

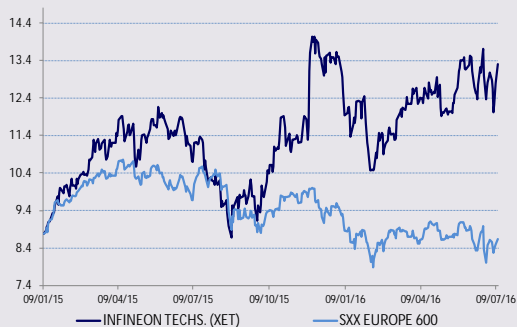
INDEPENDENT RESEARCH
UPDATE

21st July 2016

TMT

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market capitalisation (EURm)	15,754
Enterprise Value (BG estimates EURm)	15,195
Avg. 6m daily volume ('000 shares)	5,558
Free Float	99.5%
3y EPS CAGR	16.8%
Gearing (09/15)	-5%
Dividend yield (09/16e)	1.44%

YE September	09/15	09/16e	09/17e	09/18e
Revenue (EURm)	5,795	6,540	7,003	7,432
EBITA EURm)	898.0	1,044	1,195	1,335
Op.Margin (%)	15.5	16.0	17.1	18.0
Diluted EPS (EUR)	0.60	0.81	0.86	0.96
EV/Sales	2.68x	2.32x	2.10x	1.90x
EV/EBITDA	9.4x	8.0x	7.0x	6.1x
EV/EBITA	17.3x	14.6x	12.3x	10.6x
P/E	23.0x	17.1x	16.3x	14.4x
ROCE	18.5	16.6	17.0	18.8



Infineon

Under Estimated Potential

Fair Value EUR16 vs. EUR15 (price EUR13.92) **BUY-Top Picks**

A year ago, we initiated coverage of Infineon with the conviction that the group could integrate International Rectifier more quickly than expected. This is indeed what happened and prompted the group to surprise the market with enthusiastic full-year guidance in a difficult backdrop (in November 2015). The share price has gained 26% over one year (vs Stoxx 600 -16%), but given the group's strong operating performance over the period, we believe that the share's potential remains intact. We updated our model to integrate changes in FX, as a result our FV is up from EUR15 to EUR16 (upside potential of 15%) and we are reiterating our Buy recommendation.

▢ The share price has suffered recently from the downgrade to FY16 guidance whereas business remains particularly robust. At the Q2 2016 earnings publication in May (FYE 30th September), management reviewed FY 2016 guidance and reduced its estimate for 2016e sales to 12% (median point) vs +13% and 16%, respectively. Some feared that this adjustment reflects certain weaknesses in the backdrop, but management was clear in stating that it was only due to exchange rate adjustments (EUR/USD at 1.15 vs. 1.10). Consequently, Infineon's valuation multiples have plunged significantly, from a peak level of 2016e P/E of 22.6x at end-December 2015 to 17.1x at present (-24%), which is also lower than the one-year average of 18.3x. In the meantime however, the Brexit vote has significantly strengthened the EUR/USD exchange rate to levels close to 1.10.

▢ Growth and margin improvement potential still exists. The group boasts strong expertise in powerful semiconductors and exploits this in other market segments (especially the automotive and industrial sectors). Consequently, IFX outstrips market growth (average five-year growth of +9.5% vs +2.3%) and maintains a competitive edge thanks to the R&D programmes selected (FY 2015 R&D: 12% of sales). Infineon also invests in production technologies and is currently preparing the transition to 300mm production from the 200mm currently used, which is unique for analogue players. The rise in momentum of this production should provide an additional catalyst for margins as of 2017 and accentuate the group's competitive edge.

[Bryan Garnier : Semiconductors Looking for lost growth](#)



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Infineon

Simplified Profit & Loss Account (EURm)	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
Revenues	3,843	4,320	5,795	6,540	7,003	7,432
Change (%)	-1.6%	12.4%	34.1%	12.9%	7.1%	6.1%
Adjusted EBITDA	843	1,134	1,658	1,894	2,106	2,302
Adjusted EBIT	377	620	898	1,044	1,195	1,335
EBIT	324	526	555	795	943	1,097
Change (%)	-28.8%	62.3%	5.5%	43.3%	18.5%	16.4%
Financial results	(19.0)	(6.0)	(34.0)	(67.4)	(58.1)	(54.3)
Pre-Tax profits	305	520	521	728	884	1,043
Tax	(22.0)	(30.0)	102	(43.7)	(133)	(156)
Minority interests	(0.07)	(0.06)	0.20	(0.06)	(0.15)	(0.15)
Net profit	283	490	622	684	752	886
Restated net profit	297	539	680	918	967	1,089
Change (%)	-34.0%	81.4%	26.2%	35.0%	5.3%	12.7%

