Apple (AAPL US)

Muted iPhone 18 Pro Cycle and Rising Memory Costs

Maintained **Hold**

Target price US$334

Lower TP to $334, Hold rating: Driven by investors being away from AI themes, Apple share price outperformed Nasdaq by 7.2% in the past one month. However, we continue to expect muted cycle of iPhone 18 P/PM with constrained volume of iPhone Duo. Additionally, memory cost hike will last longer than expected, driven by our view of tight DRAM/NAND supply, and we expect cost hikes throughout CY2027. For hardware, we still expect the iPhone 20 (2H27) to be a strong product cycle, thanks to new design of display, followed by Apple's early move to TSMC's A14 in 2H28 (suggesting only 2-years at 2nm). Additionally, Apple Intelligence remains the key to watch. Yet, the share price trades at 35x FY27E P/E, suggesting the stock isn't cheap. By factoring in results, guidance and lower shipments/margins, we revise FY27E EPS by -10% and revise TP from $369 to $334, still based on 35x FY27E.

Dec-Q margin guidance below expectations: Apple delivered solid Sept-Q results, with revenue of $114.5bn (+12% YoY) and diluted EPS of $2.1 (+14% YoY), both ahead of consensus. For Dec-Q, mgmt. guided to total revenue growth of 7–10% YoY (vs. consensus of +6.5%), Services growth of 8–9%, and gross margin of 45–46%. The revenue outlook is constructive to Street expectations, though the margin guidance and Services deceleration were disappointing, reflecting cost hikes and mix headwinds.

The iPhone product cycle mixed, with challenges in FY2027: Mgmt sees a strong start of iPhone Duo but remains supply constrained. Hence, we continue to expect the EMS build plan of 6.5m of iPhone Duo by end-2026 with limited upside, while the mainstream iPhone 18 P/PM to be 74.5m. As said in our earlier report of *iPhone 18 Pro/Pro Max Lukewarm on Sept 15*, we believe the muted demand will weigh on CY1H27 EMS builds. Margin wise, despite pricing actions taken earlier, margin will likely be under pressure, as the CEO Ternus characterized current memory pricing as "unprecedented," with higher costs in December and beyond.

Apple positioning the rebuilt Siri AI as a core differentiator: The CEO Ternus emphasized that the new Siri is deeply integrated and privacy-preserving and is fielding ~2.5bn requests per day. From a financial perspective, CFO Parekh noted that these Siri AI costs are embedded in the December margin outlook, suggesting near-term gross-margin compression alongside the memory cost up-cycle.

Risks: 1) weak demand, 2) competition, 3) product delays, 4) geo-tension.

Profit forecast

US$ m	FY2024	FY2025	FY2026	FY2027E	FY2028E
Revenue	391,035	416,161	478,834	524,066	577,780
Revenue YoY (%)	2.0	6.4	15.1	9.4	10.2
Net Profit	93,736	112,010	132,175	137,556	157,692
Net Profit YoY (%)	-3.4	19.5	18.0	4.1	14.6
EPS	6.1	7.5	9.0	9.5	11.0
P/E	55.6	45.3	37.7	35.4	30.8
ROE (%)	157.4	171.4	148.2	118.7	111.8

Source: Company data, GF Securities (Hong Kong) Brokerage.

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Earnings Forecast

Solid September Quarter Results

Apple delivered a solid September-quarter, with revenue of $114.5bn (+12% YoY) and diluted EPS of $2.10 (+14% YoY), both ahead of consensus, reaching a record fiscal year of $479bn in revenue. Gross margin came in at 47.9%, aided by approximately one percentage point of tariff refund benefits (and a $0.05 EPS tailwind).

iPhone revenue reached a September-quarter record of $57.6bn (+17.5% YoY) likely driven by higher ASPs, Mac rose a strong 24% to $10.8bn likely on edge-AI, Services set at $31.6bn (+9.8% YoY) which was below expectations, while iPad declined 10% to $6.2bn and Wearables fell 8% to $8.3bn. The company returned $28bn to shareholders.

