Company Update Report

Apple Inc

Consumer Electronics

Ticker	AAPL-US
Share price	$309
Intrinsic value	$329
Upside/(Downside)	7%
Recommendation	Hold

As at: 3 July 2026

Analyst thesis

Our recommendation is based on:

- An ecosystem that retains customer loyalty and usage: Apple has built a deeply interconnected ecosystem in which devices and services compound switching costs over time. This creates behavioural lock-in, supporting above-industry replacement rates, strengthening hardware retention and supporting growth in services monetisation.
- A software business hiding inside a hardware company: Apple's services division, comprising the App Store, iCloud storage and Apple Pay, generates ~$31 billion in revenue per quarter, accounting for approximately 28% of total revenue, while contributing around 43% of total gross profit. This reflects a higher gross margin of 76.7% compared with 38.7% for hardware products. As services revenue continues to outpace hardware revenue, its contribution to gross profit is expected to increase further, providing a structural margin tailwind that is less dependent on higher device sales or cost efficiencies.
- A product cycle that could drive the next wave of upgrades: The September 2026 iPhone 18 launch presents a near-term catalyst, with expectations that a foldable device priced from ~$2 400 could support both average selling price (ASP) expansion and unit growth by attracting users who skipped the iPhone 16 and 17 upgrade cycles.
- Artificial intelligence (AI) upgrades that shift sentiment: Apple Intelligence, Apple’s AI-powered upgrade to Siri developed in partnership with Google's Gemini, enables Apple to deliver a smarter, more capable virtual assistant. Successful execution could shift market perception from Apple being viewed as a laggard in AI to a leader, providing a potential tailwind for the share price.

Latest company and market insights

Key highlights

In this report, we review the 2Q26 results released in April 2026:

Financial results at a glance:

- Revenue: Total revenue grew by 16.6% year-on-year (YoY) from $95.4 billion in 2Q25 to $111.2 billion. Growth was driven by strong sales led by the launch of the iPhone 17 series, MacBook Neo, and M4-powered iPad Air.
- Profitability: Gross margin expanded from 47.1% to 49.3% YoY, above the guided range of 46.5%-47.5%. Operating margin rose from 31% to 32%. Operating expenses advanced 18% YoY to about $15.4 billion, reflecting a 34% surge in research and development (R&D) expenditure to $11.4 billion.
- Geographic recovery: China revenue grew 28% YoY to $20.5 billion for the quarter, on track to surpass FY22 levels where revenues peaked at $74.2 billion per annum. China now makes up 18%-20% of revenue.
- Net income expanded by 19.4% YoY from $24.8 billion to $29.6 billion, resulting in a 2.4% margin expansion. EPS was elevated by 22% from $1.65 to $2.01, reflecting strong operating leverage.
- 3Q26 outlook: Management guided for revenue growth of 14%-17% and gross margins of 47.5%-48.5%. Memory costs are expected to have an ‘increasing impact’ on margins beyond 3Q26. Supply constraints are expected to affect the Mac mini, Mac Studio, and the new MacBook Neo due to memory chip availability. Operating expenses are projected at $18.8–$19.1 billion, up 23% YoY from $15.5 billion in 3Q25, reflecting continued investment in Apple Intelligence infrastructure. Management expects operating leverage to remain intact in the near term.

Sector outlook

The technology sector is undergoing a significant shift, driven by AI. Across smartphones, laptops, and wearables, AI capabilities are becoming an increasingly important driver of device upgrades. In mature markets, growth increasingly depends on existing users upgrading to higher-priced models and on longer replacement cycles.