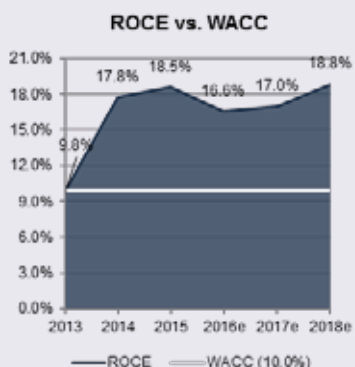
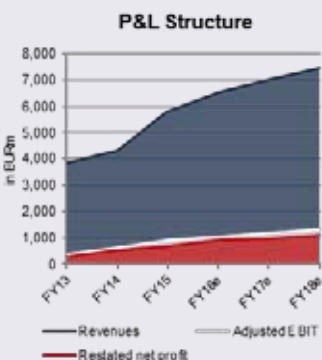
Cash Flow Statement (EURm)	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
Depreciation & amortisation	(466)	(514)	(760)	(850)	(910)	(966)
Change in working capital	(230)	(71.0)	(602)	(53.6)	(50.4)	(45.8)
Operating cash flows	601	981	817	1,398	1,612	1,807
Capex, net	(375)	(664)	(728)	(850)	(910)	(966)
Free Cash flow	226	317	89.0	548	701	840
Financial investments, net	46.0	392	(1,865)	0.0	0.0	0.0
Dividends	(129)	(129)	(202)	(225)	(225)	(225)
Issuance of shares	2.0	1.0	11.0	15.0	0.0	0.0
Issuance (repayment) of debt	52.0	4.0	2,398	4.0	0.0	0.0
Other	(154)	(336)	(2,443)	(3.0)	0.0	0.0
Net debt	(1,983)	(2,232)	(220)	(558)	(1,035)	(1,651)

Balance Sheet (€m)	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
Tangible fixed assets	1,600	1,700	2,093	1,993	1,893	1,793
Intangibles assets & goodwill	170	250	1,738	1,838	1,938	2,038
Investments	34.0	35.0	33.0	33.0	33.0	33.0
Deferred tax assets	325	378	607	607	607	607
Other non-current assets	153	141	155	155	155	155
Current assets	3,096	2,876	3,442	3,616	3,758	3,886
Cash & equivalents	527	1,058	673	986	1,463	2,079
Total assets	5,905	6,438	8,741	9,229	9,847	10,591
Shareholders' equity	3,776	4,158	4,671	5,145	5,672	6,334
Provisions	292	449	498	498	498	498
Deferred tax liabilities	4.0	5.0	147	147	147	147
Current liabilities	1,530	1,640	1,638	1,735	1,826	1,908
L & ST Debt	303	186	1,793	1,768	1,768	1,768
Total Liabilities	5,905	6,438	8,741	9,229	9,847	10,591
Capital employed	3,552	3,286	5,791	5,927	5,977	6,023

Ratios	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
Operating margin	9.81	14.35	15.50	15.96	17.07	17.97
Tax rate	7.21	5.77	(19.62)	6.00	15.00	15.00
Net margin	7.73	12.48	11.73	14.04	13.80	14.65
ROE (after tax)	7.49	11.78	13.32	13.30	13.25	13.99
ROCE (after tax)	9.85	17.78	18.54	16.56	17.00	18.85
Gearing	(52.52)	(53.68)	(4.71)	(10.85)	(18.25)	(26.06)
Pay out ratio	43.41	23.93	29.73	24.51	23.26	20.65
Number of shares, diluted	1,081	1,128	1,126	1,129	1,129	1,129

Data per Share (EUR)	30/09/13	30/09/14	30/09/15	30/09/16e	30/09/17e	30/09/18e
EPS	0.25	0.48	0.56	0.61	0.67	0.79
Restated EPS	0.26	0.48	0.60	0.81	0.86	0.96
% change	-33.7%	82.2%	25.8%	34.5%	5.3%	12.7%
BVPS	3.49	3.69	4.15	4.56	5.02	5.61
Operating cash flows	0.56	0.87	0.73	1.24	1.43	1.60
FCF	0.21	0.28	0.08	0.48	0.62	0.74
Net dividend	0.12	0.12	0.18	0.20	0.20	0.20

Source: Company Data; Bryan, Garnier & Co ests.



Company description

Infineon is a German semiconductor manufacturer active in the automotive sector, electrical power management especially for industry, and security applications such as bank cards. In early 2015, the group completed the acquisition of International Rectifier, a US rival particularly active in power management. Via this acquisition, the group has consolidated its leading position in this segment. Infineon is also a leader in the automotive segment.

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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NEUTRAL ratings 34%

SELL ratings 10.2%

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