

Infineon

Price EUR12.44

Higher than expected Q1 2016 results, Q2 likely to be soft but FY16 guidance confirmed

Fair Value EUR15 (+21%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EUR)	14,048
Ev (BG Estimates) (EUR)	13,426
Avg. 6m daily volume (000)	7,420
3y EPS CAGR	16.7%

Infineon has reported Q1 2016 results slightly above consensus expectations and company guidance. Q1 sales came in at EUR1.556bn down 2.6% sequentially, with current operating margin at 14.1%, current operating result at EUR220m and EPS at EUR0.17. This was above consensus expectations with sales estimates at EUR1.504bn, current operating result at EUR207m (current operating margin of 13.8%) and adjusted EPS at EUR0.16. For Q2, the group expects revenue to rise 3% seq. to EUR1.6bn and current operating result at c. EUR208, compared with the street forecast for revenue at EUR1.61bn and current operating result at EUR239. As a result, revenue guidance is in line with consensus expectations although margin appears to be low, but the group has confirmed its FY16 guidance for sales growth of 13% yoy and a margin of 16%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.9%	11.1%	21.9%	-7.9%
Semiconductors	-3.3%	-1.9%	-6.5%	-3.3%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

ANALYSIS

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,558	6,984	7,348
% change		13.2%	6.5%	5.2%
EBITDA	1,658	1,926	2,109	2,298
EBIT	898.0	1,074	1,201	1,343
% change		19.6%	11.9%	11.8%
Net income	680.0	857.5	964.1	1,080
% change		26.1%	12.4%	12.0%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	16.4	17.2	18.3
Net margin	11.7	13.1	13.8	14.7
ROE	13.3	13.2	13.5	14.0
ROCE	18.5	15.6	17.3	19.3
Gearing	-4.7	-12.1	-19.8	-27.6

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.76	0.86	0.96
% change	-	26.1%	12.4%	12.0%
P/E	20.6x	16.3x	14.5x	13.0x
FCF yield (%)	0.6%	4.5%	5.2%	6.1%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.6%	1.6%	1.6%
EV/Sales	2.4x	2.0x	1.9x	1.7x
EV/EBITDA	8.3x	7.0x	6.1x	5.4x
EV/EBIT	15.4x	12.5x	10.8x	9.2x

- **Infineon's Q1 sales, operating margin and EPS came out above consensus expectations and the company's guidance.** Q1 sales of EUR1.556bn were down 2.6% seq., above the company's guidance and consensus expectations for a sequential decrease of 6.0% (+/-2%) (BG ests. EUR1.502bn). Q1 segment result came in at EUR220m, pointing to a 14.1% margin, in line with the company's guidance (14% at midpoint) but slightly above expectations (cs. 13.8%). As a result, adjusted Q1 EPS was slightly above expectations at EUR0.17 vs. EUR0.16 (BG ests. EUR0.16). The net cash position at the end of the first quarter was a positive EUR204m vs. EUR220m at the end of the FY15.
- **Automotive (ATV) showed a flat performance, but was the best performing division.** Indeed, Chip Card & Security (CCS), Power Management and Multimarket (PMM) and Industrial Power Control (IPC) revenues decreased in line with seasonal factors. The automotive division (Q1 sales: EUR614m, segment result: EUR81m or 13.2%) benefited from high demand in North America while markets in China saw a sharp rise. As a result, ATV's sales came out at EUR614m, flat sequentially. IPC's revenue fell by 8% (Q1 sales: EUR249m, segment result: EUR23m or 9.2%), in line with seasonal factors as for PMM (Q1 sales: EUR510m, segment result: EUR79m or 15.5%), witnessing an unusual decline in mobile product momentum offset by stronger demand for power amplifiers for base stations. Finally, CCS revenue decreased by 4% sequentially (sales: EUR173m, segment result: EUR35m or 20.2%), better than normal for the season thanks to higher demand for SIM cards and security for mobile devices.
- **The group expects a soft Q2 but has confirmed its FY16 guidance.** While the environment is set to favour the automotive segment, the group continues to expect softness in other divisions. The group expects sales to increase by +3% (+/- 2pts) sequentially or sales at EUR1.60 vs. EUR1.61 expected by the consensus (based on a EUR/USD exchange rate of 1.10). A more surprising figure was the low guidance for a 13% margin (vs. 14.1% in FQ1-16) leading to a current operating result of EUR208 vs EUR239 expected by the consensus. We will wait for the conference call to have more details. The group added that FY16 guidance for sales growth of 13% (+/- 2pts) and current operating margin of 16% was confirmed.

VALUATION

- We are making no change to our estimates at this point and will wait for further details from today's conference call (9:30am CET).
- Infineon's shares are trading on 2016e P/E of 16.3x and 2016e PEG of 1.0x.

NEXT CATALYSTS

- Conference call to be held at 9:30 today
- 18th February: Annual General Meeting
- 9th May: FQ2-16 results



FQ1-16 actual vs. estimates

[EURm]	BG ests. FQ1	Consensus FQ1	FQ1 Actual	Cons. Vs. Actual
Net revenue	1502	1504	1556	3.5%
% change (seq)	-6.0%	-5.9%	-2.6%	325bp
Gross Margin	34.5%	37.0%	35.9%	-110bp
Adj. EBIT	210	207	220	6.3%
% of revenue	14.0%	13.8%	14.1%	38bp
Dil. EPS	0.16	0.16	0.17	6.3%

Sources: Company data; Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

FQ2-16 guidance vs. estimates

[EURm]	BG ests. FQ2	Consensus FQ2	FQ2 Guidance	Cons. Vs. Guid.
Net revenue	1648	1608	1603	-0.3%
% change (seq)	9.7%	6.9%	3.0%	-391bp
Adj. EBIT	274	239	208	-12.8%
% of revenue	16.6%	14.9%	13.0%	-186bp
Dil. EPS	0.20	0.18	-	-

Sources: Company data; Thomson Reuters I.B.E.S; Bryan, Garnier & Co ests.

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