

## Infineon

Price EUR16.41

## FQ4 2016 results in line but FY17 sales guidance disappoints

Fair Value EUR17.5 (+7%)

BUY

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	16.4 / 10.5
Market Cap (EURm)	18,583
Ev (BG Estimates) (EURm)	18,826
Avg. 6m daily volume (000)	4,203
3y EPS CAGR	17.4%

Today, Infineon reports FQ4 2016 EPS in line with expectations but FY17 guidance came out below estimates. The company reported FQ4 sales of EUR1,675m, up 2.6% seq., broadly in line with the company's guidance of a sequential growth of +3.0% (+/-2%) and slightly below consensus expectations at EUR1,680m (BG ests. EUR1,697m) yielding FQ4 adjusted EPS of EUR0.21, a penny above street's expectations. On behalf of the FY16 results, the group posted disappointing FY17 guidance. For FY17, the group anticipates revenue growth of 6% (+/-2%) and a 16% segment result margin (vs. the Street's expectations of rev. growth at +8.3% and a segment result margin of 15.2%). In our view, the stock is poised to react negatively, offsetting a part of the 6m performance of +31.4%.

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	7.1%	31.4%	21.5%
Semiconductors	3.8%	8.8%	37.1%	29.2%
DJ Stoxx 600	-1.0%	0.2%	0.9%	-6.8%

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	27.1x	20.3x	18.7x	16.8x
FCF yield (%)	0.5%	3.1%	3.9%	4.6%
Dividends (EUR)	0.18	0.20	0.20	0.20
Div yield (%)	1.1%	1.2%	1.2%	1.2%
EV/Sales	3.2x	2.9x	2.6x	2.3x
EV/EBITDA	11.1x	10.2x	8.7x	7.6x
EV/EBIT	20.4x	18.9x	15.3x	13.2x



## ANALYSIS

- Infineon's FQ4 sales and EPS came out broadly in line with expectations.** The company reported FQ4 sales of EUR1,675m, up 2.6% seq., broadly in line with the company's guidance of a sequential growth of +3.0% (+/-2%) and slightly below consensus expectations at EUR1,680m (BG ests. EUR1,697m). FQ4 2016 segment result came at EUR280m, a 16.7% margin, slightly below the company's guidance at 17% and our expectations at 17.3%. However, Adjusted FQ4 EPS is EUR0.21, a penny above expectations at EUR0.20 (BG ests. EUR0.23). FY16 sales came out at EUR6,473m, up 11.7% yoy, in line with the company's guidance (+11/12%) but slightly below the Street's expectations at EUR6,489m (BG ests. EUR6,496m). FY16 segment result at EUR982m or a 15.2% segment result margin, in the low end of company guidance (15% to 16%) broadly in line with of 15.3%, yielding adjusted FY16 EPS of EUR0.66. The net cash situation at the end of the fourth quarter was a positive EUR471m vs. EUR229m at the end of the FQ3.
- During FQ4, Automotive showed a significant margin improvement over the year (+200bps).** Automotive (ATV), Industrial Power Control (IPC), Power Management and Multimarket (PMM) and Chip Card & Security (CCS) revenues moved respectively by +2%, 0%, +5% and +1% on a sequential basis. The automotive division (Q4 sales: EUR690m, segment result: EUR118m or 17.1%) benefited from high demand in premium cars and high global vehicle production. IPC (Q4 sales: EUR279m, segment result: EUR36m or 12.9%) performed in line with seasonal factors. Demand in PMM (Q4 sales: EUR535m, segment result: EUR95m or 17.8%) increased mostly due to the seasonal increase in demand for mobile communications components. Finally, CCS (Q2 sales: EUR173m, segment result: EUR33m or 19.1%).
- Margin improves but FY17 sales guidance disappoints due to weak prospect in Chip Card & Security and Power Management & Multimarket.** For FY17, the group expects an increase in sales of 6% (+/- 2%) based on a EUR/USD exchange rate of 1.10. As a result, FY17 sales guidance is below the Street's and BG's expectations of +8.3% and +8.4% respectively. However, guidance for the segment result margin of 16% is above Street's forecasts at 15.2% (BG ests. 17%). **As such, the higher than expected margin offsets disappointment on growth and FY 2017 segment result come out 3% above consensus.** Finally, Capex are foreseen in the region of EUR950m for the 2017 fiscal year. For FQ1, the group expect to start the year with a sequential decrease of -4.0% over FQ1 2017 (+/- 2%) due to seasonal patterns, which is above consensus' expectations at -5.6% (BG ests. -5.1%). The group expects this level of activity to yield a segment result margin of 14%, i.e. below consensus expectations at 15.2%. Nevertheless, **the group raises its through-cycle target for segment result margin from 15% to 17%**, this confirms our view that the group might generate higher margins thanks to the ramp and higher utilization of the 300mm plant and efficiency from integrating International Rectifier's manufacturing landscape.
- Dividend to increase by EUR0.02 to EUR0.22 per share for FY16.** Finally, the group also announced that the management resolved to propose a dividend of EUR.22 for FY16, up from EUR0.20 for FY15. We remind that dividend increased significantly over the last few years as it was at a level of EUR0.12 for FY13.

## VALUATION

- We are making no change in our estimates at this point. We are waiting for details to be given during today's conference call (9:30am CET; +44 20 7026 5967). In our view, the stock is poised to react negatively, offsetting a part of the 6m performance of +31.4%.

- Infineon's shares trade at a 2017e P/E ratio of 18.7x and a 2017e PEG ratio of 1.1x.

#### NEXT CATALYSTS

- Conference call to be hold at 9:30 today : +44 20 7026 5967.
- February 2<sup>nd</sup> 2017, FQ1 2017 results (preliminary date).
- February 16<sup>th</sup> 2017, Annual General Meeting.

#### FQ4-16 Actual vs. estimates

[EURm]	BG ests. 4Q16	Consensus 4Q16	4Q16 Actual	Actual vs. cons.
Net revenue	1675	1680	1675	-0.3%
% change (seq)	+2.6%	+2.9%	+2.6%	-31bp
% change (yoy)	+4.8%	+5.1%	+4.8%	-31bp
Gross Margin	37.4%	38.5%	37.7%	-80bp
Adj. EBIT	293	286	280	-2.1%
% of revenue	17.5%	17.0%	16.7%	-31bp
Adj. EPS (in EUR)	0.24	0.20	0.21	5.0%

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

#### FQ1-17 Guidance vs. estimates

[EURm]	BG ests. 1Q17	Consensus 1Q17	1Q17 Guidance	Guid. vs. cons.
Net revenue	1596	1595	1608	0.8%
% change (seq)	-4.7%	-5.1%	-4.0%	107bp
% change (yoy)	+2.6%	+0.6%	+1.4%	83bp
Adj. EBIT			225	n.s.
% of revenue			14.0%	n.s.

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

#### FY17 Guidance vs. estimates

[EURm]	BG ests. FY17	Consensus FY17	FY17 Guidance	Guid. vs. cons.
Net revenue	7045	7026	6886	-12.6%
% change (seq)	+8.4%	+8.3%	+6.0%	-228bp
Adj. EBIT	1199	1,067	1102	+3.3%
% of revenue	17.0%	15.2%	16.0%	82bp

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

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