

## Buy the Ecosystem, Stay for the Margins

- Services is the margin engine: \$16b > \$30b since 1Q21.
- Apple monetizes AI via partnerships and app-layer fees, without hyperscaler capex.
- Foldable + A-series Mac catalysts support AAPL80 BUY, TP THB9.30 (US\$300).

### Don't Buy the iPhone Cycle—Buy the Ecosystem

Apple looked “boring” in 2025: mature smartphones, and an AI narrative that said it was too slow. That skepticism is exactly why we think Apple is mispriced today. We are not buying a handset cycle—we are buying the world’s most powerful consumer ecosystem (2.5bn active devices) as it pivots from a unit-growth story into a margin-expansion story, with Services becoming the fuel that compounds every quarter.

### Services Is the Fuel: Apple’s Profit-Mix Inflection

The true driver of shareholder value is no longer just the iPhone cycle, but the divergence between revenue mix and profit mix. While the hardware ecosystem of 2.5 billion devices remains the engine, Services is the high-octane fuel. Growing at a 13.4% CAGR since 2021, the Services segment commands gross margins of ~74%—nearly double that of hardware (~36%). As this recurring, annuity-like revenue stream grows to a projected \$125B–\$130B by FY2027E, Apple is structurally becoming a more profitable, less volatile company with every passing quarter.

### The ROIC Playbook: Apple’s “AI Tax” Strategy

Contrary to the narrative of an “AI lag,” we view Apple’s strategy as a masterclass in ROIC preservation. While big techs like Amazon and Google are diluting returns by spending ~\$200B on server farms, Apple’s estimated CAPEX is a fraction of that (~\$13B–\$14B). By partnering for models (e.g., Gemini) rather than building them, Apple avoids the depreciation drag and instead monetizes the application layer. Through the “AI Tax”—a 15-30% cut on third-party AI subscriptions—Apple effectively turns the AI boom into a profit center without paying the electricity bill to run it.

### Growth at Both Ends: Foldable Upside, Education Scale

Apple is bifurcating its hardware roadmap to capture growth at both ends of the spectrum while insulating itself from component volatility. At the high end, the anticipated Foldable iPhone (\$1,800+) will reignite ASP growth; at the entry-level, a new A-series MacBook aims to attack the education market with premium performance at mass-market prices. Crucially, Apple’s massive scale and high-margin Services growth act as a natural hedge against the “Memory Supercycle,” neutralizing the headwinds from rising DRAM/NAND prices that are squeezing smaller competitors.

### Initiated with BUY and a TP of THB9.30

We initiate coverage on AAPL80 with a BUY and a TP of THB9.30 (derived from a \$300 underlying target and 31.00 USD/THB, UL: DR (conversion ratio) of 1,000). Our \$300 target is based on applying a 33x P/E to our 2027E EPS of ~\$9.10, reflecting a structural re-rating as Apple transitions from a hardware cycle to a higher-margin, recurring “ecosystem + Services + AI orchestration” platform, implying ~18% upside from current levels.

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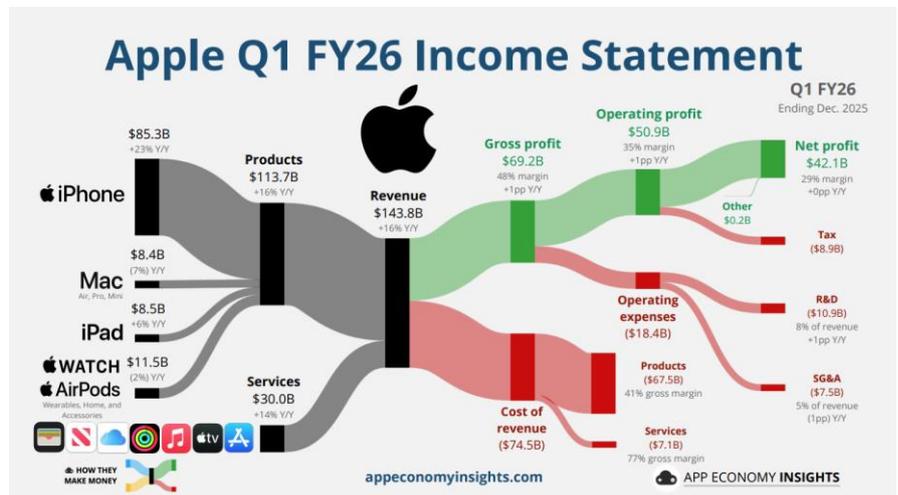
# Buy the Ecosystem, Stay for the Margins

At first glance, Apple appears to be a hardware giant facing a mature smartphone market and an "AI deficit" relative to peers. The stock has underperformed throughout 2025 as investors questioned its lack of massive AI infrastructure spending.

