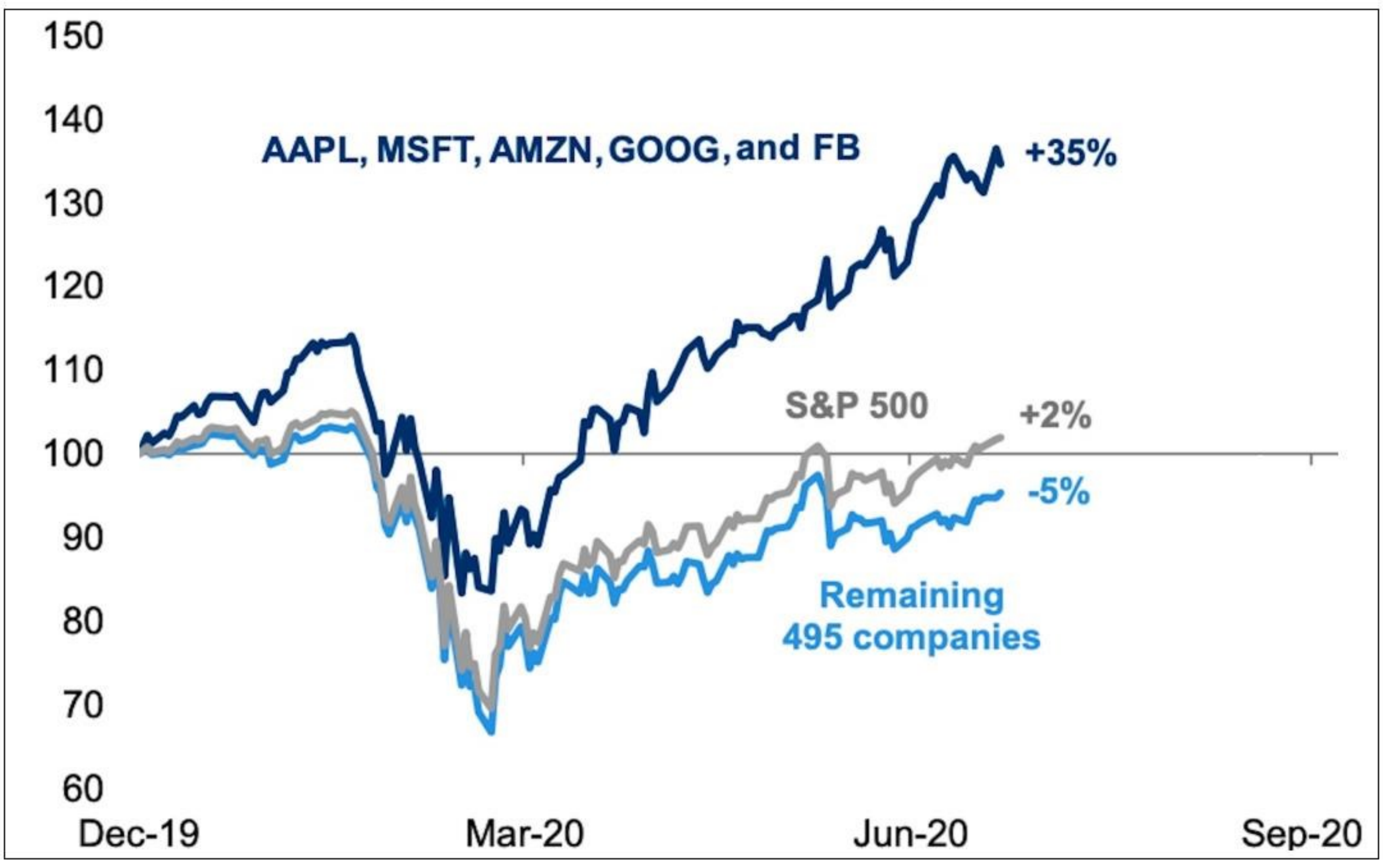
Chart of the Month

August 2020

The Five Largest Companies vs. the Other 495 Companies in the S&P 500



Source: FactSet, Goldman Sachs Global Investment Research

Apple (AAPL) reported revenue for its fiscal third quarter ended June 30 of $59.7 billion, up 11% from a year ago, and well ahead of the Wall Street estimate at $52.1 billion. Profits were $2.58 a share, soaring past the consensus projection at $2.09.

The company produced double-digit growth in products (iPhones, Macs, iPads, and Wearables) and services (App Store, Apple Music, Apple TV+, and Cloud), doubling the latter's revenue since 2016 or six months ahead of its original target of year-end 2020. The company said it now has over 550 million paid subscriptions across its services businesses and expects to reach 600 million before the end of the calendar year.

AAPL surged more than $40 per share (10.5%) to close at $425 on Friday, boosting its market cap by more than $170 billion — or nearly 20% more than the entire market capitalization of McDonald's (MCD) — to $1.84 trillion. MCD was founded in 1940 and went public in 1965. The one-day increase in AAPL exceeded what it has taken MCD to build in 80 years, an almost unfathomable accomplishment.