December Quarter Guidance Slightly Ahead in Revenue but Shy in Margin

For the December quarter, mgmt. guided to total revenue growth of 7–10% YoY (vs. consensus of +6.5%), Services growth of 8–9%, and gross margin of 45–46%. Operating expenses are expected at $20.4–20.8bn, OI&E around $300 million, and the tax rate near 17%. The revenue outlook is constructive relative to prior Street expectations, though the margin range and Services deceleration reflect known cost and mix headwinds.

Figure 1: 4Q FY2026 Results Review

USD mn	F4Q26	F3Q26	QoQ	F4Q25	YoY	GFHK	Diff	Cons.	Diff
Revenue	114,477	109,417	4.6%	102,466	11.7%	113,213	1.1%	113,463	0.9%
Gross profit	54,820	54,770	0.1%	48,341	13.4%	54,250	1.1%	53,927	1.7%
OPEX	19,189	19,075	0.6%	15,914	20.6%	19,200	-0.1%	19,099	0.5%
Operating profit	35,631	35,695	-0.2%	32,427	9.9%	35,050	1.7%	34,828	2.3%
Pre-tax profit	36,135	36,267	-0.4%	32,804	10.2%	35,300	2.4%	35,030	3.2%
Net profit	30,711	29,789	3.1%	27,466	11.8%	29,299	4.8%	29,213	5.1%
EPS (US$)	2.11	2.01	5.0%	1.85	14.1%	2.01	5.0%	2.00	5.5%
			ppt		ppt		ppt		ppt
Gross Margin	47.9%	50.1%	-2.2	47.2%	0.7	**47.9%**	0.0	**47.5%**	0.4
Operating Margin	31.1%	32.6%	-1.5	31.6%	-0.5	**31.0%**	0.1	**30.7%**	0.4
Pretax margin	31.6%	33.1%	-1.5	32.0%	-0.4	**31.2%**	0.4	**30.9%**	0.7
Net margin	26.8%	27.2%	-0.4	26.8%	0.0	**25.9%**	0.9	**25.7%**	1.1

Sources: Company data, GF Securities (Hong Kong) Brokerage

Earnings revision

By factoring in results, guidance and lower shipments/margins, we revise FY27E EPS by -10%

Figure 2: Earnings revision

USD m	FY25	FY26		FY27E		Change (%)	
		Old	New	Old	New	FY26E	FY27E
Net sales	416,161	477,570	478,834	545,303	524,066	0%	-4%
Gross profit	195,201	233,032	233,602	263,905	246,310	0%	-7%
Operating profit	133,050	157,482	158,063	183,405	165,610	0%	-10%
Pre-tax Income	132,729	158,402	159,237	183,525	165,730	1%	-10%
Net profit	112,010	130,763	132,175	152,325	137,556	1%	-10%
EPS ($)	7.46	8.90	8.97	10.54	9.54	1%	-10%
Key ratios							
Gross margin	46.9%	48.8%	48.8%	48.4%	47.0%		
Operating margin	32.0%	33.0%	33.0%	33.6%	31.6%		
Pre-tax margin	31.9%	33.2%	33.3%	33.7%	31.6%		
Net profit margin	26.9%	27.4%	27.6%	27.9%	26.2%		