**We believe this skepticism creates a buying opportunity.**

Our thesis is that the market is mispricing Apple's transition from a "unit growth" story to a "margin expansion" story. While the hardware ecosystem (2.5 billion active devices) remains the engine, the fuel is now the **Services** segment, which has grown at a **13.4% CAGR** since 2021. With Services gross margins (~74%) nearly double that of hardware (~36%), Apple is structurally becoming a more profitable company with every passing quarter.

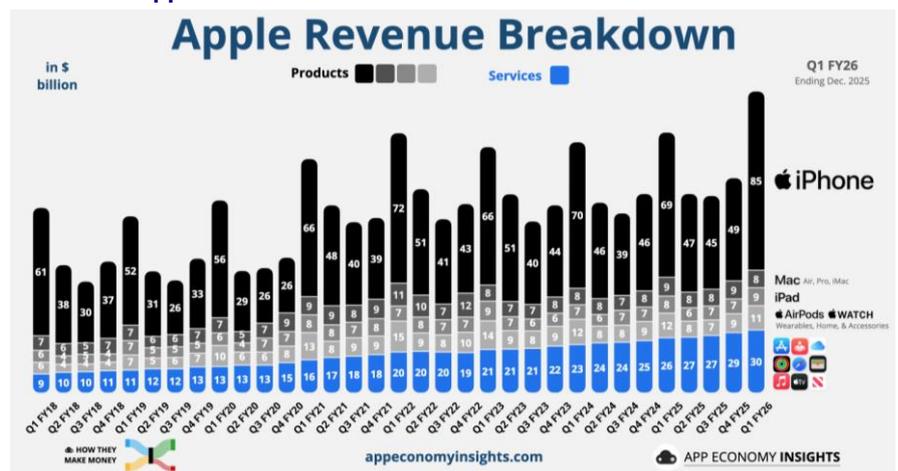
**Exhibit 1: AAPL 1Q26 Income Statement**



Sources: App Economy Insights

Furthermore, Apple's "capital efficient" AI strategy—partnering for models (e.g., Gemini) rather than building \$100B server farms—preserves its Return on Invested Capital (ROIC) while competitors dilute theirs. Combined with upcoming hardware catalysts like the **iPhone Fold (2026)** and a strategic attack on the education market with a new **A-series MacBook**, Apple is poised for a multi-year earnings acceleration.

**Exhibit 2: Apple Revenue Breakdown**



Sources: App Economy Insights

## Services as the Profit Engine

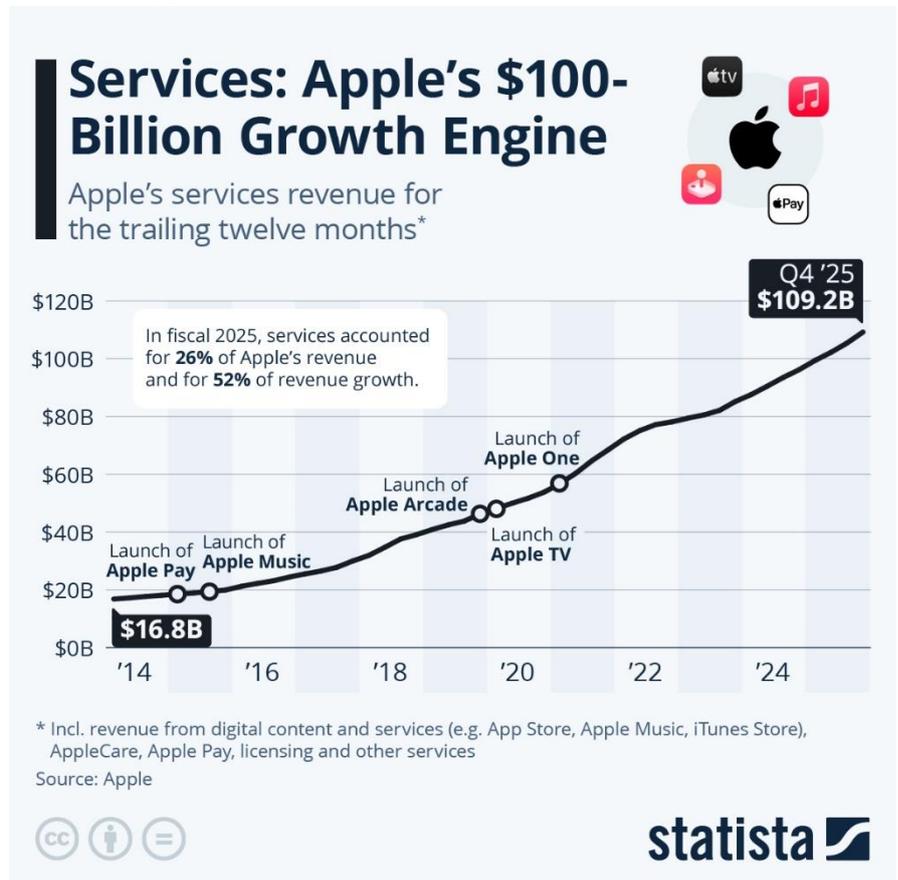
We view Apple not as a hardware company facing maturity, but as a platform company entering a phase of **margin expansion** and **capital-efficient growth**.

