

## Infineon

Price EUR14.70

## FQ3 2016 results above estimates but the group is maintaining FY16 guidance

Fair Value EUR16 (+9%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	14.9 / 8.7
Market Cap (EUR)	16,637
Ev (BG Estimates) (EUR)	16,078
Avg. 6m daily volume (000)	5,370
3y EPS CAGR	16.8%

Infineon has reported fiscal Q3 2016 results above consensus expectations. Fiscal Q2 sales came in at EUR1.632bn up 1.3% sequentially (+2.9% yoy), current operating result at EUR254m pointing to a 15.6% operating margin and yielding EPS of EUR0.19. As a result, sales come out below consensus expectations with estimates at EUR1.649bn, but current operating result at EUR258m was in line (current operating margin of 15.6%) and adjusted EPS at EUR0.19 was 6% above the consensus figure. For Q4, the group expects a sequential increase in sales of 3%, yielding a 12% annual increase for the full year, in line with the preceding quarter forecast. Given the good performance of the share so far, we withdraw Infineon from our Top Picks list."

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.4%	18.3%	18.1%	8.8%
Semiconductors	20.3%	26.9%	23.4%	19.3%
DJ Stoxx 600	2.3%	-0.5%	-0.5%	-7.1%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,540	7,003	7,432
% change		12.9%	7.1%	6.1%
EBITDA	1,658	1,894	2,106	2,302
EBIT	898.0	1,044	1,195	1,335
% change		16.3%	14.5%	11.7%
Net income	680.0	918.1	966.6	1,089
% change		35.0%	5.3%	12.7%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	16.0	17.1	18.0
Net margin	11.7	14.0	13.8	14.7
ROE	13.3	13.3	13.3	14.0
ROCE	18.5	16.6	17.0	18.8
Gearing	-4.7	-10.9	-18.2	-26.1

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.81	0.86	0.96
% change	-	34.5%	5.3%	12.7%
P/E	24.3x	18.1x	17.2x	15.2x
FCF yield (%)	0.5%	3.3%	4.2%	5.1%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.2%	1.4%	1.4%	1.4%
EV/Sales	2.8x	2.5x	2.2x	2.0x
EV/EBITDA	9.9x	8.5x	7.4x	6.5x
EV/EBIT	18.3x	15.4x	13.1x	11.2x

## ANALYSIS

- Infineon's Q3 results came out above consensus expectations.** Fiscal Q3 sales of EUR1.632bn were up 1.3% seq., broadly in line with the company's guidance and consensus expectations for a sequential increase of 2.0% and 2.4% (+/-2%) respectively (BG ests. EUR1.677bn, +4.1% seq.). FQ3 segment result came in at EUR224m, pointing to a 15.6% margin, in line with the street's expectations (cs. 15.6%). However, adjusted FQ3 EPS of EUR0.19 was 6% or EUR0.01 above consensus' expectations at EUR0.18 (BG ests. EUR0.20). The net cash position at the end of the first quarter was a positive EUR299m vs. EUR27m at the end of the FQ2-16. Finally, Inventory increased slightly by EUR33m over FQ3.
- During FQ3, Industrial Power Control (IPC) performed nicely (+6% seq.).** Automotive (ATV), Industrial Power Control (IPC), Power Management and Multimarket (PMM) and Chip Card & Security (CCS) revenues moved respectively by +1%, +6%, +3 % and -4% on a sequential basis. The automotive division (Q3 sales: EUR676m, segment result: EUR94m or 14.0%) benefited from globally high demand for premium vehicle. IPC's revenue grew by 6% (Q3 sales: EUR280m, segment result: EUR42m or 15%), in line with seasonal factors as for PMM which increased by 3% seq. (Q3 sales: EUR509m, segment result: EUR79m or 15.5%). Demand in PMM remained strong, especially for AC/DC converter despite demand for mobile communication devices remained flat. Finally, CCS revenue decreased by 4% sequentially (Q3 sales: EUR172m, segment result: EUR32m or 18.6%) due to soft market condition in payment cards.
- Infineon forecasts a soft growing Fiscal Q3 and keeps its FY16 guidance.** The group expects sales to increase by +3.0% (+/- 2pts) sequentially in FQ4 or sales at EUR1.68bn, namely in line with the EUR1.68bn expected by the consensus. This guidance is based on a EUR/USD exchange rate of 1.10 (vs. 1.15 previously). Regarding margin, the group expects to see current operating margin of 17.0% over the third quarter, leading to a current operating result of EUR286m which is 3.3% below the EUR295m expected by the Street. As a result, the group maintains its FY16 guidance for sales growth of 12% (+/- 2pts) and current operating margin in the range of 15% to 16%.

## 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).
- Given the good performance of the share so far, we withdraw Infineon from our Top Picks list. We remain highly confident about Infineon performance on the long term. Nevertheless after the publication of FQ3 2016 results, we do not expect to see a high outperformance of the stock over the coming weeks
- Based on our estimates, Infineon's shares are trading on 2016e P/E of 155.4 and 2016e PEG of 1.2x.

## NEXT CATALYSTS

- Today: Fiscal third quarter results conference call (9:30am CET, +44 20 3427 1902).
- 22nd November 2016: Fiscal fourth quarter results.



**FQ3-16: Actual vs. consensus' estimates**

[EURm]	BG ests. 3Q16	Consensus 3Q16	3Q16 Actual	Actual vs. cons.
Net revenue	1677	1649	1632	-1,0%
% change (seq)	+4,1%	+2,4%	+1,3%	-106bp
% change (yoy)	+5,7%	+4,0%	+2,9%	-107bp
Gross Margin	35,3%	37,2%	38,1%	90bp
Adj. EBIT	283	258	254	-1,4%
% of revenue	16,9%	15,6%	15,6%	-6bp
Adj. EPS (in EUR)	0,20	0,18	0,19	5,6%

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

**FQ4-16 : Guidance vs. consensus' estimates**

[EURm]	BG ests. 4Q16	Consensus 4Q16	4Q16 Guidance	Guid. vs. cons.
Net revenue	1696	1683	1681	-0,1%
% change (seq)	+1,1%	+2,1%	+3,0%	94bp
% change (yoy)	+6,1%	+6,1%	+6,0%	-13bp
Adj. EBIT	313	295	286	-3,2%
% of revenue	18,4%	17,5%	17,0%	-53bp
Adj. EPS (in EUR)	0,26	0,21	-	-

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

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