

From: Richard Kahn <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>

Subject: Fwd: AAPL - now a good opportunity to overwrite

Date: Fri, 16 Sep 2016 17:20:57 +0000

Attachments: AAPL.pdf

Inline-Images: image001.jpg; image002.jpg; image003.png

she changes her views daily and sends way to many emails..

Richard Kahn
HBRK Associates Inc.

[REDACTED]

Begin forwarded message:

From: "Ens, Amanda" <[REDACTED]>

Subject: RE: AAPL - now a good opportunity to overwrite

Date: September 16, 2016 at 9:34:39 AM EDT

To: "[REDACTED]" <[REDACTED]>

Rich, our analyst raised price target on AAPL to \$125. Our desk traded a large amount of options on the name this week, first with a buyer of 150,000 contracts of Oct call options (nearly \$2bn notional) and then on the move higher in vol and spot, with sellers of ~50,000 Oct through Jan calls (~\$600mm notional), some overwriting against long stock and others profit-taking. Let me know if [REDACTED] like to discuss further. Research note is attached.

APPLE: BUY. NEW PO \$125. DEC QTR EPS \$3.36 vs CONSENSUS \$3.15. DRIVEN BY US CARRIER INCENTIVES.

Wamsi Mohan lifts Dec Qtr EPS to \$3.36 vs consensus \$3.15. Expect 81m iPhones vs consensus 75m units. FY17e to 242m units vs consensus 221m. New PO \$125. The change in our model is on the back of US carrier incentives – all major US carriers introduced trade-in plans. Everyone feared the replacement cycle would be longer, now it looks like it might shrink. This could be worth 20-40c in EPS upside to APPL in Dec qtr. Takes our FY EPS 2017e to \$9.69 vs consensus \$9.00. We haven't looked at International incentives. Samsung recall adds 4c for AAPL EPS. Mix shift to higher memory & Plus size (given dual cameras) can drive 7+/7 mix better relative to 6S/Plus – good for gross margins. [Note.](#)

From: Ens, Amanda

Sent: Wednesday, September 14, 2016 10:54 AM

To: [REDACTED]

Subject: AAPL - now a good opportunity to overwrite

Rich,

AAPL October vols are up by about 5 vol points from mid-August. Our trader now recommends call overwrites (selling vol). We aren't set up yet to sell options for our account here but [REDACTED] happy to help if [REDACTED] like to discuss ideas.

Regards,
Amanda

From: Ens, Amanda
Sent: Tuesday, August 16, 2016 1:27 PM
To: 'Richard Kahn'
Subject: AAPL – Implied vols at extreme low levels. Replace long AAPL positions with cheap call options

Rich,

■ not sure if you own AAPL but in case you do, I wanted to share our recommendation to replace long AAPL positions with cheap call options to lock-in profits from the recent 14% rally after Q3 earnings.

AAPL implied vol at extreme low levels => buy upside calls. A two year look back for 2-month ATM implied vol is in the 1st percentile. The company is supposed to announce details for the iPhone 7 around Sept 7th, prior to October option expiration and we believe implied volatility is too low. After the last 5 earnings reports (excluding the earnings event move), AAPL has realized 19%, 21.5%, 27.5%, 32.5% and 19.75% - we thus see limited downside to being long October vol at ~18.8%.

- **Stock replacement: Buy Oct 21st expiry AAPL 115 calls @ 1.60 (1.4% premium)**
 - or buy the Oct 21st expiry AAPL 110 calls @ 3.55 (3.2% premium)

If you would like to have exposure through Oct 24th earnings and the elections, we could look at November but the vol is about 2.5 vol points higher.

- **Buy Nov 18th expiry AAPL 115 calls @ 2.65 (2.3% premium)**
 - or buy the Nov 18th expiry AAPL 110 calls @ 4.70 (4.3% premium)

Why replace stock with call options?

Post AAPL earnings on Jul 26th, nearer-dated (1 month to 3 month) implied volatility declined sharply. 2 month ATM options are basically at 5 year lows. It's not to be ignored the company holds a sizeable cash position on the balance sheet which can have a volatility dampening effect on the shares. However, there may still be a key catalyst - the company is supposed to announce details for their next generation iPhone prior to October expiration and we believe implied volatility is too low. Based on last year's timing, Apple is expected to host an event this year around September 7th to announce their new phone. The phone would typically come available for purchase a week or so later.

According to our research analyst, through our own analysis and conversations with the buy-side:

- Positive catalysts needed are:
 1. Better features than expected (unlikely)
 2. Pricing of iPhone
 3. Announcement of a much improved watch (possible)
 4. New macs (not a needle mover)
- Negative catalysts could be:
 1. Sell on the news on iPhone 7 announcement
 2. Early order sell out trends, if weak, can be negative ahead of Oct expiry

I should also note that cash repatriation policy might change after the elections; a repatriation tax reduction could impact AAPL's return of capital to shareholders significantly (\$153bn cash, 80% outside the US, cash is 28% of AAPL's market cap as of 1Q16). We can discuss our research on this further if you're interested.

Vol Surface

AAPL – Two year look-back for 2 month ATM implied and 2 month implied - realized spread, all screen very cheap 1st percentile and 19th percentiles respectively (see details and charts below). Seems the options market is pricing the next product release announcement (iPhone 7, etc.) as not much of a catalyst at all. The current low level of implied volatility has been carrying well with realized volatility higher than implieds on 30-, 50- and 100-day basis. We expect implied vols to find a floor, and realized volatility continue to support this over the coming several weeks as we approach the new product release. This options backdrop provides an opportunity if you are looking for ways to add leverage or reduce risk into the event (stock replacement with call options.)

2 year look back of 2 month atm implied vol (absolute) – 1st percentile low



Source: Bloomberg

2 year look back 2 month implied – 40 day realized spread 19th percentile cheap

Source: Bloomberg

Regards,
Amanda

Amanda Ens

Director
Bank of America Merrill Lynch
Merrill Lynch, Pierce, Fenner & Smith Incorporated
One Bryant Park, 5th Floor, New York, NY 10036
Phone: 212.449.7781 Mobile: 917.386.3280
[REDACTED]

The power of global connections™

This message, and any attachments, is for the intended recipient(s) only, may contain information that is privileged, confidential and/or proprietary and subject to important terms and conditions available at [REDACTED] If you are not the intended recipient, please delete this message.