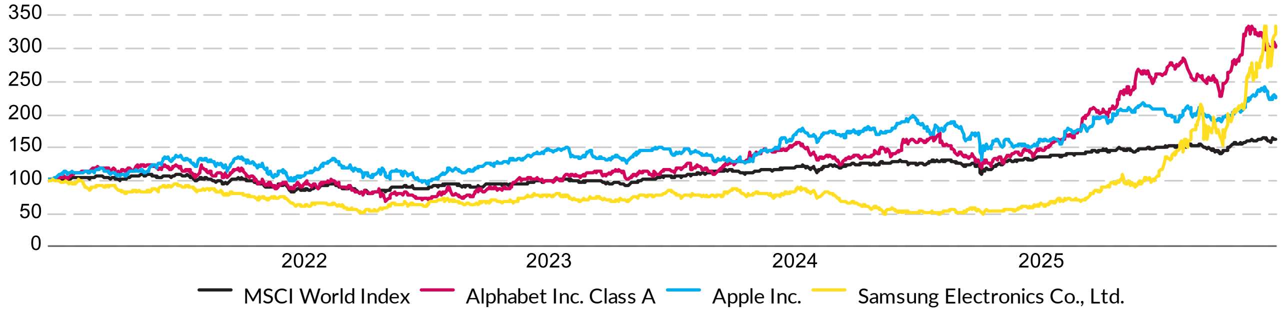
US-China relations remain a source of uncertainty for both iPhone demand in China, Apple's third-largest market, and the stability of its manufacturing supply chain. Apple remains heavily reliant on production facilities in China and chips manufactured by TSMC. In the near term, rising memory chip costs are expected to put modest pressure on hardware margins.

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 9.7%, and expected three-year EPS CAGR is 12.6%. As Apple's Services segment continues to grow faster than its Products segment, blended gross margins structurally drift higher. Services are projected to account for about 44% of total gross profit by FY27, accelerating margin expansion without hardware cost improvements.
Valuation	★★★☆☆	The share price is trading at a 15% discount to the intrinsic value (IV). Current NTM P:E of 29.9x is trading at an 8% premium to the five-year average P:E of 27.6x.
Dividend	★☆☆☆☆	LTM dividend yield 0.35%. NTM dividend yield 0.40%.
Issuance	★★★★☆	Shares issued have decreased by 10% over the past five years. The company prioritises returning capital to shareholders via a $100 billion share buyback programme, which was authorised in April 2026.
Catalyst		iPhone 18 upgrade cycle: The September 2026 launch includes the iPhone 18 Pro/Pro Max and a debut foldable device. A split launch strategy could drive ASP expansion and attract early users who skipped the 16/17 cycles. Apple Intelligence maturation: LLM-powered Siri rollout (Gemini partnership) drives upgrade incentives. Services monetisation: App Store advertising business is a near-term lever, growing steadily from a small base and carrying significant incremental margins. Apple Pay's transaction volume growth adds recurring, float-like revenue with no marginal cost. An AI Pro subscription tier, if executed alongside iOS 27 and Siri 2.0, would represent a structurally new monetisation layer. Each lever operates independently of hardware unit volumes, reinforcing the earnings quality.
Quality of earnings	★★★★☆	Five-year average ROE 164.7%. Five-year average net profit margin 25.5%. The business has recorded positive earnings growth in seven of the past 10 years. Earnings quality is high: Approximately 95% cash conversion, a low accruals ratio, and diversified revenue streams reduce concentration risk.
Moat	★★★☆☆	Switching costs: The Apple ecosystem creates deep interdependencies across iCloud, iMessage, FaceTime, AirDrop, Apple Watch health data continuity, and Mac/iPhone/iPad integration that makes switching costly and friction-heavy for consumers and enterprise users alike. Network effects: The App Store's two-sided marketplace, iMessage's network density in developed markets, and the FaceTime/AirPods ecosystem all exhibit strong network effects. Intangible assets: The Apple brand is ranked the world's most valuable in the sector, enabling consistent premium pricing of 20%–40% above Android equivalents. Custom silicon (M-series, A-series) provides performance and efficiency advantages that hardware competitors cannot replicate.
Management and governance	★★★☆☆	Tim Cook has served as CEO since 2011 and will step down on 1 September 2026 to become Executive Chairman. John Ternus, currently Senior VP of Hardware Engineering (responsible for iPhone, Mac, iPad, and Apple Silicon), has been appointed incoming CEO. The board is independent with no controlling shareholder, offering a strong governance profile relative to large-cap technology peers.
Balance sheet	★★★★☆	Net Debt to EBITDA ratio 0.31x, which remains in line with the five-year average of 0.42x. Debt to assets 30.3%. Apple's AAA-equivalent credit profile ensures a low cost of debt.
Risks		China supply chain concentration: About 80% of global production capacity remains in China. Premium Pro models are not yet replicable outside China's component ecosystem. US-China geopolitical flare-ups or export controls pose a material risk of disruption. Tariff headwinds: New US tariffs on Indian electronics could force iPhone price hikes of 17%–18%, softening consumer demand. AI execution risk: The Gemini partnership is in early stages, and Apple Intelligence has launched in limited markets and languages to mixed reception. Siri's LLM upgrade must clearly advance user experience to justify the premium. Memory chip shortage: Sustained cost inflation may erode the Product segment's gross margin and partially offset the blended margin tailwind from a mixed expansion in the Services segment. Regulatory and antitrust pressure: App Store monetisation faces sustained legal and regulatory pressure across the EU, US, and emerging markets. DMA-mandated changes in the EU threaten the high-margin App Store model.

