

News

Shining the Right Focus on Apple for Its iPhone X

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one X%0D%0A"Understanding the quality of the product is more important than its price."%0D%0A%0D%0Ahttps://www.equities.com/news/shining-the-right-focus-on-apple-for-its-iphone-x)

iPhone X

Say hello to the future.



Whenever **Apple (AAPL)** (<https://www.equities.com/companies/aapl>) reveals a new flagship iPhone product (<https://www.equities.com/news/iphone-x-new-apple-smartphone-dumps-home-button-for-all-screen-design>), it would inevitably draw opinions from a wide variety of analysts. The Financial Times noted in an article that noted the weakness of Apple's strategy to price the new iPhone X at the highest ever of \$999 last month (<https://www.ft.com/content/4a85a978-94ef-11e7-a9e6-11d2f0ebb7f0?mhq5j=e5>). Focusing on the price, they cited a survey that 33% of existing iPhone users would not upgrade at such high prices.

Other analysts worry that the high price tag means that Apple will be priced out (<https://www.forbes.com/sites/ywang/2017/09/12/why-iphone-x-isnt-the-answer-to-apples-china-problem/#24903c5a10a2>) of the Chinese market where competitors such as **Xiaomi**, **Huawei** and **OPPO** offer comparable phones around \$506. Then there is the worry that the materials costs \$581 per phone (<http://bgr.com/2017/09/18/iphone-x-price-vs-iphone-8-vs-iphone-7/>) which is more than double the iPhone 7 (which sells for \$969) and result in lower margin.

Given the worries of poor sales, lower margin and potentially high inventory cost, Apple dropped 8.5% (<https://finance.yahoo.com/chart/AAPL>) from \$164 in Sept. 1, 2017 to a low of \$150 on Sept 25, 2017. However, the focus of these analysts on price alone is misguided as the quality of the product is more important.

Product Differentiation with Cutting Edge A11 Processors

Apple is the company (<https://www.equities.com/news/random-thoughts-on-apple>) that invented the revolutionary touch screen for the first iPhone in 2007 and it had always focused on quality instead of competing on price alone. Product differentiation allows it to earn an average of 46% margin on every iPhone for the past 10 years.

While most consumers wouldn't care about the technology behind the phone, they care about the features and the time lag. Apple had launched various revolutionary new features such as facial recognition and animated emoji which reads the users facial expressions to produce the animated emoji.

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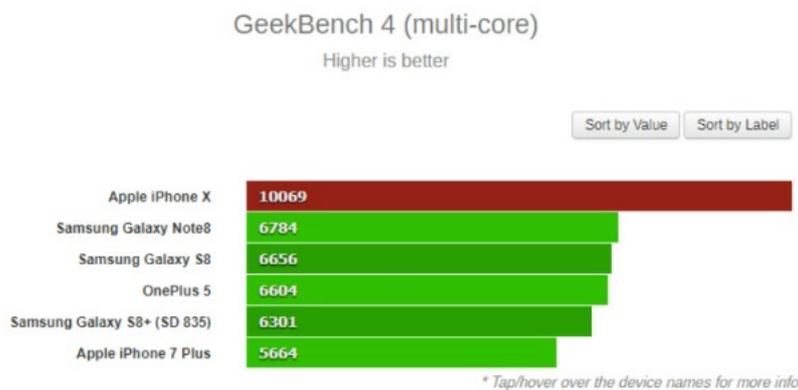
Animated Emoji from Apple iPhone X. Source: YouTube (<https://www.youtube.com/watch?v=wWAJlgr69s&feature=youtu.be>)

All these advances can only be powered with Apple's cutting edge new processor, A11 Bionic SoC (<https://jmmxtech.wordpress.com/some-tech-basics/>) (System on Chip) which combines the CPU, GPU and RAM in one unit. Such revolutionary designs are not by accident and they are the result of dedicated efforts by the Apple CPU design team which allows for augmented reality (AR) application and artificial intelligence.

Dedicated Chip Team; Amazing Results

Apple started embarking on the A11 processor technology as far back as 2014 (<http://mashable.com/2017/09/14/inside-apple-a11-bionic-and-silicon-team/#QW2fuAfhaOqO>) when terms such as artificial intelligence are not the in-thing yet. They built from existing technology and built it from scratch which resulted in the following features:

- 70% more energy efficient than the A10
- 25% more efficient than the A10
- New Neural Engine (for AI) and Graphics Engine



Source: GizBot (<https://www.gizbot.com/mobile/news/apple-iphone-x-with-a11-bionic-chip-performs-better-than-galaxy-note-8-and-oneplus-5-geekbench-044255.html>)

For most consumers, the most important point would be the speed of the iPhone X and it is much faster than the competition. For the older Android models, they would experience a noticeable lag when users try to engage the AR apps and over time, user frustration will drive it to the iPhone.

The last major point about Apple is that it is now moving its chip design in-house after outsourcing it to third parties such as Qualcomm and Intel. As their SVP of Hardware Technologies Johny Srouji noted, this is a logical step forward to ensure better performance and integration with Apple devices.

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Apple has more flexibility of the silicon design to support cutting edge technology and silicon will be part of its core competencies as technology circles become shorter. Of course, one of its major challenge will be cyber security given the increasing frequency of attacks and the lack of qualified cyber security specialists according to IT Solution Systems (<https://www.itsolution.com.sg/security/singapore-strengthens-its-cyber-security-armour/>).

Rising US Consumer Confidence

The rising consumer confidence in the United States hit a five-month high (<https://www.reuters.com/article/us-usa-economy-idUSKCN1B9205>) and housing prices are on the steady uptrend. These would boost Apple's revenue once the Apple iPhone X is released in November just ahead of the Christmas holiday season. US consumers are known to compare personal loans (<https://www.xn--forbruksln-95a.no/>) to get gifts during the holiday season and refinance their existing loans (<https://www.refinansiere.net/>).

Taken in whole, consumers are likely to embrace the new iPhone X and the first sign of such assurance came from India. Reliance Jio (<http://www.businesstoday.in/sectors/telecom/reliance-offers-jio-users-buyback-option-on-apples-latest-iphone-8-8-plus-and-iphone-x/story/261220.html>) is offering a guarantee of 70% of the purchase price of iPhone 8, 8 Plus and X after 1 year of usage. This shows the intrinsic value of the new iPhone series despite its higher price tag. This should be the true focus on investors on Apple.

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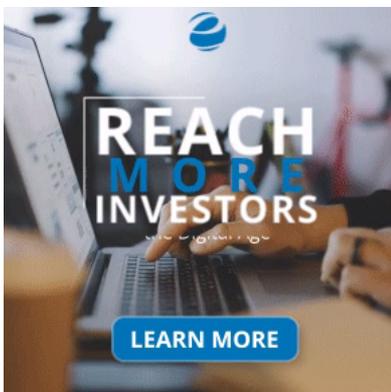
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