### The Margin Transformation: Services is the Real Profit Engine

While the iPhone 17 "Supercycle" dominates headlines, the true driver of shareholder value is the divergence between revenue mix and profit mix. Apple has successfully pivoted from a unit-driven model to a lifetime-value model.

**The Growth:** Services revenue has compounded at a **13.4% CAGR**, growing from **\$16B in 1Q21 to \$30B in 1Q26**. Looking ahead, we project this segment to accelerate further, reaching **~\$125B–\$130B in annual revenue by FY2027E**.

### Exhibit 3: Apple's Service Revenue Growth



Sources: Statista

The shift is highly accretive. Hardware Gross Margins hover around **~36%**, whereas Services Gross Margins command **~74%**. As Services grow to represent a larger slice of the pie, Apple's blended gross margin naturally expands.

**The Stickiness:** Unlike hardware sales, which reset every 3-4 years, the Services bundle (iCloud, Apple Music, App Store) creates a recurring, annuity-like revenue stream that locks users into the ecosystem, reducing earnings volatility.

## The Smartest Player in the AI Race?

The market penalized Apple in 2025 for a perceived "AI lag," but we view their strategy as a masterclass in ROIC preservation.

**Deployment vs. Development:** While peers like Amazon and Google are projected to spend ~\$180B–\$200B in 2026 CAPEX to build foundational AI infrastructure, Apple’s estimated CAPEX is a fraction of that (~\$13B–\$14B).

**The Partnership Model:** By integrating third-party models (like Google Gemini) for heavy lifting, Apple avoids the massive depreciation drag of owning server farms. Instead, they monetize the **distribution** and **user interface** of AI—effectively positioning the iPhone as the "gatekeeper" of the AI economy.

Exhibit 4: Siri powered by Google Gemini



Sources: Future

Exhibit 5: Gemini Live is the best in class



Sources: Future

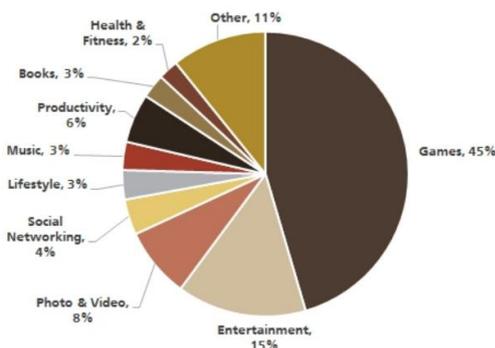
### Turning AI from a Cost Center into a Profit Center

By refusing to commoditize its own balance sheet with massive server costs, Apple secures three distinct financial wins:

**1. The "AI Tax" (Monetizing the Application Layer):** Just as Apple takes a cut of every digital transaction on the App Store; it is positioned to take a cut of the AI economy. As users subscribe to premium third-party services (like ChatGPT Plus, Gemini Advanced, or Claude Pro) on their iPhones, Apple captures its standard **15–30% commission**.

