

## Infineon

Price EUR12.43

FQ2-16 results are above estimates but the group lowers FY16 guidance

Fair Value EUR15 (+21%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EURm)	14,060
Ev (BG Estimates) (EURm)	13,460
Avg. 6m daily volume (000)	6,213
3y EPS CAGR	15.5%

Infineon has reported fiscal Q2 2016 results above consensus expectations and company guidance. Fiscal Q2 sales came in at EUR1.611bn up 3.5% sequentially (+8.6% yoy), with current operating margin at 13.7%, current operating result at EUR220m and EPS at EUR0.18. This was above consensus expectations with sales estimates at EUR1.604bn, current operating result at EUR202m (current operating margin of 12.6%) and adjusted EPS at EUR0.14. As a result, Q2 EPS was 29% above expectations. However, Infineon has lowered FY 2016 guidance and now expects revenue to rise 12% (+/-2%, compared with 13% before) and current operating margin in the range of 15-16% (at mid-point, compared to 16% before).

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.2%	1.2%	11.8%	-8.0%
Semiconductors	-3.9%	-1.9%	-4.5%	-6.0%
DJ Stoxx 600	1.4%	-0.2%	-9.1%	-6.7%

## ANALYSIS

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,494	6,853	7,147
% change		12.1%	5.5%	4.3%
EBITDA	1,658	1,876	2,044	2,206
EBIT	898.0	1,031	1,153	1,277
% change		14.9%	11.8%	10.8%
Net income	680.0	842.6	946.9	1,051
% change		23.9%	12.4%	11.0%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	15.9	16.8	17.9
Net margin	11.7	13.0	13.8	14.7
ROE	13.3	13.1	13.3	13.7
ROCE	18.5	14.9	16.6	18.3
Gearing	-4.7	-11.7	-19.3	-27.1

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.75	0.84	0.93
% change	-	23.4%	12.4%	11.0%
P/E	20.6x	16.7x	14.8x	13.4x
FCF yield (%)	0.6%	4.2%	5.1%	6.0%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.6%	1.6%	1.6%
EV/Sales	2.4x	2.1x	1.9x	1.7x
EV/EBITDA	8.3x	7.2x	6.3x	5.6x
EV/EBIT	15.4x	13.0x	11.2x	9.7x

- Infineon's Q2 sales, operating margin and EPS came out above consensus expectations and the company's guidance.** Fiscal Q2 sales of EUR1.611bn were up 3.5% seq., above the company's guidance and consensus expectations for a sequential increase of 3.0% (+/-2%) (BG ests. EUR1.605bn, +3.1% seq.). FQ2 segment result came in at EUR222m, pointing to a 13.7% margin, 70bp above the company's guidance (13% at midpoint) and 110bp above the street's expectations (cs. 12.6%). As a result, adjusted FQ2 EPS of EUR0.18 was 29% above consensus' expectations at EUR0.14 (BG ests. EUR0.15). The net cash position at the end of the first quarter was a positive EUR27m vs. EUR204m at the end of the FQ1-16. Finally, Inventory decreased by EUR25m over FQ2.
- During FQ2, Automotive (ATV) performed nicely (+9% seq.) as expected.** Automotive (ATV), Industrial Power Control (IPC), Power Management and Multimarket (PMM) and Chip Card & Security (CCS) revenues moved respectively by +9%, +6%, -3 % and +4% on a sequential basis. The automotive division (Q2 sales: EUR670m, segment result: EUR94m or 14.0%) benefited from high demand in North America, China and Europe. IPC's revenue grew by 6% (Q2 sales: EUR265m, segment result: EUR26m or 9.8%), in line with seasonal factors as for PMM which decreased by -3% seq. (Q2 sales: EUR496m, segment result: EUR74m or 14.9%). Demand in PMM softened during FQ2 while this segment was also affected by a strong base of comparison. Finally, CCS revenue increased by 4% sequentially (Q2 sales: EUR180m, segment result: EUR36m or 20.0%) thanks to healthy demand for payment, Government ID and security for mobile devices.
- Infineon forecasts a soft growing Fiscal Q3 and has lowered its FY16 guidance.** The group expects sales to increase by +2.0% (+/- 2pts) sequentially in FQ3 or sales at EUR1.64bn, namely 2.9% below the EUR1.69bn expected by the consensus. This guidance is based on a EUR/USD exchange rate of 1.15 (vs. 1.10 seen over calendar Q1) which in our view explains the discrepancies between the street's expectations and Infineon's new guidance. Regarding margin, the group expects to see current operating margin of 16.0% over the third quarter, leading to a current operating result of EUR263m which is 3.3% below the EUR272m expected by the Street. Finally, the group lowered its FY16 guidance for sales growth of 12% (+/- 2pts) vs. 13% previously and current operating margin in the range of 15% to 16% vs. 16% previously. Nevertheless, Infineon new guidance leads to FY16 of EUR6.49bn, 1.1% lower than Street's estimates of EUR6.57bn and in line with our expectations. All segments are expected to growth but Industrial Power control division is expected to growth faster than the group average while the Chip Card & Security segment is expected to growth at a lower rate. In addition, Segment result is seen at EUR1.01bn at mid-point, i.e. 2% above Street's expectations (of UR985m / BG ests. EUR1.03bn).



## VALUATION

- We are making no change to our estimates at this point and will wait for further details from today's conference call (see details below).
- Based on our estimates, Infineon's shares are trading on 2016e P/E of 17.0x and 2016e PEG of 1.2x.

## NEXT CATALYSTS

- Today: Fiscal second quarter results conference call (9:30am CET, +44 20 3427 1918).
- 2nd August 2016: Fiscal third quarter results.

### FQ2-16: Actual vs. consensus' estimates

[EURm]	BG ests. FQ2-16	Consensus FQ2-16	FQ2-16 Actual	Actual vs. cons.
Net revenue	1605	1604	1611	0.4%
% change (seq)	+3.1%	+3.1%	+3.5%	42bp
% change (yoy)	+8.2%	+8.2%	+8.6%	45bp
Gross Margin	35.4%	35.9%	35.1%	-80bp
Adj. EBIT	208	202	220	9.2%
% of revenue	13.0%	12.6%	13.7%	110bp
Adj. EPS (in EUR)	0.15	0.14	0.18	28.6%

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

### FQ3-16 : Guidance vs. consensus' estimates

[EURm]	BG ests. FQ3-16	Consensus FQ3-16	FQ3-16 Guidance	Guid. vs. cons.
Net revenue	1686	1692	1643	-2.9%
% change (seq)	+5.0%	+5.4%	+2.0%	-343bp
% change (yoy)	+6.3%	+6.7%	+3.6%	-304bp
Adj. EBIT	274	272	263	-3.3%
% of revenue	16.3%	16.1%	16.0%	-7bp
Adj. EPS (in EUR)	0.20	0.19	-	-

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

### FY16 : New guidance vs. consensus' estimates

[EURm]	BG ests. FY16	Consensus FY16	FY16 Guidance	Guid. vs. cons.
Net revenue	6494	6566	6490	-1.1%
% change (seq)	+12.1%	+13.3%	+12.0%	-130bp
Adj. EBIT	1031	985	1006	2.2%
% of revenue	15.9%	15.0%	15.5%	50bp
Adj. EPS (in EUR)	0.75	0.72	-	-

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

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