Sources: Company data, GF Securities (Hong Kong) Brokerage

Figure 3: Apple's P&L forecast

(USD m)	FY25	F1Q26	F2Q26	F3Q26	F4Q26	FY26	F1Q27E	F2Q27E	F3Q27E	F4Q27E	FY27E
Sales	**416,161**	143,756	111,184	109,417	114,477	**478,834**	157,246	121,637	119,030	126,153	**524,066**
COGS	**220,960**	74,525	56,403	54,647	59,657	**245,232**	84,907	64,288	62,460	66,102	**277,756**
Gross profit	**195,201**	69,231	54,781	54,770	54,820	**233,602**	72,339	57,349	56,571	60,051	**246,310**
Opex	**62,151**	18,379	18,896	19,075	19,189	**75,539**	20,600	19,800	19,500	20,800	**80,700**
Operating profit	**133,050**	50,852	35,885	35,695	35,631	**158,063**	51,739	37,549	37,071	39,251	**165,610**
Non-operating profit	**-321**	150	-52	572	504	**1,174**	30	30	30	30	**120**
Pre-tax profit	**132,729**	51,002	35,833	36,267	36,135	**159,237**	51,769	37,579	37,101	39,281	**165,730**
Income tax	**20,719**	8905	6255	6478	5424	**27,062**	8801	6388	6307	6678	**28,174**
Non-GAAP Net Income	**112,010**	42,097	29,578	29,789	30,711	**132,175**	42,968	31,191	30,794	32,603	**137,556**
Non-GAAP EPS ($)	**7.46**	2.84	2.01	2.01	2.11	**8.97**	2.96	2.16	2.14	2.28	**9.54**
Diluted shares	**15,005**	14,810	14,726	14,815	14,570	**14,730**	14,510	14,450	14,390	14,330	**14,420**
Margin analysis											
Gross margin	**46.9%**	48.2%	49.3%	50.1%	47.9%	**48.8%**	46.0%	47.1%	47.5%	47.6%	**47.0%**
Operating margin	**32.0%**	35.4%	32.3%	32.6%	31.1%	**33.0%**	32.9%	30.9%	31.1%	31.1%	**31.6%**
Pre-tax margin	**31.9%**	35.5%	32.2%	33.1%	31.6%	**33.3%**	32.9%	30.9%	31.2%	31.1%	**31.6%**
Effective tax rate	**15.6%**	17.5%	17.5%	17.9%	15.0%	**17.0%**	17.0%	17.0%	17.0%	17.0%	**17.0%**
Growth (% YoY)											
Sales	**6.4%**	15.7%	16.6%	16.4%	11.7%	**15.1%**	9.4%	9.4%	8.8%	10.2%	**9.4%**
Operating profit	**8.0%**	18.7%	21.3%	26.6%	9.9%	**18.8%**	1.7%	4.6%	3.9%	10.2%	**4.8%**
Net income	**19.5%**	15.9%	19.4%	27.1%	11.8%	**18.0%**	2.1%	5.5%	3.4%	6.2%	**4.1%**
EPS	**22.7%**	18.5%	22.0%	28.3%	14.1%	**20.2%**	4.2%	7.5%	6.4%	7.9%	**6.3%**
Product mix (%)											
iPhone	**50%**	59%	51%	50%	50%	**53%**	63%	53%	50%	51%	**55%**
Mac	**8%**	6%	8%	9%	9%	**8%**	6%	8%	9%	9%	**8%**
iPad	**7%**	6%	6%	6%	5%	**6%**	4%	5%	5%	5%	**5%**
Wearables, Home and Accessories	**9%**	8%	7%	7%	7%	**7%**	6%	6%	7%	7%	**7%**
Service	**26%**	21%	28%	28%	28%	**26%**	21%	28%	29%	28%	**26%**