Apple is now less than 10% away from becoming the first company with a $2 trillion valuation. Of note, the company passed the $1 trillion milestone nearly two years ago to the day. At our near-term target price of $465 (based on 30x fiscal-year ending 9/30/2021 EPS of $15.50), AAPL's market cap will total $2 trillion. While 30 may seem high, it is only one-sixth of the P/E on the 10-year U.S. Treasury Note. At a yield of 0.55%, the USTN has a P/E of 180x. To illustrate, a buyer of a $100,000 Treasury would earn $550 in annual income. As such, the buyer of a USTN would be paying 180x earnings while the buyer of AAPL (at $465) would be paying just 30x.

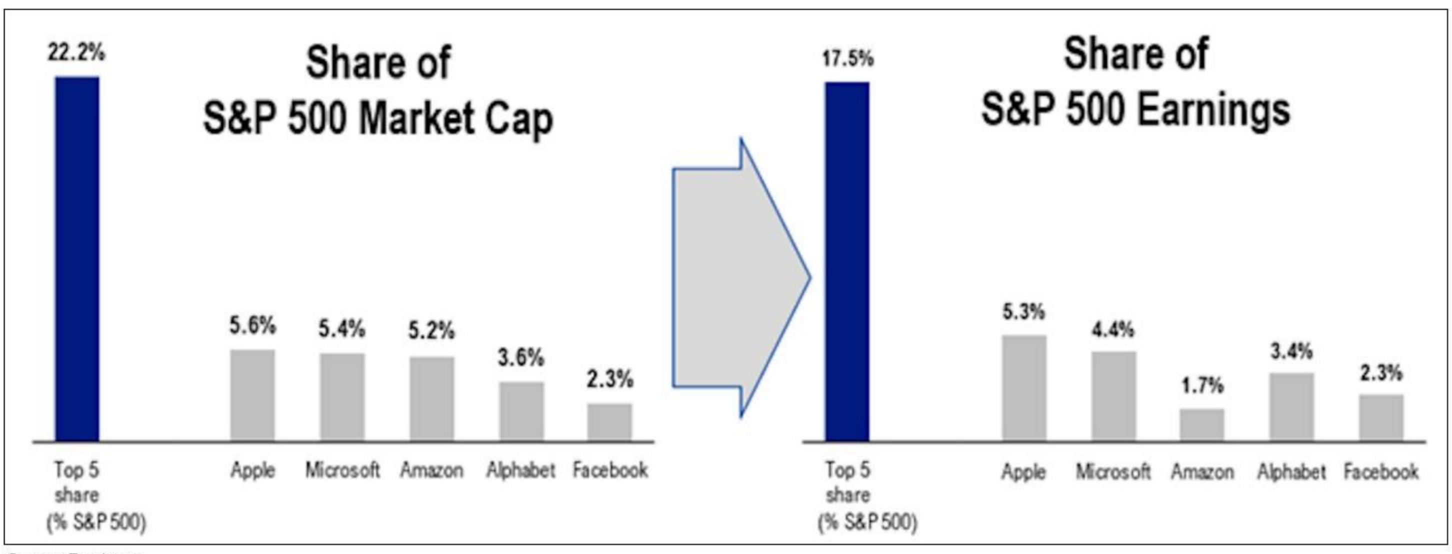
Furthermore, AAPL's dividend yield of 0.77% is forty percent greater than the yield on the 10-year USTN. We believe Apple will double its dividend over the next decade. If so, AAPL will generate more than two times the amount of income as the USTN and offer the potential for growth. The risk, of course, is that an investor in AAPL isn't guaranteed to get his/her money back whereas the buyer of the Treasury will receive the principal at maturity.

As shown in the charts at the top and bottom, Apple, Microsoft, Amazon, Alphabet, and Facebook (in order of market capitalization) have been growing and taking more and more share of the economy, which has been contracting. Accordingly, it shouldn't be surprising that these five companies are becoming a larger and larger percentage of the indexes. They combine for approximately 23% of the S&P 500 while generating close to 20% of the index's earnings and over 80% of the EPS growth.

Apple declared a 4:1 stock split, effective August 31, in conjunction with the release of its quarterly results last week. The split in and of itself does not make the company more valuable. Yes, shareholders will receive 4x as many shares as they owned prior to the split but the price will adjust accordingly and be worth one-quarter of the previous level. As an example, a shareholder who currently owns 100 shares will receive an additional 300 shares for a total of 400 but the price of the stock will go from its current level of about $440 to $110.

Looking beyond the split, Apple plans to launch its 5G iPhone in October, setting the stage for a strong opening quarter to the company's next fiscal year. In the meantime, it is encouraging to note that AAPL has more than $193 billion in cash and $81 billion in net cash (after subtracting all debt). The excess cash can be used to develop new products and services, buy back stock, increase dividends, and make strategic acquisitions.

The Five Largest Companies
Share of S&P 500 Market Cap and Earnings



Source: Fundstrat

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