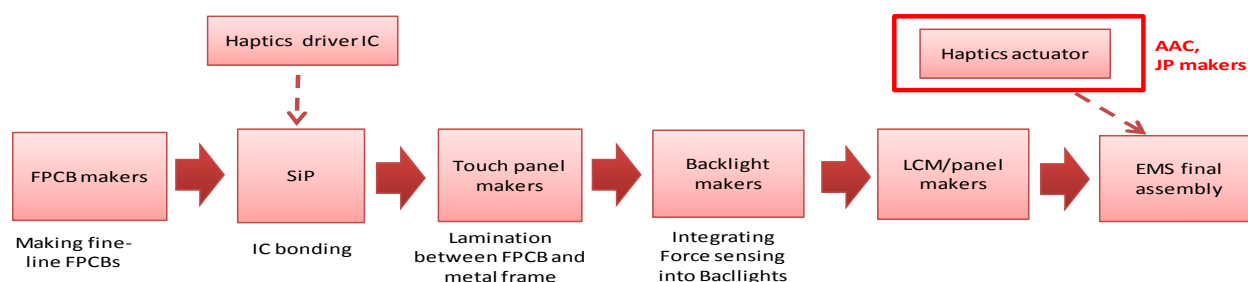
Source: Apple

iPhone likely to adopt Force Touch in 2H15F

In our [Anchor Report of Apple supply chain](#) report, we stated that next-generation iPhones in 2015 may adopt 3D-touch (or call Force Touch) as a new function. We think the requirements of haptics performance will likely be lifted to support Force Touch. This could represent a value increase for haptics, and may benefit AAC from 2H15F to 2016F.

Fig 4 illustrates the indication of potential supply chain flow of Apple's new Force Touch function for iPhone 6S and 6S Plus. Aside from AAC's haptics actuator, we believe a haptics driver IC will likely be integrated into Force Touch SiP package, to control the actuator to provide tactile feedbacks from Force Touch. In Fig 5, we highlight the migration of iPhone's vibrators and haptics actuators. We have seen a significant upgrade in iPhone 6/6+ to advanced LRA, from iPhone 5's traditional ERM. With Force Touch coming in iPhone from 2H15F, we think there is a possibility of further upgrade in haptics.

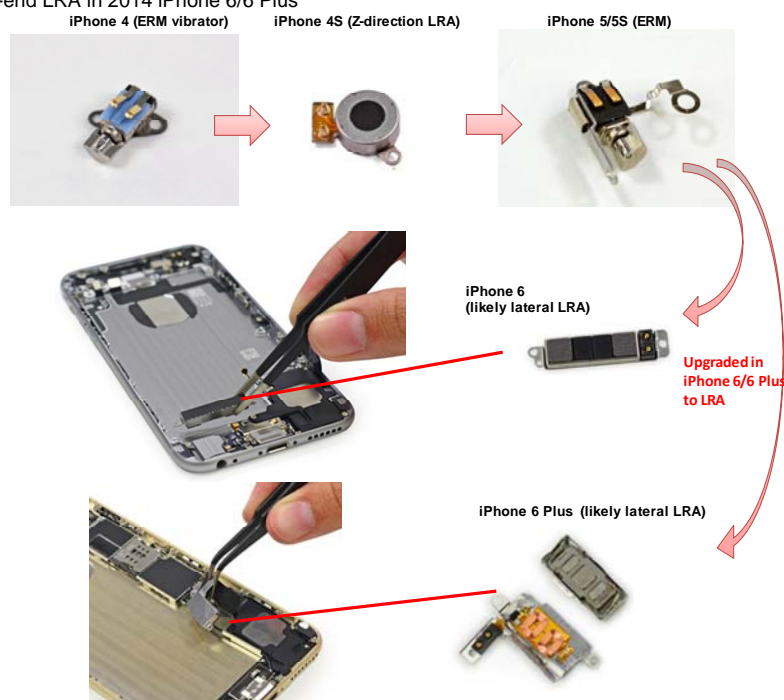
Fig. 4: 2015F new iPhone 6S/6S Plus likely use Force Touch, with enhanced haptics function (likely Taptic Engine)



