

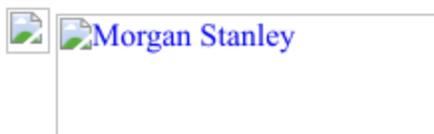
From: Richard Kahn <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: Apple, Inc.: China Smartphone Market to Blame for Weak iPhone Data; Wearables and Services Provide an Offset
Date: Fri, 07 Dec 2018 10:23:01 +0000

Richard Kahn
HBRK Associates Inc.

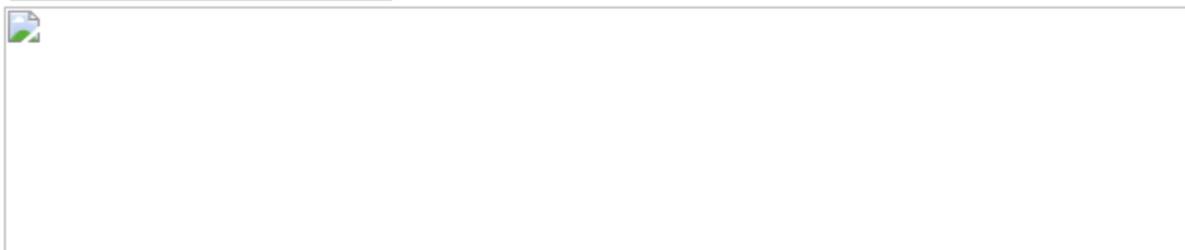


Begin forwarded message:

From: "Morgan Stanley" <[REDACTED]>
Date: December 7, 2018 at 3:14:20 AM EST
To: <[REDACTED]>
Subject: Apple, Inc.: China Smartphone Market to Blame for Weak iPhone Data; Wearables and Services Provide an Offset
Reply-To: <[REDACTED]>



Wealth Management



[Apple, Inc.: China Smartphone Market to Blame for Weak iPhone Data; Wearables and Services Provide an Offset](#)



Katy L. Huberty, CFA – Morgan Stanley

December 7, 2018 8:08 AM GMT

We lower FY19 iPhone units after Asia meetings highlight lengthening replacement cycle and churn in China. Despite iPhone units -8% Y/Y, FY19 Rev and EPS grow, aided by Services & Wearables, which isn't fully appreciated by investors. Lower estimates and peer multiples drive PT to \$236 (from \$253).

China smartphone market responsible for recent weak iPhone data points...Our recent meetings in Asia highlight a weakening China smartphone market, especially at the high-end where suppliers have seen order cuts across most vendors. Importantly, our Google trends analysis suggests global demand for the new iPhones is holding up, at least relative to past cycles, after the XR launch in November (1) which, combined with strong uptake of higher NAND capacities and better than expected mix of XS and XS Max, suggest iPhone revenue downside is largely isolated to China. ...and replacement cycles are to blame. China is following in the footsteps of the US with replacement cycles lengthening after a structurally shorter cycle over the last decade. We attribute this to improving product quality across most vendors and smartphone ASPs that are up 22% in the past two years (per IDC). Our analysis of shipment data suggests that for the broader China smartphone market, replacement cycles have lengthened materially in the past two years (2), but for Apple, the replacement cycle lengthening in China has been more pronounced, with implied replacement even longer than the market over the past year (3). Assuming iPhone replacement cycles in China extend another 6-9 months implies 9-15M unit downside, and we therefore lower our FY19 unit estimates by 13M units to 200M (from 213M), equating to 8% Y/Y unit declines. But, we also see some risk of churn at the low-end of Apple's portfolio. As China smartphone vendors introduce new features, like triple camera, we believe iPhone could see some share loss at that low-end of its iPhone portfolio. For example, a new Huawei Mate 20 Pro sells for 6,999R

This alert is sent from:

Andrew Atlas, [REDACTED]

You received this because you requested that you receive content and reports from:
APPLE INC.

Please contact your FA if you want to unsubscribe from the alerts.



Disclosures:

Please see the full report for risks, disclosures and other important information.



Important disclosures regarding the relationship between the companies that are referenced in Morgan Stanley research and Morgan Stanley Wealth Management research are available on the Morgan Stanley Wealth Management disclosure website at <https://www.morganstanley.com/online/researchdisclosures>.

Morgan Stanley Wealth Management Not Acting as Municipal Advisor

Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

Copyright

The copyright in materials provided by Morgan Stanley is owned by Morgan Stanley & Co. LLC. Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States.

