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US Semiconductors

AAPL/AVGO: Extended Partnership Expands Custom Silicon Opportunity – Positive

CITI'S TAKE

Earlier this week, Apple and Broadcom announced a new $30+ billion multiyear agreement through 2031, under which Broadcom will design and manufacture custom silicon and advanced wireless connectivity chips for more Apple products. The agreement is expected to produce 15 billion+ US-made chips and includes a $1.5 billion capital investment to expand Broadcom's manufacturing facility in Colorado. We believe the key incremental aspect of the announcement is Broadcom's broadened role in developing custom ASICs for Apple's AI infrastructure roadmap, as we noted previously. Apple currently relies heavily on Nvidia GPUs and Google TPUs to train its own LLM, and we believe AFM is still ~2–3 years behind leading frontier AI models, while in the meantime Apple is leaning Google's Gemini to power advanced Siri. We expect a more meaningful ramp in Broadcom custom AI silicon around 2029/2030 as Apple's in-house LLM ecosystem becomes more competitive and vertically integrated. Maintain Buy.

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliati



Apple, Inc.

(AAPL.O; US$313.39; 1; 08 Jul 26; 16:00)

Valuation

Our target price for Apple is $315. We value AAPL at $315 or 33x P/E on our CY2027 EPS estimate. Our 33x P/E is about a 20% premium to Apple's historical level. We believe a premium is warranted to reflect expanding gross margins (ex tariffs), growing services sales mix, gradual Apple Intelligence adoption, and a strong balance sheet.

Risks

Key risks to our investment thesis and to Apple achieving our target price include the following:

1) Weaker macroeconomic conditions or shifting consumer demand could cause greater-than-expected deceleration or contraction in the handset and smartphone markets. This would negatively impact Apple's prospects for growth, and the shares may fail to achieve our target price as a result.

2) Uncertainty regarding US/China tensions could impact Apple's supply chain, as the company is heavily reliant on suppliers/manufacturers in Taiwan and mainland China.

3) Regulatory risk remains as a major headwind including Digital Markets Act in Europe, which would push Apple to allow alternative app store on its iPhones and iPads and reduce app store revenues in the region.

4) Heavyweight in the market index makes institutional investors cautious on adding more Apple positions.

Broadcom Inc

(AVGO.O; US$370.78; 1; 07 Jul 26; 16:00)

Valuation

Our PT of $500, or 20X F28 EPS, is at the low end of recent trading range of 20-40X to reflect intensifying competition.

Risks

We see the following key risks to our target price:

Customer: We estimate it derives ~35-40% of sales from its largest customer, Google. Therefore, any major uptick/downtick in demand for Google's products could result in upside/downside to our estimates and rating for Broadcom.

SG&A target: Broadcom's long-term SG&A target is <3% of revenue (excluding stock-based compensation), one of the lowest among semi peers. However, if Broadcom is unable to reach its SG&A target, it could result in downside to our estimates and rating for Broadcom.

Competition: Any fluctuations in market share between Broadcom and its competitors could result in upside/downside risk to our estimates.

M&A: If Broadcom pursues further acquisitions, it could lead to margin/EPS accretion/dilution and result in upside/downside to our estimates.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.