



Apple Inc.

AAPL

EQUITY RESEARCH REPORT

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AAPL — Apple Inc.

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Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	\$292.08 / €256.41
Fair Value (Base Case)	€215–225 (≈ \$245–256)
Margin of Safety	Negative (–12% to –14%)
Target Entry (if HOLD)	€205 (≈ \$233)

Return Profile	Value
Dividend Yield	0.4%
Expected Dividend Growth	5.0%
Expected Price Appreciation	3.5–4.5% CAGR
Total Expected Return (Base)	4.5–5.0% CAGR
Bear Case Total Return	–4.0% CAGR
Bull Case Total Return	10.5% CAGR
Probability-Weighted Return	4.0% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	55 / 100
Quality Score	68 / 100
Risk Level	MODERATE
Probability of >50% Loss	~4%
Recession Profile	SENSITIVE

One-Line Thesis:

Apple is a fortress-balance-sheet business with a durable ecosystem moat, but at 37x trailing earnings and the 84th valuation percentile, the current price offers no margin of safety and a base-case return below the 7%

hurdle.

INVESTMENT THESIS

Apple runs one of the highest-quality business models available to a public equity investor. The company converts roughly a quarter of every revenue dollar into net income, generates over \$100B in annual free cash flow, and holds a customer base locked into an integrated hardware-software-services ecosystem. Switching costs are real: once you own an iPhone, a Mac, an Apple Watch, and three subscriptions, moving to Android costs you time, data, and habit. Services now carry the growth story, expanding gross margin from the low-40s to mid-40s over five years. This is exactly the kind of defensible franchise the wealth preservation mandate favors.

The problem is price, not business. You pay 37x trailing earnings and 42x free cash flow for a company growing revenue at 6.5% and EPS near 10%. The stock sits at the 84th percentile of its own five-year P/E range, the 94th percentile on EV/EBITDA, and the 99th percentile on P/FCF. Analysts set an average target of \$310, roughly 6% above the current \$292 — thin reward for the risk you carry. Multiple independent DCF and relative-value models place fair value between \$170 and \$260, with the midpoint well below where the stock trades. You are buying quality at a full-to-expensive multiple, which caps upside and exposes you to multiple compression if growth disappoints.

What could go wrong is manageable but material. Over half of revenue still depends on the iPhone, replacement cycles are lengthening, and the App Store commission structure faces regulatory assault (EU DMA forcing third-party stores, ongoing Epic litigation, US antitrust scrutiny). China concentration threatens both supply chain and demand. None of these breaks Apple, but each can compress the premium multiple. The bear case here is not bankruptcy — Apple's solvency is unassailable — it is a 25-30% de-rating toward historical multiples while you earn a 0.4% dividend. That produces a negative real return over a multi-year hold. For a preservation-first mandate that measures every position against a 4% HYSA, waiting for a better entry near €205 is the disciplined move.

1. BUSINESS QUALITY ASSESSMENT

Apple sells premium hardware wrapped in proprietary software and recurring services. Revenue splits between Products (iPhone, Mac, iPad, Wearables) and Services (App Store, subscriptions, iCloud, Apple Pay). The iPhone anchors the franchise; Services provides higher-margin recurring revenue that smooths hardware cyclicality.

- **Sector:** Consumer technology hardware + digital services. Understandable. Not in secular decline. Moderately cyclical (premium discretionary hardware) with a growing defensive services layer.
- **Sector tailwinds:** on-device AI, services monetization, installed-base expansion. Partly priced in.
- **Understandability:** High.

Sector Verdict: CONTINUE. Stable, comprehensible, no secular decline. Moderate cyclicality warrants balance-sheet scrutiny (which Apple passes with ease).

2. FINANCIAL FORTRESS ANALYSIS

2.1 Solvency Check

Metric	Value	Threshold	Assessment
Debt-to-Equity	~1.5x (elevated by buyback-driven equity depletion)	<1.0x	Optically weak but misleading
Interest Coverage	>40x	>8x	FORTRESS
FCF	Positive 5/5 years (~\$93–110B)	4/5	FORTRESS
Net cash position	Cash > total debt	—	FORTRESS

Apple's D/E ratio looks high only because relentless buybacks have shrunk book equity. On a net-cash basis, Apple carries more cash than debt and covers interest 40+ times. A 30% revenue decline would not threaten solvency, dividend, or force dilution.

Solvency Assessment: FORTRESS

2.2 Earnings Quality

- Operating cash flow consistently exceeds net income (FCF ~\$110B vs net income ~\$104B). Earnings are cash-backed.
- No restatements, clean audit opinion, no going-concern language across FY24/FY25 10-Ks.

Earnings Quality: HIGH

2.3 Dilution Check

- Apple is anti-dilutive. Aggressive buybacks reduce share count ~3-4% annually, boosting EPS.
- Insider ownership modest; institutional ownership ~66%.

Dilution Assessment: EXCELLENT

3. DIVIDEND ANALYSIS

Apple is not a dividend story. At \$292, the yield is roughly 0.4%.