Source: FactSet, PSG Wealth

Graph 1: Five-year price (Indexed to 100)



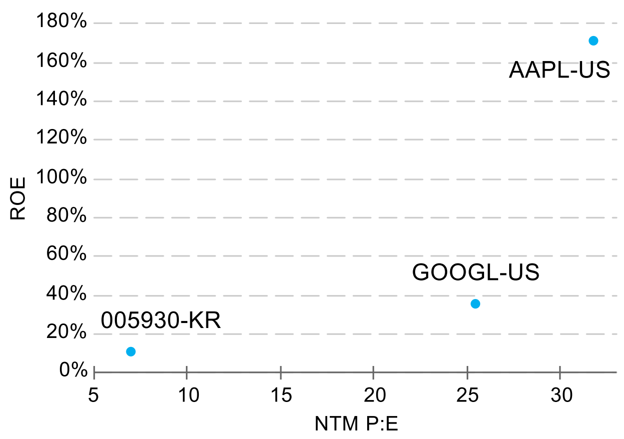
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
AAPL-US	9.6%	-4.5%	19.2%	9.5%	51.6%	39.1%	61.2%	128.4%	1150.4%
GOOGL-US	17.6%	-3.2%	19.6%	21.7%	112.3%	110.2%	197.9%	206.4%	945.2%
005930-KR	202.3%	14.4%	73.9%	236.9%	506.2%	354.3%	404.9%	350.3%	1171.0%
MSCI World	9.6%	-0.2%	11.6%	10.8%	24.7%	35.7%	63.4%	68.8%	201.1%

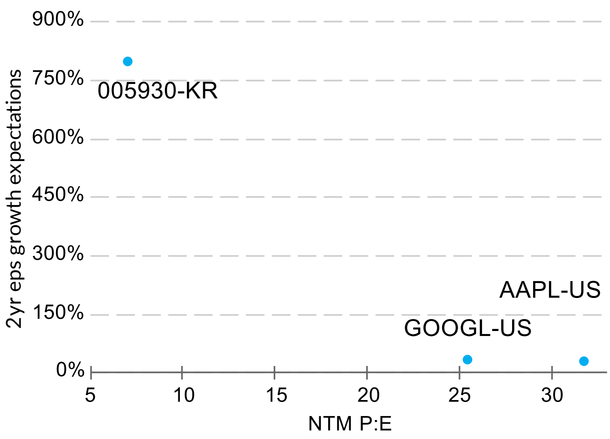
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

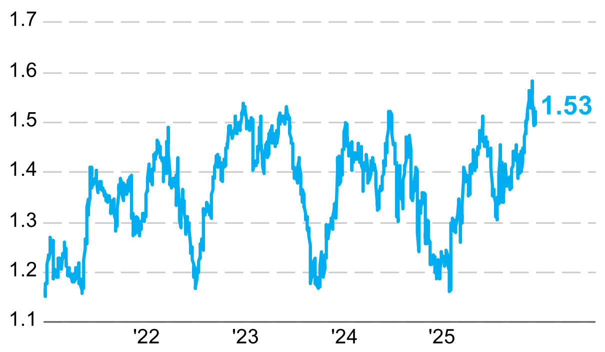
The valuation is based on a DCF framework, cross-checked against a forward EV/EBITDA exit multiple, with outcomes expressed through probability-weighted bear, base, and bull scenarios. The scenarios differ in how strongly and sturdily the iPhone 18 and foldable device cycle drives revenue and ASP expansion, how quickly services revenue grows in contribution to the total business and pulls gross margins higher, as well as how fast R&D spend normalises. The bear case assumes a poor iPhone 18 cycle, sustained tariff and memory-chip pressure. The base case assumes sustained services growth and gradual AI monetisation. The bull case assumes an accelerated bear scenario.

