

Infineon

Price EUR13.29

A stronger Automotive offering with the acquisition of Wolfspeed

Fair Value EUR15 (+13%)

BUY-Top Picks

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.0 / 8.7
Market Cap (EURm)	15,046
Ev (BG Estimates) (EURm)	14,487
Avg. 6m daily volume (000)	5,648
3y EPS CAGR	15.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	4.9%	9.3%	-1.6%
Semiconductors	8.1%	1.9%	12.1%	2.1%
DJ Stoxx 600	2.8%	-2.1%	-2.6%	-8.2%

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	22.0x	16.6x	15.9x	14.2x
FCF yield (%)	0.6%	3.7%	4.7%	5.5%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.4%	1.5%	1.5%	1.5%
EV/Sales	2.6x	2.2x	2.0x	1.8x
EV/EBITDA	8.9x	7.7x	6.8x	6.0x
EV/EBIT	16.5x	14.1x	12.0x	10.3x

Yesterday, Infineon announced the acquisition of Wolfspeed for USD850m (o/w USD720m debt and USD130m cash on hand). It is a branch of Cree, which specialises in power semiconductors for automotive, industrial and cellular infrastructure applications. With this acquisition expected to be closed by year end, we believe IFX is looking to strengthen its expertise in Silicon Carbide seen as a key differentiator technology for semiconductor devices for xEV and industrial sector over the next few years. As a result, the group anticipates revenue CAGR of 20% from 2015 to 2020e on Wolfspeed business. Overall, we estimate this deal will be accretive from day 1 (BG ests. ~1% at EPS level).

ANALYSIS

- Yesterday, Infineon announced the acquisition of Wolfspeed**, the branch of Cree (U.S. company, USD2.8bn mkt cap) which specialises in Power semiconductors and RF power components (power semi dedicated to RF applications such as cellular infrastructure). The transaction of USD850m will be financed with debt for USD720m and USD130m cash-on-hand and closure is expected by the end of calendar year 2016 (Fiscal Q1-17). It appears to us that the acquisition of Wolfspeed is mostly conducted to reinforce group's expertise in the Silicon Carbide (SiC) area. This material is used to enhance properties of traditional semiconductor devices (faster switching, lower losses, higher stability...) used in electric vehicles (e.g. charging infrastructure, on-board charger, inverters) or industrial applications such as cellular infrastructures. At Cree, it appears that Wolfspeed growth was negative over the last couple of quarters, nevertheless Infineon expects to see Wolfspeed's business to return to growth from calendar Q2-16 and enjoy stronger momentum in the MT.
- Low revenues, high margins, low interest rate, high price - overall accretive!** Wolfspeed generated revenues of USD173m on a one year period (ending March) which means a high purchase price to sales ratio of 4.9x. However, Infineon sees a strong opportunity in SiC devices that could translate into a revenue 2015-2020e CAGR of about 20% and a 55% gross margin (the group expects to activate synergies at GM level thanks to insource SiC wafers production, backend, general purchases...). We understand that the operating margin is higher than current IFX segment result (15.5% in FY15), probably in the range of 20-25% (no synergies expected). **As a result, the deal is said to be accretive from day 1 at EPS level. At very first take and with limited information we have today, we estimate a positive impact of about 1%-1.5% on 2017e/2018e EPS.** This includes interest costs on debt with an interest rate of 1% spread to Euribor/Libor (debt maturity 2019-2021). Finally, we do not anticipate a significant impact on capex.
- Buying growth and expertise.** Overall, the acquisition appears expensive given a purchase price to sales ratio of 4.9x (multiples are probably more reasonable at the lower level) but the deal is accretive from day 1 as the group benefits from very low interest rate conditions. Given that the cash generation of Infineon is higher in FQ3 and FQ4, we believe the group will rapidly get back to a net cash position. Indeed, IFX currently has a net cash position of EUR27m and on a pro-forma basis, the acquisition would set the group in a net debt position of EUR743m. However, we recall that in 2015, Infineon generated about EUR400m of FCF over Q3/Q4-16.

VALUATION

- Based on our estimates, Infineon's share trades on 2016e P/E of 16.6x and a 2016e PEG of 1.0x.

NEXT CATALYSTS

- 2 August 2016: Fiscal Q3-16 results.

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Analyst :
Dorian Terral
33(0) 1.56.68.75.92
dterral@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Gregory Ramirez

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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