Source: Nomura Research

Fig. 5: History of haptics actuators/vibrators used in iPhones

A significant upgrade to higher-end LRA in 2014 iPhone 6/6 Plus



Source: Apple, iFixit

4Q14 results missed on weak GM

Despite in-line 4Q14 sales of CNY3,099 (+42% y-y, +50% q-q), AAC reported 4Q EPS of CNY0.64 (+30% y-y, +43% q-q), missing ours/consensus forecasts by 11/12%, due to weak GM. 4Q14 GM of 41.1% (down 1.2ppt q-q, down 1.7ppt y-y) was meaningfully below expectations, and this was the first time that peak season doesn't have margin leverage effect on greater scale. Management attributed the weak GM to labour cost hike (given the sharp increase of sales scale), new product ramp-up costs, and ASP pressure on mature products. However, given that the GM of haptics+RF reached 47.9% in 2H14, we believe most of the margin issues were with acoustic products (which GM dropped from 45.7% in 1H15 to 42% in 2H15).

Fig. 6: AAC: 4Q14 results

(CNY mn)	4Q14 results	NMR	Diff %	4Q14 consensus	Diff %
Total sales	3,099	3,026	2.4	3,146	(1.5)
Gross profit	1,275	1,309	(2.7)	1,335	(4.5)
Operating profit	862	979	(11.9)	962	(10.4)
Pretax profit	879	1,006	(12.6)	981	(10.4)
Net profit	788	885	(10.9)	890	(11.4)
EPS (CNY)	0.642	0.721		0.740	
Margins (%)			Diff (ppt)		Diff (ppt)
Gross margin	41.1	43.3	(2.1)	42.4	(3.1)
Operating margin	27.8	29.6	(1.7)	30.6	(9.1)
Pretax margin	28.4	31.4	(3.0)	31.2	(9.1)
Net margin	25.4	27.6	(2.2)	28.3	(10.1)

Source: Company data, Bloomberg, Nomura estimates

We turn more positive for haptics and raise 2015/16F earnings by 4.4%/12.5%

Although we cut our 2015/16F gross margin assumptions for acoustic parts on the rising labour costs and continued ASP pressure, we lift our haptics estimates by assuming a moderate ASP increase (about 10-15% price increase) for next generation iPhones' haptics in 2H15F, and the new adoptions of haptics for Force Touch in iPads from 2016F. As haptics is margin accretive, we believe it can partially offset the margin pressure from acoustic products.

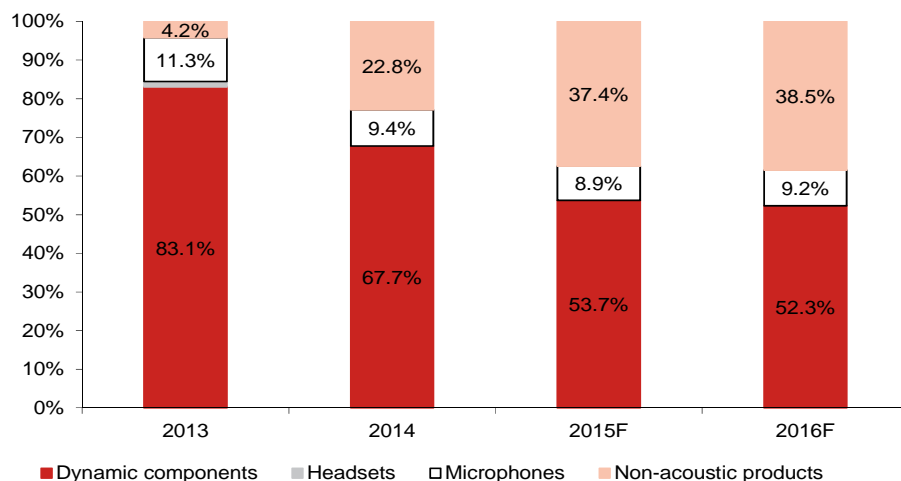
In sum, our 2015F/16F sales are revised upwards by 8.5%/12.1%, and 2015F GM is at 41.6% (down from prior 42.3%). Our 2015/16F earnings are up 4.4%/12.5%.

