

Infineon

Price EUR16.22

Infineon product portfolio to foster market share gains in dynamic automotive market

Fair Value EUR17.5 (+8%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	16.2 / 10.4
Market Cap (EURm)	18,366
Ev (BG Estimates) (EURm)	18,610
Avg. 6m daily volume (000)	4,398
3y EPS CAGR	17.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.5%	26.8%	30.7%	20.1%
Semiconductors	8.2%	27.8%	27.4%	25.7%
DJ Stoxx 600	-1.0%	4.5%	3.1%	-6.5%

YEnd Sept. (EURm)	09/15	09/16e	09/17e	09/18e
Sales	5,795	6,496	7,045	7,622
% change		12.1%	8.4%	8.2%
EBITDA	1,658	1,840	2,114	2,331
EBIT	898.0	995.4	1,199	1,341
% change		10.8%	20.4%	11.9%
Net income	680.0	912.0	991.8	1,105
% change		34.1%	8.7%	11.4%

	09/15	09/16e	09/17e	09/18e
Operating margin	15.5	15.3	17.0	17.6
Net margin	11.7	14.0	14.1	14.5
ROE	13.3	14.1	14.1	14.7
ROCE	18.6	14.4	15.3	16.7
Gearing	-4.7	4.8	-4.6	-14.2

(EUR)	09/15	09/16e	09/17e	09/18e
EPS	0.60	0.81	0.88	0.98
% change		33.6%	8.8%	11.4%
P/E	26.8x	20.1x	18.5x	16.6x
FCF yield (%)	0.5%	3.2%	4.0%	4.7%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.1%	1.2%	1.2%	1.2%
EV/Sales	3.1x	2.9x	2.6x	2.3x
EV/EBITDA	10.9x	10.1x	8.6x	7.5x
EV/EBIT	20.2x	18.7x	15.1x	13.0x

Yesterday, Infineon hosted a conference call focusing on opportunities in the Automotive market (c. 40% of group's sales). We found the group's vision and strategy particularly convincing. We have already highlighted the strong momentum of autonomous driving and electric vehicles, and Infineon proved yesterday that it is perfectly positioned to take full advantage of these two megatrends. As a result, this conference strengthened our conviction that the group will reap the full benefits of its current portfolio and pipeline to growth faster than its competitors over the coming years. Overall, Infineon expects to grow by 8% on average through the cycle in Automotive, a forecast that is achievable in our view. We reiterate our Buy rating with a FV of EUR17.5.

ANALYSIS

- Infineon is best positioned to benefit from the two megatrends in Automotive: autonomous driving and electric vehicles.** Yesterday, Infineon's conference call dedicated solely to Automotive. This provided an ideal opportunity to remind us that the group boasts a #2 position in the automotive space (behind NXP, before Renesas), with market share of 10.4%. In detail, Infineon is #2 in Sensors (~15% of semi for automobile market; IFX market share of 11.9%), #3 in Microcontrollers (~20% of semi for automobile market; IFX market share of 8.6%) and well established #1 in Power semiconductors (~25% of semi for automobile market; IFX market share of 25.2%). In all these numbers, we stronger exposure to megatrends (electric vehicles and autonomous driving) than any of its competitors which should lead to **market share gains in the coming years.**
- Autonomous driving: redundancy requirements drive demand for more sensors per cars and the multiplication of technologies – an opportunity for Infineon.** In this context, IFX announced yesterday the acquisition of a small Dutch company named Innoluce. Financial details of the deal have been kept confidential and we believe that this acquisition is more about technology and IP acquisition than revenue or customer portfolio. This company is specialised in MEMS based laser scanning modules which allows Infineon to enter LIDAR business. As a result, Infineon now has a complete solution for ADAS system as the group is also #1 in RADAR with a 43% market share (there are only 3 players in this market, ST is #2 w/ 36% mkt.sh. and NXP is #3 w/ 21% mkt.sh.). We share Infineon's view that car makers will use at least three different types of detection devices per car, namely cameras (for object recognition and classification), radars and lidars (for quick distance evaluation in any circumstances). So far, a level 2 vehicle (parking assist, emergency brake) uses only 3 radars and 1 camera on average while a level 5 vehicle (fully autonomous vehicle) might use a complex set of 10 radars, 8 cameras and 1 lidar creating further opportunity for Infineon. In terms of technologies, 77/79 GHz SiGe and 24 GHz SiGe radars today cohabit. However, for regulation reasons, 24 GHz might disappear for the benefit of 77/79 GHz SiGe and 77/79 GHz RF CMOS. A positive point for IFX, leader in 77/79 GHz SiGe and starts the development of RF CMOS radars. Infineon uses IHS data and foresees production of about 20m Level 2 vehicles per year by 2020 and 10m Level 3 vehicles per year by 2025.
- Clean cars: first higher efficiency then electrification of the drivetrain – also an opportunity for Infineon.** Again, Infineon shares our view that hybrid vehicle (HEV) will come first then full electric vehicle (EV) will follow with a few years delay. IHS data points to a production of 5.5m HEV p.a. and 1.4m EV p.a. by 2020. HEV and EV use for about USD400 of power semiconductors (DC-DC converters, inverters, on-board charger) vs. USD100 for a traditional vehicle. Let's not forget that Infineon is a clear leader in power semiconductors and has developed a full product portfolio including hybrid solutions, discrete components (mainly IGBTs and Si(C) MOSFETs) and even bare die products. The group has already a strong footprint in this area and says that, in 2015, 7 out of 10 selling EVs were powered by Infineon (including EVs from Tesla, BMW, Renault, and VW...). Finally, given the current leading position of IFX in power semiconductors, we see an additional opportunity in Mild-Hybrid/48V vehicles that are limited hybrid vehicles (<100Km range). Due to the limited electrification, the bill of materials is reduced for OEMs. As such, their penetration could be rapid over the next few years (a production of 3.4m vehicle p.a. by 2020 according to HIS vs. 0.2m in 2015). The opportunity is an incremental USD47 per car on top of the USD100 of power semiconductors already embedded in a traditional vehicle.



- **We found the group's vision and strategy particularly convincing.** We have already highlighted the strong momentum of autonomous driving and electric vehicles, and Infineon proved yesterday that it is perfectly positioned to take full advantage of these two megatrends. As a result, this conference strengthened our conviction that the group will reap the full benefits of its current portfolio and pipeline to grow faster than its competitors over the coming years. While we are hearing very similar comments from the competition, IFX's product portfolio is the one that fits the best OEMs and car parts makers so far. Overall, Infineon expects to grow by 8% on average through the cycle in Automotive – a forecast that is achievable, in our view.

VALUATION

- Based on our estimates, Infineon's shares trade at a 2016e/2017e P/E ratios of 20.1x/18.5x respectively and a 2016e/2017e PEG ratios of 1.2x/1.1x.

NEXT CATALYSTS

- 23 November 2016: FY16 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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