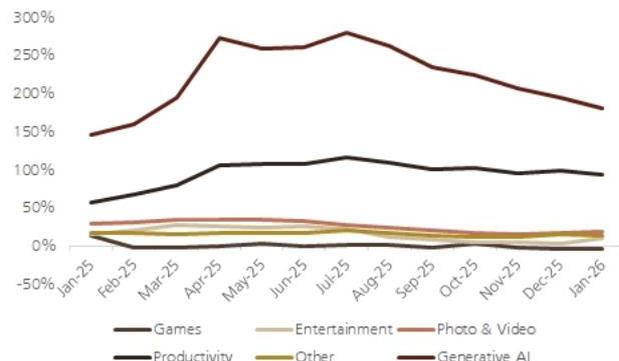
UBS data indicates that "Generative AI app revenue has grown ~221% over the last twelve months," effectively offsetting weakness in other categories like Gaming. Apple effectively taxes the AI boom without paying for the electricity to run it.

Exhibit 6: App Store's revenue breakdown



Sources: Sensor Tower

Exhibit 7: App Store's revenue growth by category



Sources: Sensor Tower

**2. Strategic Optionality (The "Kingmaker" Position):** By acting as the platform rather than the provider, Apple avoids "betting the farm" on a single AI model. If Google Gemini falls behind and OpenAI or Anthropic takes the lead, Apple can simply swap the default engine in iOS. This commoditizes the AI model providers while keeping the **Apple user base** as the scarce, premium asset.

**3. The "Apple Intelligence" Hardware Lock:** Apple is reserving its own proprietary, on-device AI features ("Apple Intelligence") for the latest hardware (iPhone 16/17 Pro). This creates a "feature wall" that forces the installed base of 2.5 billion devices to upgrade. The strategy isn't to sell AI; it is to use AI to sell **\$1,200 iPhones** and keep hardware margins intact.

## Hardware Strategy - Growth at Both Ends

**Margin Defense (The "Memory Supercycle" Hedge):** As we have previously analyzed regarding the Memory Supercycle ([read here](#)), the broader industry faces headwinds from rising DRAM/NAND prices. However, Apple's massive scale allows for long-term supply agreements that smaller peers cannot match. Furthermore, the rapid growth of high-margin Services acts as a natural hedge, neutralizing potential hardware margin compression from these component costs.

Apple is bifurcating its hardware roadmap to capture both the ultra-premium and entry-level markets simultaneously, while insulating itself from component volatility

**High-End (The Foldable Frontier):** We anticipate the launch of a **Foldable iPhone** (potentially late 2026/2027) priced in the **\$1,800+** range. This form factor will reignite ASP growth and trigger an upgrade cycle among the most lucrative segment of the user base.

**Entry-Level (The "Education" Attack):** [Rumors](#) of a lower-cost MacBook powered by an **A-series (iPhone) chip** suggest a strategic attack on the Chromebook/Education market. By leveraging highly efficient mobile silicon (requiring less RAM than x86 competitors), Apple can offer a premium experience at a mass-market price point (\$699–\$799) without diluting margins.

Exhibit 8: Foldable iPhone Rumour



Sources: macrumors

Exhibit 9: Apple's Low-Cost MacBook Rumour



Sources: macrumors

## Initiated with BUY and a TP of THB9.30

We initiate coverage on AAPL80 with a **BUY** rating and a target price (TP) of **THB9.30** (derived from a US\$300 target and 31.00 USD/THB). Our valuation implies an **~18% upside** from current levels, driven by a structural re-rating of the stock as it transitions from a hardware cycle to a high-margin "AI-as-a-Service" platform.

We derive our **\$300** underlying price target by applying a **33x P/E multiple** to our **2027 estimated EPS of ~\$9.10**

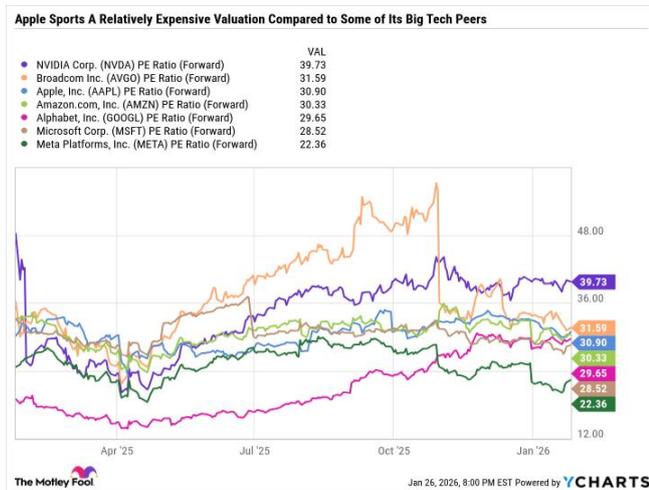
**Why 33x? (The Premium Justification):** Historically, Apple traded at ~25x P/E. However, we argue that the "Old Apple" (volatile hardware shipments) is different from the "New Apple" (recurring Services revenue). As Services revenue approaches 30% of the mix with **~74% gross margins**, earnings volatility decreases. The market assigns a higher premium to this predictability.

