

Infineon Technologies AG

(IFNNY.US/IFNNY US)

Strong order backlog as supply remains a bottleneck

Outperform · Maintained

Price as of August 3 (US\$)	39.6
3M target price (US\$)	43.0
12M target price (US\$)	55.0
Previous target price (US\$)	55.0
Unchanged / Revised up (down) (%)	0.0
Upside/downside (%)	38.9

Trading data

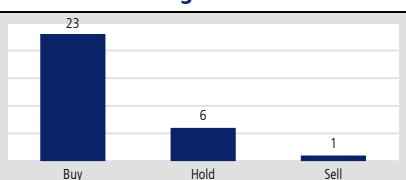
Mkt cap (US\$bn)	51.7
Outstanding shares (mn)	1,306
Institutional ownership (%)	64.5
3M avg. daily trading (mn)	4.2
52-week trading range (US\$)	24.8-44.6

Performance	3M	6M	12M
Absolute (%)	(3.3)	(2.7)	54.8
Relative (%)	(8.8)	(18.2)	20.5

Share price chart



Consensus rating



12M street target price	Low	Average	High
Target price (US\$)	38.4	47.4	55.2
Return potential (%)	(3.1)	19.7	39.4

Source: Bloomberg

Asiamoney Brokers Poll 2021

The poll runs between June 1 and August 20. Please vote for KGI Securities

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See the last page for important disclosures.

Event

Infineon has delivered a lower-than-expected 2Q21 net income, below consensus by 5%, which is largely due to the supply issue caused by power problems in Texas and the Covid-19 pandemic in Malaysia. By market close, Industrial power control, with 15% of 2Q21 revenue, and Chip card & Security, with 13% of 2Q21 revenue, outperformed ahead of consensus by 6% and 14%, respectively. Including EUR100mn impact from the Melaka plant, 3Q21F revenue is in line with consensus. Nonetheless, the order backlog increased by 30% over the past three months, and the book to bill ratio reached 2.4, from just 2.1 three months ago. Both the in-house inventory (finish goods) and the channel inventory remain thin. The company will revise its 2022 capex plan in November, which we believe will support its long-term business growth.

Impact

Strong order backlog. The Infineon order backlog is now about 2 years while STMicroelectronics (FR) announced its order visibility is extended to 18 months, indicating solid demand, especially in the automotive segment, but orders keep pending during a supply constraint. The book to bill ratio of Automotive (44% of sales) and Power & Sensor systems (28%) have increased to 2.3 and 2.5, respectively.

Structural change on OEM's component management provides positive 2022F outlook. Two key changes seen recently: (1) the automotive OEMs might prefer a buffer in terms of chip supply, instead of the just-in-time system used in the past; (2) better transparency among automotive OEMs could give a clearer picture of semiconductor IDM production planning. We believe that these changes are positive for the outlook of semiconductor IDMs in 2022F, regardless of short-term production planning or long-term expansion plans to increase capacity to meet demand.

Valuation & Action

We maintain Outperform rating and a target price of US\$55, based on 34x FY22F (FY ends in September) EPS. We are positive on Infineon's leadership in xEV (hybrid electric vehicles, plug-in hybrid electric vehicles, and fuel-cell electric vehicles), together with long-term growth in autonomous driving and in power discrete products for industrial, IoT, and personal electronic applications.

Risks

The supply chain component shortage might cap revenue and earnings upside; potential inventory correction in 2022F and beyond; weaker-than-expected economic recovery.

Key financials and valuations

	Sep-19A	Sep-20A	Sep-21F	Sep-22F	Sep-23F
Revenue (EUR mn)	8,029	8,567	11,040	12,110	13,183
Gross profit (EUR mn)	3,057	3,126	4,293	4,823	5,316
Operating profit (EUR mn)	1,319	1,170	1,752	2,113	2,393
EBITDA (EUR mn)	2,264	1,138	3,161	3,612	4,001
Net profit (EUR mn)	1,041	813	1,454	1,694	1,958
EPS (EUR)	0.89	0.64	1.14	1.34	1.55
Revenue growth (%)	5.7	6.7	28.9	9.7	8.9
EPS growth (%)	(9.1)	(28.1)	77.5	17.4	15.7
Gross margin (%)	38.1	36.5	38.9	39.8	40.3
Operating margin (%)	16.4	13.7	15.9	17.4	18.2
EBITDA margin (%)	28.2	13.3	28.6	29.8	30.4
Net debt to equity (%)	Net Cash	40.1	27.3	19.2	10.6
Return on average equity (%)	11.5	4.2	11.8	13.5	14.6