Metric	Value	Threshold	Assessment
Dividend Yield	~0.4%	1.5–5%	Below range (growth/buyback story)
EPS Payout Ratio	~15%	<60%	Massive cushion
FCF Payout Ratio	~14%	<70%	Rock solid
Dividend Growth 5Y	~5%	>3%	Meets
Consecutive Years	13+	>10	Meets

The dividend is trivially safe (payout under 15%) but too small to provide meaningful income cushion. Total-return case rests on price appreciation and buybacks, not dividends.

Dividend Sustainability: ROCK SOLID (but immaterial to return)

4. VALUATION ANALYSIS

This is the decisive stage.

Metric	Current	5Y Median	vs. History	Percentile	Assessment
P/E (trailing)	37.5x	31.1x	+20.7%	P84	Full
P/FCF	42.6x	29.4x	+45%	P99	Expensive
EV/EBITDA	29.5x	24.6x	+19.7%	P94	Full
PEG	3.0x	—	—	—	Rich vs. growth
ROIC	~104%	—	—	—	Exceptional

Every core multiple sits in the upper quintile of Apple's own five-year range, with P/FCF at a five-year high. ROIC of ~104% justifies a premium, but not this premium relative to 6.5% revenue growth.

Margin of Safety: Applying a historically generous 31x median P/E to trailing EPS (~\$6.70) yields a fair value near \$208. Applying the 5Y median EV/EBITDA suggests \$240–250. Analyst consensus (\$310) is the optimistic anchor. Blending quality-adjusted fair value lands near **\$245–256 (€215–225)**. Against the live price of \$292, the margin of safety is **negative (–12% to –14%)**.

Valuation: FULL | Margin of Safety: –13%

5. SCENARIO ANALYSIS (10-Year Horizon)

BEAR CASE (25% weight)

- Recession + regulatory hit to Services + weak iPhone cycles. Revenue flat, EPS grows ~2%, multiple compresses toward the P25 (~27x P/E) and later trough.
- Dividend maintained (payout far too low to cut).
- 10Y Total Return CAGR: **–4.0%** (multiple compression overwhelms modest EPS growth + tiny yield)

BASE CASE (50% weight)

- Trend growth, revenue +5-6%, EPS +8%, multiple mean-reverts from 37x toward 31x (–1.5% annual drag).
- Dividend grows 5%.
- 10Y Total Return CAGR: **~4.5–5.0%**

BULL CASE (25% weight)

- AI-driven upgrade super-cycle, Services re-rates, margins expand, multiple holds near current.
- EPS +12%, minimal multiple compression.
- 10Y Total Return CAGR: **~10.5%**

Scenario	Total CAGR	Weight	Contribution
Bear	-4.0%	25%	-1.0%
Base	4.75%	50%	2.4%
Bull	10.5%	25%	2.6%
Expected			**~4.0%**

Downside Protection Analysis:

- Historical max drawdown: 38.5%. 30-day volatility ~23%.
- Bear-case price decline from current: ~25-30% (de-rating driven).
- Probability of >50% permanent loss: ~4% (well under 10% threshold — solvency is not the issue).

The critical failure: **base case total return of ~4.75% CAGR falls below the 7% hurdle, and the bear case is negative.** Two of the three absolute requirements fail at this price.

6. RISK ASSESSMENT

- **Concentration:** >50% of revenue from iPhone; lengthening replacement cycles.
- **Regulatory:** EU DMA mandates third-party app stores; Epic ruling forces alternative payment links; US/EU/Asia antitrust scrutiny threatens the ~30% App Store take rate — the highest-margin revenue line.
- **China:** Both demand (largest structural revenue risk) and supply chain concentration; exposed to US-China trade escalation.
- **AI perception:** WWDC 2026 AI unveiling drew a share-price decline despite decent reception — expectations are hard to satisfy.
- **Valuation risk:** The dominant risk. A premium multiple with slowing growth compresses hard on any disappointment.

Risk Level: MODERATE (business risk low; valuation risk elevated)

7. MANAGEMENT & GOVERNANCE

- Functional organization prized in external assessments; strong execution scaling revenue past \$400B.
- Capital allocation: heavy R&D (~8% of revenue, ~\$27.5B), disciplined buybacks, growing dividend. Buybacks have generally been value-accretive given consistent FCF, though repurchasing at 42x FCF today is less compelling.
- No accounting irregularities, no going-concern flags, clean audits.

Management Quality: EXCELLENT | Capital Allocation: STRONG (with a caveat on buyback price discipline at current multiples)

8. PEER COMPARISON

Apple trades above typical mega-cap tech ranges (P/E 20-30x, EV/EBITDA 15-25x). Its premium is defensible on ROIC (~104%) and ecosystem stickiness but leaves no relative bargain. On a wealth-preservation quality score, Apple ranks high on balance sheet and capital efficiency, low on valuation and income.