Sources: Company data, GF Securities (Hong Kong) Brokerage

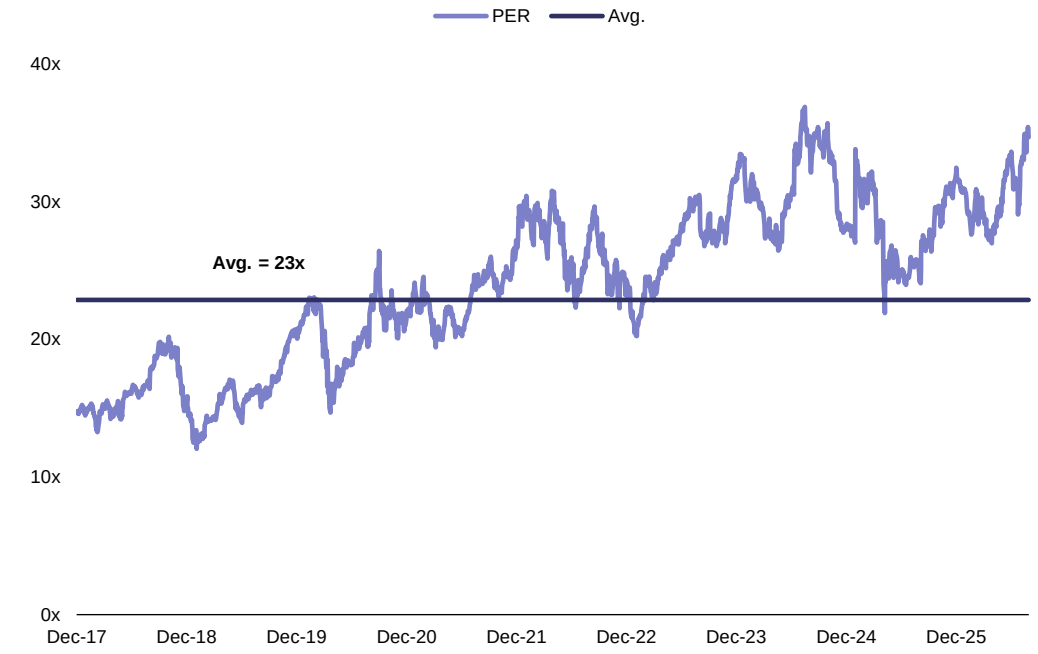
Valuation and Recommendation

Hold with TP of $334

We rate Apple (AAPL US) Hold and set our TP at $334 which is based on 35x our FY27E EPS estimate. We believe it is important to capture the 2H26-3Q27's iPhone 18 product cycle, given high market interest. We adopt P/E methodology as we believe the market now mainly focuses on the company's earnings outlook, and we usually apply P/E method to downstream firms.

We believe Apple's ecosystem will remain strong and associated revenue durability is high. This is backed by Apple's installed base growth, double digit YoY growth in services. However, the market would wait for visibility for its Apple Intelligence. Meanwhile, the market will need more visibility on the higher-high retail prices for the iPhone 18 series due to the rising cost over tariff and 2nm/memories. That said, we expect its earnings growth to be high-teens to 20% YoY in FY26E-FY28E, from single digit YoY in FY22-FY24. Considering >30x one-year P/E, the stock doesn't look particularly cheap.

Figure 4: Apple's 12-month forward P/E



Sources: Bloomberg, GF Securities (Hong Kong) Brokerage

Risks

1) weak demand, 2) competition, 3) product delays, 4) geo-tension.

Balance Sheet

US$ m

As of Sep 30	FY24	FY25	FY26	FY27E	FY28E
Current assets	**152,987**	**147,957**	**191,096**	**215,653**	**225,317**
Cash and cash equivalents	98,004	87,877	122,201	140,008	141,989
Inventory	7,286	5,718	6,346	7,188	7,854
Accounts receivable	33,410	39,777	45,767	50,091	55,225
Other current assets	14,287	14,585	16,781	18,367	20,249
Non-current assets	**211,993**	**211,284**	**209,145**	**204,790**	**234,536**
Long-term equity investment	91,479	77,723	115,341	110,887	137,877
Fixed assets	45,680	49,834	10,077	10,176	12,932
Other long-term assets	74,834	83,727	83,727	83,727	83,727
Total assets	**364,980**	**359,241**	**400,242**	**420,444**	**459,853**
Current liabilities	**176,392**	**165,631**	**237,919**	**239,993**	**253,009**
Accounts payable	68,960	69,860	77,534	87,817	95,959
Short-term borrowings	10,912	12,350	64,401	47,125	41,232
Other current liabilities	96,520	83,421	95,984	105,051	115,818
Non-current liabilities	**131,638**	**119,877**	**57,649**	**53,330**	**51,857**
Long-term debt	85,750	78,328	16,100	11,781	10,308
Other non-current liabilities	45,888	41,549	41,549	41,549	41,549
Total liabilities	**308,030**	**285,508**	**295,568**	**293,324**	**304,866**
Total equity	**56,950**	**73,733**	**104,674**	**127,120**	**154,987**
Share capital	83,276	93,568	93,568	93,568	93,568
Reserves	0	0	0	0	0
Capital adjustment	-26,326	-19,835	11,106	33,552	61,419
Minorities	0	0	0	0	0
Total Liabilities & Equity	**364,980**	**359,241**	**400,242**	**420,444**	**459,853**