Fig. 7: Earnings revisions

(CNY mn)	New forecasts			Previous forecasts			Change (%)		
	2014	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Revenues	8,879	11,923	12,993	8,807	10,987	11,586	0.8	8.5	12.1
Gross profit	3,678	4,959	5,418	3,713	4,651	4,809	(0.9)	6.6	12.7
Operating profit	2,485	3,559	3,963	2,603	3,440	3,544	(4.5)	3.5	11.8
Pre-tax profit	2,581	3,724	4,128	2,708	3,607	3,712	(4.7)	3.2	11.2
Net profit	2,318	3,315	3,674	2,415	3,174	3,266	(4.0)	4.4	12.5
EPS (CNY)	1.89	2.70	2.99	1.97	2.58	2.66			
Margins (%)									
Gross margin	41.4	41.6	41.7	42.2	42.3	41.5	(0.7)	(0.7)	0.2
Operating margin	28.0	29.9	30.5	29.6	31.3	30.6	(1.6)	(1.5)	(0.1)
Pretax margin	29.1	31.2	31.8	30.8	32.8	32.0	(1.7)	(1.6)	(0.3)
Net margin	26.1	27.8	28.3	27.4	28.9	28.2	(1.3)	(1.1)	0.1

Source: Company data, Nomura estimates

Fig. 8: AAC: sales mix by products



Source: Company data, Nomura estimates

Neutral maintained, but lift TP to HKD54

With our 2015/16F earnings upwardly revised on a more optimistic haptic outlook, we raise our TP to HKD54, based on 15x 2H15-1H16F EPS of CNY2.86. We maintain our Neutral rating on the shares.

Valuation methodology: Our target price of HKD54 is based on 15x 2H15-1H16F EPS of CNY2.86. Our target multiple of 15x P/E is at the mid-range of the company's historical P/E range of 10-21x.

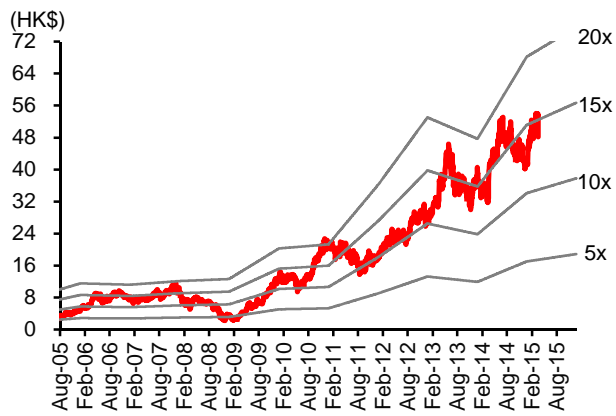
Risks to our TP: Downside/upside risks to our investment view include: 1) lower/strong growth from smartphone acoustic parts, 2) slower-than-expected expansion into the non-acoustic business, 3) worse-than-expected smartphone and tablet PC industry growth, and 4) weaker-than-expected macro conditions.

