

5th February 2019

INFINEON

| Technology
| Semiconductors

BUY

Fair Value EUR23.5(+19%)
Share price EUR19.40
EPS 3Y Cagr 11.3%

Good FQ1 results, however Infineon lowers its FY guidance

FQ1 revenue growth in line with expectations

The company reported FQ1 revenues of EUR1.970bn, down 3.8% seq. (+11% yoy) to be compared with group's guidance for a revenue down 4.0% (+/- 200bps) sequentially to about EUR1.965bn, and consensus expectations at EUR1.963bn or revenue down -4.1% sequentially. Gross margin stood at 39.5%, above the street's forecasts of GM at 37.9% (BG ests. 38.3%). Adj. EBIT was about 70bps above company's guidance (17.5%) and 8.6% above expectations at EUR359m (cons. EUR331m/BG ests. EUR345m) and EPS came in at EUR0.24, i.e. in line with the consensus (cons. EUR0.24/BG ests. EUR0.25). Finally, the group ended with negative cash flow of EUR-221m in Q1 compared with a positive EUR227m in the previous quarter. Inventory levels increased by 7.5% to EUR1.591bn vs. EUR1.480bn at the end of FQ4 2018.

Sill good traction in ATV and IPC, but PMM and DSS disappointed

Revenue from the automotive division ATV was down 2.4% seq. (Q1 sales: EUR846m, segment result: EUR117m or 13.8%) as customers made some adjustments in their inventory due to the weakness of the global vehicle market in the December quarter. IPC's revenue was also down by 2.5% seq. (Q1 sales: EUR352m, segment result: EUR69m or 19.6%), reflecting seasonal factors in home appliances and industrial drives, however the photovoltaic and traction business continued to grow. PMM sales were down 5.2% seq. (Q1 sales: EUR617m, segment result: EUR155m or 25.1%) reflecting lower demand for DC-DC power supplies and the normal seasonal decline in mobile devices, while AC/DC power supplies increased slightly. Finally, Digital Security Solutions (DSS, former CCS) continued to be weak as revenue was down by 8.6% (Q1 sales: EUR149m, segment result: EUR16m or 10.7%).

Full year guidance revised at the low end of the guidance

Based on an assumed exchange rate of EUR/USD of 1.15, Infineon expects FQ2 2019 sales to remain stable sequentially, which is 2.3% below the consensus forecast for revenue of EUR2.017bn (BG ests. EUR2.025bn). Regarding the segment result, margin is expected to come in at around 16.0%, down about 220bps compared with FQ1 2019 and 40bps below the street's expectations. Additionally, given the current visibility and more weakness especially in the PMM business, the group has lowered its full year guidance with 2019 revenue growth of 9.0% at mid-range (former guidance, 11% +/- 200bps) and a segment result margin of about 17.5% (former guidance, 18.0%). In order to cope with the lower growth expectation, Infineon will invest EUR150m less to EUR1.5bn against previous guidance range of EUR1.6-1.7bn.

Market Data

| Bloomberg / Reuters | IFX GY/IFXGn.DE |
|------------------------|-----------------|
| Market Cap. | EUR22 061 |
| E.V. | EUR21,402m |
| Free Float | 33.5 |
| Avg. Daily volume (6m) | 7 006 |
| 12m high / low | 25.5 / 16.1 |
| Ytd Perf. | 11.7% |

| EURM | 09/18 | 09/19e | 09/20e | 09/21e |
|------------|-------|--------|--------|--------|
| Sales | 7,599 | 8,448 | 9,143 | 9,840 |
| % Change | | 11.2% | 8.2% | 7.6% |
| EBITDA | 2,213 | 2,546 | 2,875 | 3,220 |
| % Change | | 15.0% | 12.9% | 12.0% |
| EBIT | 1,471 | 1,437 | 1,638 | 1,802 |
| % Change | | -2.3% | 14.0% | 10.0% |
| Net Income | 1,100 | 1,258 | 1,386 | 1,515 |
| % Change | | 14.4% | 10.1% | 9.3% |
| ROE | 0.19 | 0.16 | 0.16 | 0.16 |

| | 09/18 | 09/19e | 09/20e | 09/21e |
|-----------|-------|--------|--------|--------|
| EV/Sales | 2.8x | 2.5x | 2.2x | 2.0x |
| EV/EBITDA | 9.5x | 8.2x | 7.1x | 6.1x |
| EV/EBIT | 14.3x | 14.5x | 12.4x | 10.8x |
| EPS | 0.97 | 1.11 | 1.22 | 1.34 |
| % change | | 14.4% | 10.1% | 9.3% |
| P/E | 20.0x | 17.5x | 15.9x | 14.5x |
| Div Yield | 1.3% | 1.3% | 1.3% | 1.4% |

Next Catalyst:

9.30 am, Today: FQ1 results conference call

7 May 2019: FQ2 results

Last rating Change:

2016-5-12, *Tout n'est pas encore intégré dans le cours*

Last FV Change:

2018-11-13, Less organic growth and higher investments than expected

Last Reports:

2018-11-13. *Less organic growth and higher investments*

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FQ1 results vs. consensus

| [EURm] | BG ests. 1Q19e | Consensus 1Q19e | 1Q19 Actual | Actual vs. Cons. |
|-----------------------|-----------------------|------------------------|--------------------|-------------------------|
| Net revenue | 1 967 | 1 963 | 1 970 | 0,4% |
| <i>% change (seq)</i> | -3,9% | -4,1% | -3,8% | 34bp |
| <i>% change (yoy)</i> | 10,8% | 10,6% | 11,0% | 39bp |
| Gross Margin | 38,3% | 37,9% | 39,5% | 157bp |
| Adj. EBIT | 345 | 331 | 359 | 8,6% |
| <i>% of revenue</i> | 17,6% | 16,8% | 18,2% | 139bp |
| Adj. EPS (in EUR) | 0,25 | 0,24 | 0,24 | 0,0% |

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

FQ2 guidance vs. consensus

| [EURm] | BG ests. 2Q19e | Consensus 2Q19e | 2Q19 Guidance | Guid. vs. Cons. |
|---------------------|-----------------------|------------------------|----------------------|------------------------|
| Net revenue | 2 025 | 2017 | 1970 | -2.3% |
| <i>% change</i> | 2,8% | 2,4% | 0.0% | -239bp |
| Gross Margin | 38,5% | 38,0% | | |
| Adj. EBIT | 357 | 331 | 315 | -4.7%% |
| <i>% of revenue</i> | 17,6% | 16,4% | 16.0% | -40bp |
| Adj. EPS (in EUR) | 0,26 | 0,24 | | |

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

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Stock rating

| | |
|----------------|---|
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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. |
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Distribution of stock ratings

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NEUTRAL ratings 38.5%

SELL ratings 6.6%

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| | | | |
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