Table 3: Valuation summary

Valuation Probabilities			
	Bear	Base	Bull
EV: EBITDA Multiple	16x	22x	25x
Probability	15%	60%	25%
Implied share price	$252	$331	$370
Weighted intrinsic value			**$329**
Upside/(Downside)			**7%**

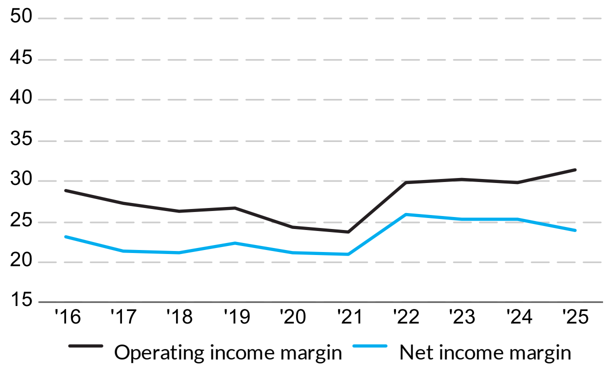
Source: FactSet, PSG Wealth

Graph 4: NTM P:E relative to benchmark



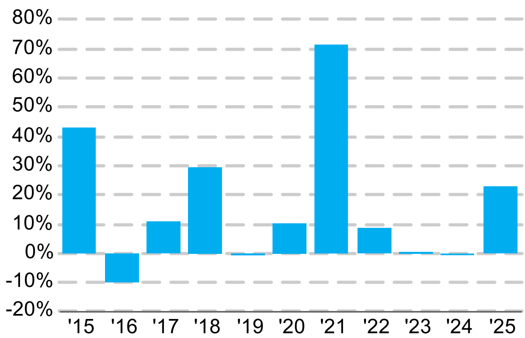
Source: FactSet

Graph 5: Profit margins (%)



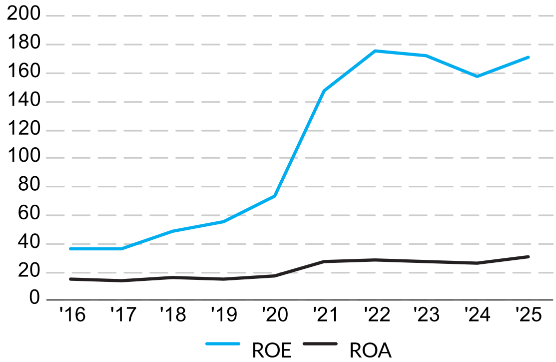
Source: FactSet

Graph 6: 10Y EPS year-on-year change



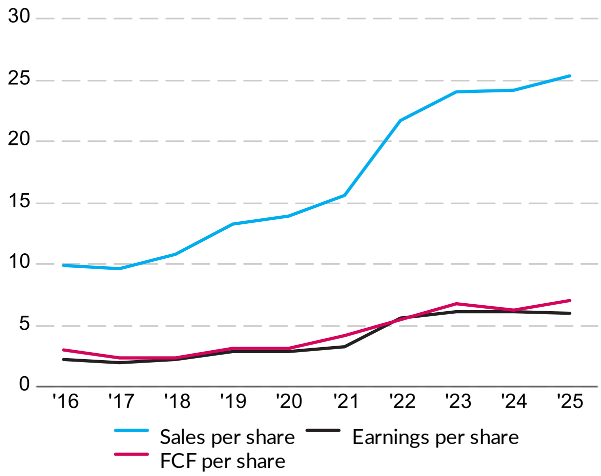
Source: FactSet

Graph 7: ROE and ROA (%)



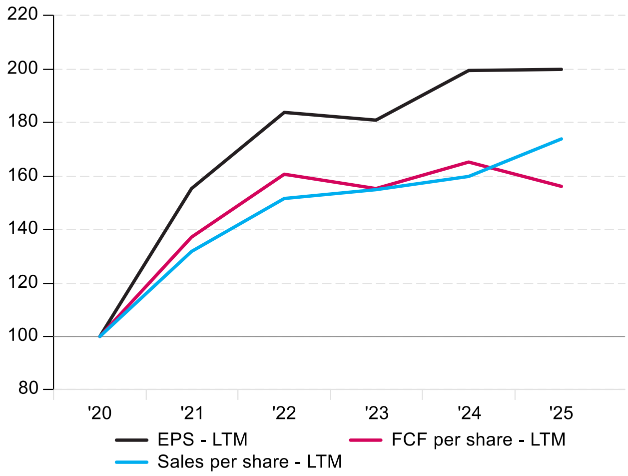
Source: FactSet

Graph 8: Sales, earnings and FCF per share (USD)