Source: Company data, KGI Research estimates

Note: Fiscal year ends September

Figure 1: Key forecast revisions

	FY22F revisions	FY22F previous	Diff. (%)
Revenue (EUR mn)	12,110	12,104	0.0
Gross profit (EUR mn)	4,823	4,673	3.2
Operating profit (EUR mn)	2,113	2,120	(0.3)
EBITDA (EUR mn)	3,612	3,561	1.4
Net profit (EUR mn)	1,694	1,683	0.7
EPS (EUR)	1.34	1.32	1.6
Revenue growth (%)	9.7	10.0	(31bps)
EPS growth (%)	17.4	17.6	(22bps)
Gross margin (%)	39.8	38.6	122bps
Operating margin (%)	17.4	17.5	(7bps)
EBITDA margin (%)	29.8	29.4	41bps
Net debt to equity (%)	19.2	19.0	26bps
Return on average equity (%)	13.5	13.6	(9bps)

Source: Company data; KGI Research

Figure 3: 4Q FY21 outlook

(EUR bn)	4Q FY21	QoQ (%)	YoY (%)	Consensus	Diff. (%)
Revenue	2.9	6.5	16.4	2.9	(1.5)

Source: Company data; Bloomberg; KGI Research

Figure 5: Result margin by products

(EUR mn)	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
Automotive	49	(24)	59	185	197	199
Industrial power control	62	63	69	61	59	82
Power management & multimarket	138	143	209	197	184	167
Chip card & security	25	37	42	45	30	47
Result margin (%)						
Automotive	6	(3)	6	16	16	17
Industrial power control	17	17	20	17	16	20
Power management & multimarket	22	21	28	25	23	22
Chip card & security	15	12	13	13	9	14
Weighting (%)						
Automotive	18	(11)	16	38	42	40
Industrial power control	23	29	18	12	13	17
Power management & multimarket	50	65	55	40	39	34
Chip card & security	9	17	11	9	6	9
YoY (%)						
Automotive	(56)	(124)	(24)	176	302	N/A
Industrial power control	(7)	15	17	(2)	(5)	30
Power management & multimarket	5	(1)	37	35	33	17
Chip card & security	32	95	91	105	20	27

Source: Company data; KGI Research

Figure 2: 3Q FY21 results

(EUR bn)	3Q FY21	QoQ (%)	YoY (%)	Guidance	Consensus	Diff. (%)
Revenue	2.7	0.8	25.2	2.8	2.8	(2.0)
Gross profit	1.1	7.4	45.9		1.1	3.6
Gross margin (%)	41.8	255bps	594bps		39.6	227bps
Operating profit	0.5	5.5	125.5		0.5	(1.4)
Operating margin (%)	18.2	81bps	810bps		18.1	11bps
Net profit	0.4	14.6	108.9		0.4	(4.5)
Net margin (%)	13.0	156bps	519bps		13.3	(33bps)
Diluted EPS (EUR)	0.27	14.6	102.9		0.28	(4.6)

Source: Company data; Bloomberg; KGI Research

Figure 4: Revenue by products

(EUR mn)	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
Automotive	842	815	1,045	1,150	1,219	1,205
Industrial power control	358	366	349	362	361	412
Power management & multimarket	617	681	759	779	787	757
Chip card & security	166	307	333	335	329	346
Others	3	5	4	5	4	2
Weighting (%)						
Automotive	42	37	42	44	45	44
Industrial power control	18	17	14	14	13	15
Power management & multimarket	31	31	30	30	29	28
Chip card & security	8	14	13	13	12	13
Others	0	0	0	0	0	0
YoY (%)						
Automotive	(4)	(8)	17	39	45	48
Industrial power control	3	3	(4)	8	1	13
Power management & multimarket	4	14	19	31	28	11
Chip card & security	1	84	106	112	98	13
Others	(50)	-	(33)	150	33	(60)