Fig. 9: AAC: quarterly financial forecasts

(CNY mn)	1Q14	2Q14	3Q14	4Q14	2014	1Q15F	2Q15F	3Q15F	4Q15F	2015F	1Q16F	2Q16F	3Q16F	4Q16F	2016F
Net sales	1,854	1,862	2,064	3,099	8,879	2,510	2,874	2,871	3,668	11,923	2,901	3,103	3,158	3,830	12,993
COGS	(1,109)	(1,077)	(1,191)	(1,824)	(5,201)	(1,476)	(1,665)	(1,668)	(2,154)	(6,963)	(1,711)	(1,799)	(1,821)	(2,243)	(7,575)
Gross profit	745	785	873	1,275	3,678	1,034	1,209	1,202	1,514	4,959	1,190	1,304	1,337	1,587	5,418
Op expenses	(226)	(273)	(281)	(413)	(1,193)	(293)	(328)	(340)	(439)	(1,400)	(311)	(344)	(350)	(449)	(1,455)
Op profit	520	512	592	862	2,485	741	882	862	1,075	3,559	879	960	986	1,138	3,963
Non-op income	21	40	17	17	95	41	41	41	41	165	41	41	41	41	165
Pre-tax profit	541	552	609	879	2,581	782	923	903	1,116	3,724	920	1,002	1,027	1,179	4,128
Net profit	487	493	550	788	2,318	696	821	804	993	3,315	819	891	914	1,049	3,674
EPS (CNY)	0.397	0.401	0.448	0.642	1.887	0.567	0.669	0.655	0.809	2.699	0.667	0.726	0.745	0.855	2.992
Operating ratios (%)															
Gross margin	40.2%	42.1%	42.3%	41.1%	41.4%	41.2%	42.1%	41.9%	41.3%	41.6%	41.0%	42.0%	42.3%	41.4%	41.7%
Operating margin	28.0%	27.5%	28.7%	27.8%	28.0%	29.5%	30.7%	30.0%	29.3%	29.9%	30.3%	30.9%	31.2%	29.7%	30.5%
Pre-tax profit margin	29.2%	29.6%	29.5%	28.4%	29.1%	31.2%	32.1%	31.5%	30.4%	31.2%	31.7%	32.3%	32.5%	30.8%	31.8%
Net profit margin	26.3%	26.5%	26.6%	25.4%	26.1%	27.7%	28.6%	28.0%	27.1%	27.8%	28.2%	28.7%	29.0%	27.4%	28.3%
Year-to-year (%)															
Net sales	-3%	-3%	-1%	42%	10%	35%	54%	39%	18%	34%	16%	8%	10%	4%	9%
Gross profit	-8%	-5%	-1%	36%	6%	39%	54%	38%	19%	35%	15%	8%	11%	5%	9%
Operating profit	-2%	-10%	-5%	33%	5%	43%	72%	46%	25%	43%	19%	9%	14%	6%	11%
Pre-tax profit	-8%	-7%	-39%	33%	-9%	45%	67%	48%	27%	44%	18%	9%	14%	6%	11%
Net profit	-9%	-9%	-39%	30%	-10%	43%	67%	46%	26%	43%	18%	9%	14%	6%	11%
Qtr-to-Qtr (%)															
Net sales	-15%	0%	11%	50%		-19%	14%	0%	28%		-21%	7%	2%	21%	
Gross profit	-20%	5%	11%	46%		-19%	17%	-1%	26%		-21%	10%	2%	19%	
Operating profit	-20%	-2%	16%	46%		-14%	19%	-2%	25%		-18%	9%	3%	15%	
Pre-tax profit	-18%	2%	10%	44%		-11%	18%	-2%	24%		-18%	9%	3%	15%	
Net profit	-19%	1%	12%	43%		-12%	18%	-2%	24%		-18%	9%	3%	15%	