Source: FactSet

Graph 9: Sales, earnings, and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E

Source: FactSet

Table 4: Financials and ratios

Income statement ($Mn)	Sept 21	Sept 22	Sept 23	Sept 24	Sept 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	365 817	394 328	383 285	391 035	416 161	6%	2%	9%
Cost of sales	212 981	223 546	214 137	210 352	220 960	5%	0%	5%
Gross income	152 836	170 782	169 148	180 683	195 201	8%	5%	13%
EBIT	108 949	119 437	114 301	123 216	133 050	8%	4%	15%
EBITDA	120 233	130 541	125 820	134 661	144 748	7%	4%	14%
Net income	94 680	99 803	96 995	93 736	112 010	19%	4%	14%
EPS (USD)	5.6	6.1	6.1	6.1	7.5	23%	7%	18%
Balance sheet ($Mn)	**Sept 21**	**Sept 22**	**Sept 23**	**Sept 24**	**Sept 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	351 002	352 755	352 583	364 980	359 241	-2%	1%	2%
Total shareholders' equity	63 090	50 672	62 146	56 950	73 733	29%	13%	2%
Total liabilities	287 912	302 083	290 437	308 030	285 508	-7%	-2%	2%
Ratios	**Sept 21**	**Sept 22**	**Sept 23**	**Sept 24**	**Sept 25**	**5Y Avg**		
Net debt/EBITDA	0.52	0.56	0.40	0.31	0.31	0.42		
Interest coverage	41.2	40.7	29.1	-	-	22.2		
Debt/assets	38.9%	37.6%	35.1%	32.6%	31.3%	35.1%		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
$	United States dollar
005930-KR	Samsung Electronics
AAPL-US	Apple Incorporated
AI	Artificial intelligence
ASP	Average selling price
CAGR	Compounded annual growth rate
DCF	Discounted cash flow
DMA	Digital Markets Act
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
EU	European Union
FCF	Free cash flow
FY	Financial year
GOOGL-US	Alphabet Inc
LLM	Large Language Model
LTM	Last 12 months (also known as trailing)
MTD	Month-to-date
NTM	Next 12 months (also known as forward)
P:E	Price to earnings
QoQ	Quarter-on-quarter
R&D	Research and development
ROA	Return on assets
ROE	Return on equity
US	United States of America
YoY	Year-on-year
YTD	Year-to-date

Contact details

Qhama Macanda
Equity Analyst
+27 (11) 996 5200
Qhama.Macanda@psg.co.za

Marnus Piekaar, CFA
Senior Equity Analyst
+27 (11) 996 5200
Marnus.Piekaar@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Investment Management recommendations

PSG Investment Management provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to rerate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and growth measures such as EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the investment research team is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

This publication is confidential and released for the information of clients only. It shall not be reproduced in whole or in part without our permission. Any unauthorised use, duplication, redistribution or disclosure is prohibited by law. This publication is not to be construed as providing investment services in any jurisdiction where the provision of such services is not permitted. It is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security, and we have no responsibility whatsoever arising here from or in consequence thereof. The user assumes the entire risk of any use made of this publication. Any decision to purchase securities mentioned in this publication must consider existing public information on such security or any registered prospectus. The information contained herein has been obtained from sources which and persons whom we believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. This publication does not attempt to identify the nature of the specific market or other risks associated with an investment. Leveraged/Geared positions in securities can accentuate the profit/loss made on investments. Geared/Leveraged positions are not recommended based on the information contained in this publication. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors and investors must make their investment decisions using their own objective advisers as they believe necessary and based upon their specific financial situations and investment objectives. Certain investments/recommendations may have tax implications for private customers. Investors should seek advice from a tax adviser before acting on information contained in this publication. The securities described herein are subject to fluctuation in price and/or value and investors may get back less than originally invested. Past performance is not indicative of future results. The employees responsible for producing this report may from time-to-time own securities mentioned herein.

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP: 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FSP: 42996

DISCLAIMER: This report constitutes general information and does not constitute financial advice as defined in the Financial Advisory and Intermediary Services Act (FAIS).