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Recommendation:	Buy	Apple (AAPL)	March 4, 2013
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Recent P/E: 10.4x (ftm consensus) **Recent Price: \$ 531** **Target: \$706**

Summary:

Over the past 5 years, Apple stock has grown from a low of \$79 in 2009 to a high of over \$700 per share in 2012. Since 2012, it has traded as low as \$385 and is now at \$531. Many investors remember the four year run up in price of almost 10 times and have come to believe, usually subconsciously, that a 75% compounded annual growth rate was something approaching "normal" in regards to Apple. With a fairly recent showing of 75% compounded annual return, the stock's decline to \$385 was a big disappointment and many investors have bailed out.

In Apple's favor, the stock has recovered considerably in price to close at \$528 recently. The decision to sell, buy or hold a stock however is dependent on its future outlook compared to its present price analysis rather than the other way around.

Background

It does help a bit to look at one step below the headline numbers when discussing AAPL. Just below the headlines is the strength of AAPL's balance sheet. Between cash, short term investments and readily marketable securities, Apple holds basically \$147 billion. Subtracting out the readily marketable assets, the forward P/E for AAPL, quickly shifts down to 8.5.

A comparable analysis for its larger competitors, Google and Microsoft, show forward P/E's adjusted for on-hand "cash equivalents" to be 19.8 for Google and 10.3 for Microsoft. Dividend yield on the equities is 2.3% for AAPL, none for Google and 3.1% for Microsoft.

Analysis

There is no question that Apple has lost the "Wall Street darling" image it carried from 2008 to 2012. That said, it continues to deliver a 29% return on equity, compared to 14.5% for Google and 25.5% for Microsoft. Apple also continues to enjoy a very loyal customer base and it enjoys those loyal customers in virtually every country around the world. In addition, much of the loyal

customer base is a younger demographic than most companies have, boding well for future sales and growth. Unlike for Microsoft, where customers are deserting the PC in droves, Apple customers continue to be loyal to the iPhone, iPad, iTunes and to the Apple line of computers that all work together seamlessly and have not had the very bad history of complexity and viruses that has plagued the PC.

To say that Apple has succeeded well in mobile computing applications would be an understatement. BlackBerry and Nokia have been buried and Intel, Microsoft, Samsung are all wondering how Apple succeeded so well in the mobile space.

Apple continues to press its hand in China with its recent deal with China Mobile, and there is a very good possibility that they may someday win the battle for the mobile market in Chinese.

Summary

Apple sells for a very reasonable P/E, after adjusting for its cash and readily marketable securities. It has a good dividend yield and a growing dividend. The P/E and yield metrics say that Apple is not a stock to be abandoned, especially when coupled with its very loyal young customer base, world class brand name, and good prospects for continued growth in China.

There is no question that compared to 75% annual growth in the stock price that Apple experienced for several years, Apple's recent stock price performance has been disappointing. However, Apple remains a good quality undervalued stock, and one that should produce stable growth in the years ahead.