Profit & Loss

US$ m

As of Sep 30	FY24	FY25	FY26	FY27E	FY28E
Revenue	**391,035**	**416,161**	**478,834**	**524,066**	**577,780**
Cost of sales	210,352	220,960	245,232	277,756	303,510
Gross profit	**180,683**	**195,201**	**233,602**	**246,310**	**274,270**
Operating expense	57,467	62,151	75,539	80,700	84,400
Operating profit	**123,216**	**133,050**	**158,063**	**165,610**	**189,870**
Interest income	269	0	0	0	0
Interest expense	0	321	0	0	0
Net other Non-op. Income/(Loss)	0	0	1,174	120	120
Pre-tax profit	**123,485**	**132,729**	**159,237**	**165,730**	**189,990**
Income tax	29,749	20,719	27,062	28,174	32,298
Profit for the year	**93,736**	**112,010**	**132,175**	**137,556**	**157,692**
Minority interest	0	0	0	0	0
Net profit to ord. equity	**93,736**	**112,010**	**132,175**	**137,556**	**157,692**
EPS	**6.1**	**7.5**	**9.0**	**9.5**	**11.0**

Cash Flow

US$ m

As of Sep 30	FY24	FY25	FY26	FY27E	FY28E
Operating cash flow	**118,254**	**111,482**	**155,558**	**160,863**	**180,490**
Profit for the year	78,893	97,166	132,175	137,556	157,692
Depreciation & amortization	11,445	11,698	11,961	10,707	11,572
Change in working capital	25,545	-17,296	11,422	12,600	11,227
Other operating cash flow	2,371	19,914	0	0	0
Investing cash flow	**2,935**	**15,195**	**-9,716**	**-6,246**	**-41,211**
Capex	-13,305	-15,746	27,902	-10,700	-14,221
Other investing cash flow	16,240	30,941	-37,618	4,454	-26,990
Free cash flow	121,189	126,677	145,842	154,617	139,279
Financing cash flow	**-121,211**	**-120,686**	**-111,518**	**-136,810**	**-137,298**
Change in capital	-5,196	16,783	-101,234	-115,110	-129,824
Net change in debt	-12,401	-10,323	-10,284	-21,700	-7,474
Other financing cash flow	-103,614	-127,146	0	0	0
Exchange influence	0	0	0	0	0
Total cash generated	**-22**	**5,991**	**34,324**	**17,807**	**1,981**

Key Financial Ratios

As of Sep 30	FY24	FY25	FY26	FY27E	FY28E
Growth					
Revenue growth	2.0	6.4	15.1	9.4	10.2
Operating profit growth	7.8	8.0	18.8	4.8	14.6
Net profit growth	-3.4	19.5	18.0	4.1	14.6
Profitability					
Gross profit margin	46.2	46.9	48.8	47.0	47.5
Operating profit margin	31.5	32.0	33.0	31.6	32.9
Net profit margin	24.0	26.9	27.6	26.2	27.3
Key Ratio					
ROA	26.1	30.9	34.8	33.5	35.8
ROE	157.4	171.4	148.2	118.7	111.8
Stability					
Gross debt/equity	169.7	123.0	76.9	46.3	33.3
Interest coverage	--	414.5	--	--	--
Current ratio	0.9	0.9	0.8	0.9	0.9
Quick ratio	0.8	0.9	0.8	0.9	0.9
Net debt/equity	27.4	13.1	Net Cash	Net Cash	Net Cash

Rating definitions Benchmark: Shanghai and Shenzhen 300 index (China mainland)

Company ratings

Buy：	Stock expected to outperform benchmark by more than 10%
Hold：	Expected stock relative performance ranges between -10% and 10%
Underperform：	Stock expected to underperform benchmark by more than 10%

Sector ratings

Positive：	Sector expected to outperform benchmark by more than 10%
Neutral：	Expected sector relative performance ranges between -10% and 10%
Cautious：	Sector expected to underperform benchmark by more than 10%

Hong Kong

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