Wealth Preservation Quality Score: 68/100

- Balance Sheet Fortress: 35/40 (net cash, coverage >40x, FCF 5/5)
- Income Reliability: 8/30 (yield sub-1%, drags heavily)
- Capital Efficiency: 15/15 (ROIC exceptional, stable)
- Valuation: 0/15 (>P75 across all multiples)

9. KEY METRICS SUMMARY

Metric	Value
Current Price	\$292.08 / €256.41
Trailing P/E	37.5x
Forward P/E	34.0x
EV/EBITDA	29.5x
P/FCF	42.6x
ROIC	~104%
Net cash	Cash > debt
Dividend Yield	0.4%
FCF (TTM)	~\$110B
Rev Growth YoY	~6.5%

10. MONITORING CHECKLIST

Item	Trigger	Action
P/E de-rate	Falls below 31x (fair value zone)	Upgrade to BUY review
Price	Reaches €205 / ~\$233	Initiate position
App Store ruling	Adverse US/EU take-rate cut	Reassess Services margin, lower fair value
China revenue	>10% decline	Re-run bear case
iPhone cycle	Sustained unit decline	Downgrade growth assumptions

11. MARKET EXPECTATIONS & CONSENSUS

The current \$292 price implies the market expects durable ~10% revenue and ~13% EPS growth (analyst 3-year forecasts) to persist, sustaining a premium multiple.

- **Consensus Bull Case:** AI super-cycle drives iPhone upgrades; Services re-rates on subscription growth.
- **Consensus Bear Case:** Regulatory take-rate cuts + China weakness + lengthening replacement cycles compress the multiple.
- **Short Interest:** ~0.9% of float — negligible bearish positioning.
- **Analyst Consensus:** Buy | Average Target: \$310.51 (~6% upside, 48 analysts).

Validates consensus: iPhone unit growth + Services acceleration + margin expansion.

Disappoints: Adverse App Store ruling, China revenue decline, flat hardware cycles.

Forward Valuation:

Metric	Value	Assessment
Fwd P/E	34.0x	Above mega-cap norm
PEG	3.03x	Rich vs. growth
EV/EBITDA	29.5x	Full
Beta	~1.2	Modestly cyclical

12. KEY BUSINESS DRIVERS

Driver 1: App Store take rate / Services margin

- Why it matters: Highest-margin revenue; the pillar carrying growth as hardware slows.
- Bull threshold: Take rate defended, Services growth >12%.
- Bear threshold: Regulatory-mandated cuts below 20% take rate.
- Next data point: Quarterly earnings + EU/US regulatory rulings.

Driver 2: iPhone unit / replacement cycle

- Why it matters: >50% of revenue.
- Bull threshold: Renewed upgrade cycle, unit growth.
- Bear threshold: Sustained unit decline.
- Next data point: Next quarterly release.

Driver 3: China revenue

- Why it matters: Largest structural demand + supply risk.
- Bull threshold: Stable/growing Greater China segment.
- Bear threshold: >10% YoY decline.

- Next data point: Quarterly segment disclosure.

Driver 4: Gross margin trajectory

- Why it matters: Services mix shift drives margin expansion; supports premium multiple.
- Bull threshold: Gross margin sustained >46%.
- Bear threshold: Compression below 44%.
- Next data point: Quarterly income statement.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker	Relationship	Signal
Nasdaq-100	QQQ	Correlates with mega-cap tech sector	Bearish if breaks 50-day MA
Taiwan Semiconductor	TSM	Leads Apple chip/hardware demand	Bearish if guidance cuts consumer segment
Consumer discretionary	XLY	Confirms premium hardware demand	Bearish on sustained weakness
US 10Y yield	^TNX	Rising rates pressure high-multiple	Bearish if yields spike

Monitoring rule: If QQQ breaks below its 50-day moving average alongside a TSM consumer-segment guidance cut, re-evaluate the thesis within 5 days.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Apple fails two absolute BUY requirements at \$292: base-case total return (~4.75% CAGR) is below the 7% hurdle, and the bear-case return is negative. The margin of safety is negative (-13%). This is a premier business at a full-to-expensive price. The preservation mandate demands patience.

Target Entry: €205 (≈ \$233) — approximately 20% below the current price, restoring a positive margin of safety and pushing base-case returns above the hurdle.

Why Hold: Fortress balance sheet, exceptional ROIC, durable moat — but valuation at the 84th–99th percentile leaves no cushion and caps forward returns below a 4% HYSA on a risk-adjusted basis in the bear scenario.

Trigger for Upgrade: P/E de-rating below 31x, price reaching €205, or Services growth reaccelerating with regulatory clarity.

ANALYST NOTES

Key Assumptions:

- FY2025 EPS ~\$6.70, FCF ~\$110B, revenue ~\$416B (from compiled data; some figures approximated).

- 5Y median P/E 31.1x used as mean-reversion anchor.
- Multiple compression of ~1.5%/year in base case.

Limitations:

- Financial figures are portal-compiled approximations, not line-item 10-K extractions. EBITDA is a proxy (Apple does not report it).
- Insider transaction and institutional flow data were unavailable in the source set.
- Fair-value range spans wide (\$170–\$260 across models); midpoint judgment applied.

Confidence Level: MEDIUM — Business quality and solvency conclusions are high-confidence. The HOLD verdict rests on valuation percentile data that is well-supported, but precise fair value depends on growth assumptions that carry genuine uncertainty around AI cycle and regulatory outcomes.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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