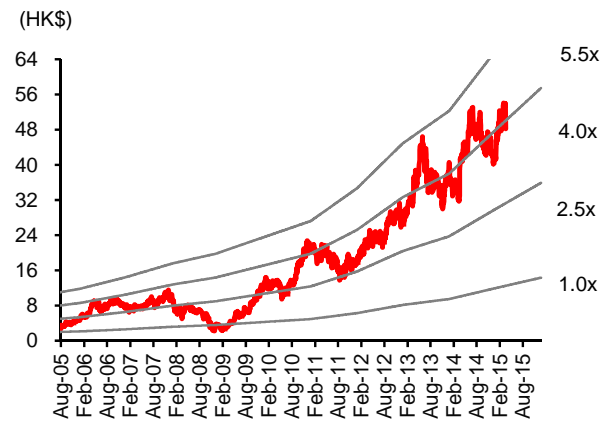
Source: Company data, Nomura estimates

Fig. 10: AAC: P/E bands



Source: Bloomberg, Nomura estimates

Fig. 11: AAC: P/E bands



Source: Bloomberg, Nomura estimates

Appendix A-1

Analyst Certification

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
AAC Technologies	2018 HK	HKD 48.20	25-Mar-2015	Neutral	N/A	
Apple, Inc.	AAPL US	USD 126.69	24-Mar-2015	Neutral	Neutral	A1,A2

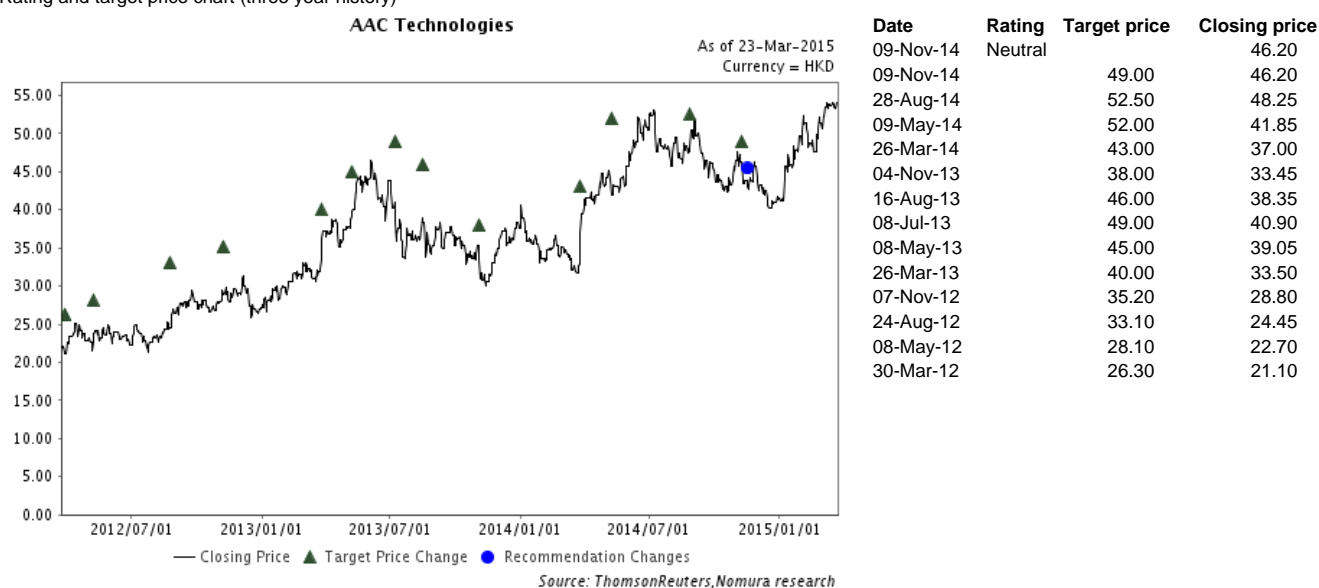
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A2 The Nomura Group had a non-investment banking securities related services client relationship with the issuer during the past 12 months.

