

Infineon

Price EUR13.09

Underestimated potential (focus released today)

Fair Value EUR15 (+15%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EURm)	14,809
Ev (BG Estimates) (EURm)	14,249
Avg. 6m daily volume (000)	5,606
3y EPS CAGR	15.7%

A year ago, we initiated coverage of Infineon with the strong conviction that the group could integrate International Rectifier faster than expected. This proved to be true and led the group to announce strong guidance for FY16 in a tough environment (back in November 2015). Over one year, the share price has already jumped 17% (vs. Stoxx 600 14%). However, in view of the group's strong operating performance over the period, we believe the opportunity remains intact. We reiterate our Buy recommendation.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.8%	8.3%	-3.8%	-3.1%
Semiconductors	4.2%	1.4%	-0.8%	-1.8%
DJ Stoxx 600	0.6%	-0.2%	-4.8%	-7.0%

ANALYSIS

- **Recently, the share has suffered from the downward revision to FY16 guidance although business is stronger than ever.** When reporting FQ2-16 results in May, management provided an update to FY16 guidance and said it now expects FY16 revenue growth of 12% (at mid-point) and a segment result margin of 15.5% (at mid-point) vs. 13% and 16% respectively beforehand. Some feared the update implied weaknesses in the environment but management was clear in stating that it was only due to forex changes (EUR/USD of 1.15 vs. 1.10 previously). As a result, Infineon's valuation metrics have plummeted from a 52w high 2016e P/E of 22.6x in late 2015 to 16.4x currently (-27%), which is also below the 52w average of 18.3x.
- **We see room for revenue growth and margin improvement.** The group boasts strong expertise in power semiconductors and leverages this in multiple market segments (especially auto and industrial sector). As a result, it is growing faster than the market (+9.5% 5y avg. growth vs. +2.3% respectively), gains market share continuously and maintains a competitive edge thanks to well selected R&D programmes (R&D FY15: 12% of sales). In addition, Infineon invests in manufacturing technologies and is preparing the transition to 300mm production (vs. 200mm), which is unique among Analog players. The ramp-up in this production should provide an additional tailwind for margins from 2017 and accentuate the group's competitive edge.

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,508	6,909	7,274
% change		12.3%	6.2%	5.3%
EBITDA	1,658	1,877	2,064	2,241
EBIT	898.0	1,031	1,166	1,296
% change		14.8%	13.1%	11.2%
Net income	680.0	906.4	942.0	1,056
% change		33.3%	3.9%	12.1%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	15.8	16.9	17.8
Net margin	11.7	13.9	13.6	14.5
ROE	13.3	13.2	13.1	13.8
ROCE	18.5	16.4	16.6	18.3
Gearing	-4.7	-10.9	-18.3	-26.0

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.80	0.83	0.94
% change	-	32.8%	3.9%	12.1%
P/E	21.6x	16.3x	15.7x	14.0x
FCF yield (%)	0.6%	3.7%	4.7%	5.6%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.5%	1.5%	1.5%
EV/Sales	2.5x	2.2x	2.0x	1.8x
EV/EBITDA	8.8x	7.6x	6.7x	5.9x
EV/EBIT	16.2x	13.8x	11.8x	10.2x

VALUATION

- **We have applied minor changes to our model and in view of current valuation metrics, reiterate our Buy recommendation.** We have updated our model to include the latest FX spot data which has a minor impact on our estimates. Our FV remains unchanged at EUR15 and points to an upside of 15%.

NEXT CATALYSTS

- 2nd August 2016: Fiscal Q3-16 results

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