### Exhibit 10: AAPL80's Conversion Ratio

$$\text{AAPL80 Price (THB)} = \frac{\text{AAPL Price (USD)} \times \text{Exchange Rate (USD/THB)}}{1000}$$

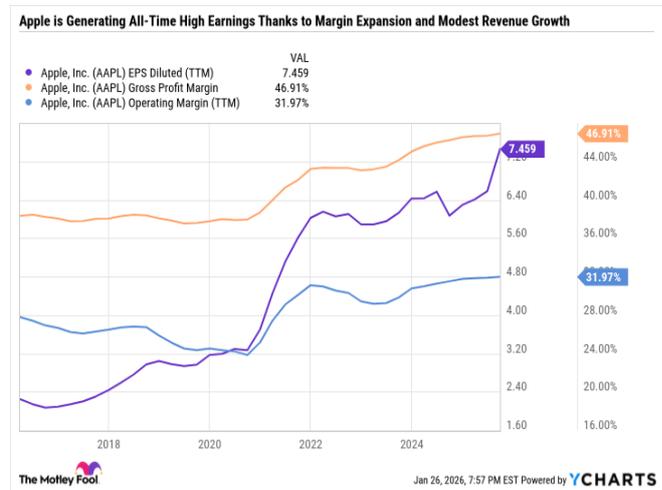
Sources: Globlex Research; SET

### Exhibit 11: Big Techs P/E Comparison



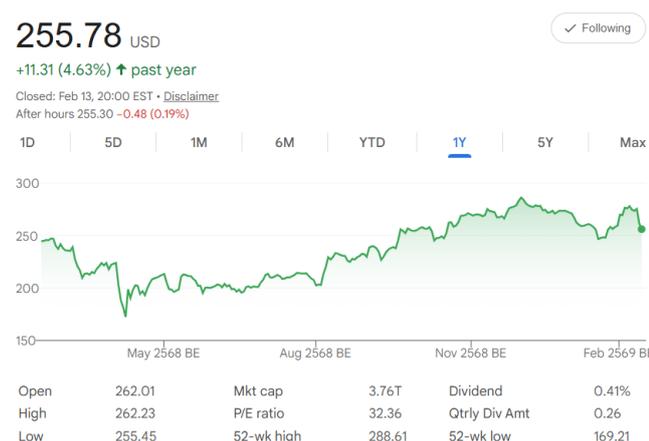
Sources: YCharts

### Exhibit 12: Apple's EPS, GPM and Operating Margin

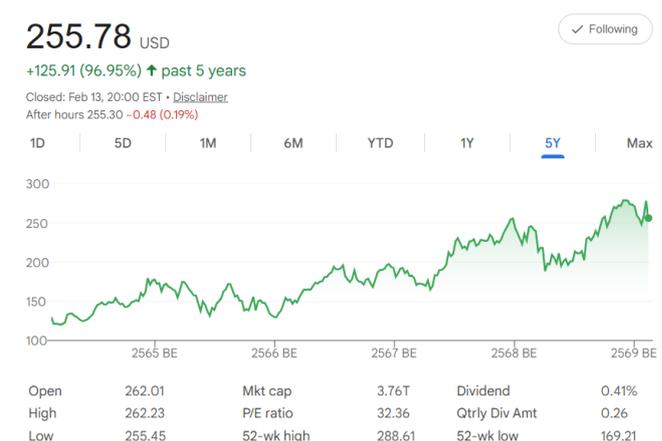


Sources: YCharts

### Exhibit 13: AAPL 1 Year Return



### Exhibit 14: AAPL 5 Years Return



## GENERAL DISCLAIMER

### Analyst Certification

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## RECOMMENDATION STRUCTURE

### Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

- BUY:** Expected return of 10% or more over the next 12 months.  
**HOLD:** Expected return between -10% and 10% over the next 12 months.  
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.  
**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.  
**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

### Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.