AAC Technologies (2018 HK)

HKD 48.20 (25-Mar-2015) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



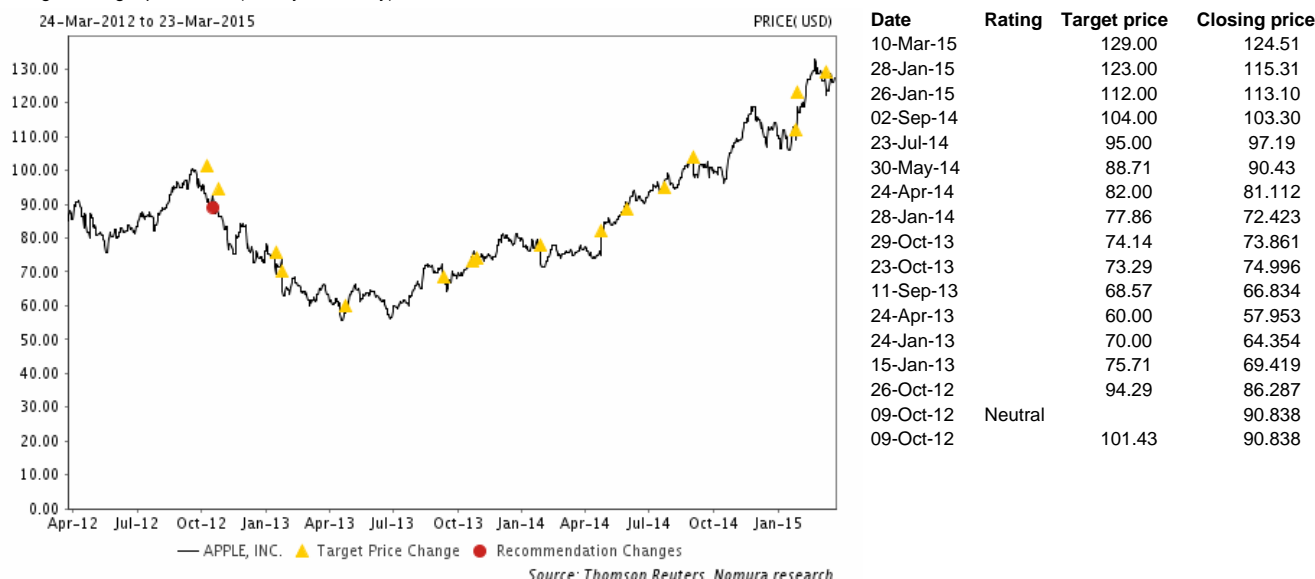
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of HKD54 is based on 15x 2H15-1H16F EPS of CNY2.86. Our target multiple of 15x P/E is at the mid range of the company's historical P/E range of 10-21x. The benchmark index for this stock is MSCI HK.

Risks that may impede the achievement of the target price Downside/upside risks to our investment view include: 1) lower/strong growth from smartphone acoustic parts, 2) slower-than-expected expansion into the non-acoustic business, 3) worse-than-expected smartphone and tablet PC industry growth, and 4) weaker-than-expected macro conditions.

Apple, Inc. (AAPL US)**USD 126.69 (24-Mar-2015)** Neutral (Sector rating: Neutral)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Apple on a slight discount to the market PE to reflect: a) slowing growth rates, and b) the risk inherent in any consumer electronics focused company. On a 10% discount to the market and based on our CY16E estimates, we derive our target price of \$129. The benchmark index for this stock is the NASDAQ Composite.

Risks that may impede the achievement of the target price Downside risks include: 1) growing competitive threats in the device markets; 2) inability to deliver compelling new devices that support revenue growth; 3) inability to maintain device margins due to competition and/or rising component costs; 4) reduced carrier subsidy support, which could increase iPhone's price to consumers; 5) availability of key components from suppliers; and 6) negative impact from sustained weakness in the global economy. Upside risks include: 1) Apple developing and introducing new high-margin products that enable the company to disrupt the industry and take market share; and 2) Apple's ability to deliver a smartphone that addresses the low-end device market while maintaining its market-leading margins.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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