

Stock Market Review

The phenomenal rise in Apple's share price



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Apple Inc became the world's largest company by market capitalisation as the share price soared by over 50 per cent during the first quarter of 2012 giving a market value of circa \$570 billion to the technology company. During the second half of last year, Apple had been flirting with the top spot commanded by the oil giant Exxon Mobil as the values of these two companies were in the region of \$400 billion. However, the stratospheric rise in Apple's share price since the start of 2012 gave Apple the undisputed leadership position.

Apple's share price surpassed the \$600 level on the eve of the launch of the new iPad on March 16. Meanwhile, following the dividend and share buy-back announcement on March 19, the share price touched a fresh record high of \$614.91 earlier this week as the market reacted positively to the first dividend declaration since 1995 and the news that three million new iPads were sold in the first four days following launch.

So what were the main factors behind the sharp increase in Apple's share price since the start of the year? Although Apple's equity was becoming more favoured among investors for quite some time following the exceptional success of the company's range of products and the growth of the iconic brand, the financial results for the first quarter of their 2011/12 financial year covering the period from October 1 to December 31 which were published on January 24, once again provided ample proof to the market of the strong demand for Apple's products.

Apple Inc. reported record sales during the first quarter of their financial year mainly on the back of a surge in iPhone sales following the launch of the new model of the smartphone shortly before the death of Steve Jobs last October. Apple sold 37 million iPhones during the three month period, together with 15.4 million iPads and a record 5.2 million Macs. Sales in each product category were well above market expectations leading to widespread talk of the incredible strength of the company's product portfolio.

Apple's revenue during the first quarter of their financial year jumped by 73 per cent to \$46.3 billion compared to market expectations of \$39 billion with profitability surging to \$13.1 billion. This was more than double the \$6 billion profits registered during the same period in the previous year.

At the time of the publication of the Q1 results on January 24, Apple also revealed that its cash balance had swelled to \$97.6 billion placing further pressure on Apple's CEO and



the board of directors on the use of what many described as an "embarrassment of riches".

Apple's CFO Peter Oppenheimer had publicly declared in January that the board was "actively discussing" uses for the cash and the CEO Tim Cook had also acknowledged the fact that the company had more cash than required for its operations.

Speculation about the dividend was definitely one of the major reasons for the surge in Apple's share price.

The much-awaited dividend announcement took place during a specifically-convened conference call on March 19 with Apple confirming it made a firm decision on the use of a part of the cash pile. For the first time in 17 years, Apple stated that it would commence a quarterly dividend distribution of \$2.65 per share from July 2012 together with a \$10 billion share buy-back starting early next year. Apple plans to distribute circa \$45 billion by 2015 and despite the significant distribution, the US investment bank Goldman Sachs predicts that Apple's cash will swell to \$205 billion by the end of 2014 due to the strong cash flow generation in the coming years on continued record sales of its various products.

Apart from the record financial performance during the first quarter of their financial year and the anticipated dividend announcement, the sustained bullishness on Apple's equity was also in part due to expectations of further blockbuster products later on this year. There has been widespread talk of the launch of the iPhone 5 in Q3 2012 and the much-anticipated entry into the TV market with possibly the iTV towards the end of 2012.

Notwithstanding the parabolic rise in Apple's share price, various international analysts have continued to hype up the market with further upward revisions of their target

price for Apple shares with many claiming an expected price of \$700 by the end of 2012. Some of the most bullish analysts claim that Apple's equity can climb as high as \$960 by the end of next year commanding a valuation of close to \$1 trillion.

These analysts are of the view that Apple remains the leader in major trends in technology (mobile connectivity and the cloud) and the company's revenue is expected to rise by at least 30 per cent this year and nearly 50 per cent in the first quarter of the next financial year between October and December 2012 on new product launches and further growth in tablet and PC markets as well as smartphones in China and the Middle East among other regions. Moreover, statistics indicate that Apple is eating into the Android system market share, with a survey conducted in December indicating that 44.5 per cent of people who

acquired a smartphone claiming they bought an iPhone. This compares to only 25.1 per cent in a similar survey two months earlier.

On the other hand, some market observers are more cautious and view the phenomenal rise in Apple's share price as that reminiscent of a bubble. They also compare this to Microsoft's peak in 1999 when it reached a record valuation of \$604 billion shortly before the tech boom. The leading publication *The Economist* also questioned the phenomenal growth in the share price of Apple which a catchy phrase iRational!

Although Apple seems to have consistently defied the "law of large numbers", the more bearish commentators note that as time passes it is harder for a company the size of Apple to continue registering impressive earnings growth which beat market expectations. These observers also point to the increased competition for the iPad with the launch of a more touch-friendly Windows 8 from Microsoft in 2012. This could thus lead to a big impact on the share price even if Apple only modestly misses the markets expectations. This is precisely what happened in October when Apple published its Q4 2010/11 financial results and were not as high as expected due to the slower sales of iPhones ahead of the launch of the 4S. On the day of the announcement on October 18 2011, Apple's share price tumbled by 6.4 per cent to \$398.

The market will now set its sights on the Q2 results which will be published towards the end of April. Apple indicated that it aims to achieve total sales of about \$32.5 billion and earnings per share \$8.50, equivalent to profits of circa \$8 billion. In the meantime, speculation among the investing community looks set to continue possibly pushing the share price to fresh highs ahead of the publication of the financial statements as at March 31, 2012.

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