Source: Company data; KGI Research

Figure 6: Revenue by geography

(EUR mn)	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	3Q FY21
EU, Middle East	640	488	640	642	714	718
Asia-Pacific (without Japan)	958	1,200	1,319	1,428	1,413	1,423
Greater China	642	882	935	1,025	988	986
Japan	119	269	243	264	254	280
Americas	269	217	288	297	319	301
US	221	187	237	246	258	248
Weighting (%)						
EU, Middle East	32	22	26	24	26	26
Asia-Pacific (without Japan)	48	55	53	54	52	52
Greater China	32	41	38	39	37	36
Japan	6	12	10	10	9	10
Americas	14	10	12	11	12	11
US	11	9	10	9	10	9
YoY (%)						
EU, Middle East	1	(22)	5	16	12	47
Asia-Pacific (without Japan)	2	22	27	45	47	19
Greater China	0	27	25	43	54	12
Japan	(17)	76	65	97	113	4
Americas	(2)	(13)	8	23	19	39

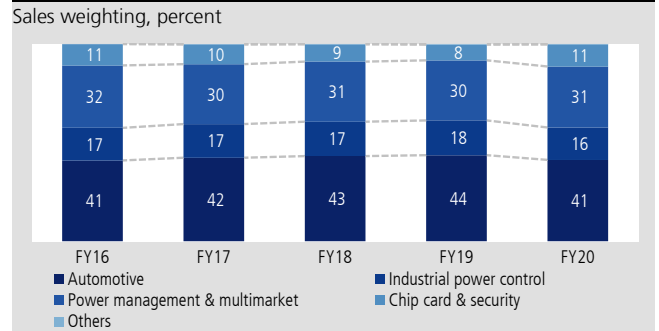
Source: Company data; KGI Research

Figure 7: Company profile

Established in 1999, Infineon Technologies AG (Infineon) is a German semiconductor IDM firm that designs, manufactures, tests and sells analog IC, microcontroller (MCU), and power discrete products in end markets including automotive, industrial, consumer electronics, and hardware-based security. Infineon has 8 front-end wafer processing sites and 14 assembly & testing facilities. Infineon is ranked number one in the power discrete market (14% market share), and number five in the MCU market (13%).

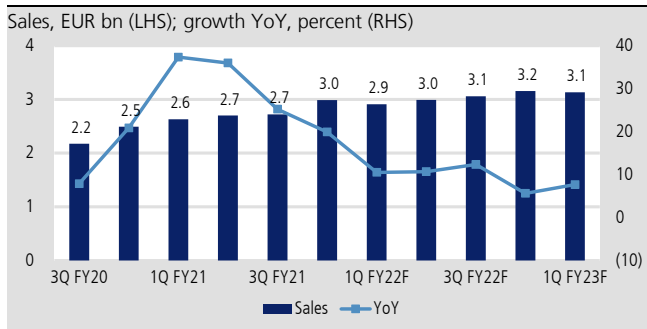
Source: Company data; KGI Research

Figure 8: Revenue by end market



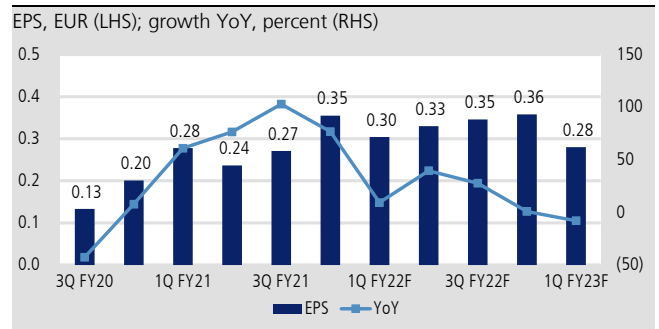
Source: Company data; KGI Research

Figure 9: Sales & YoY



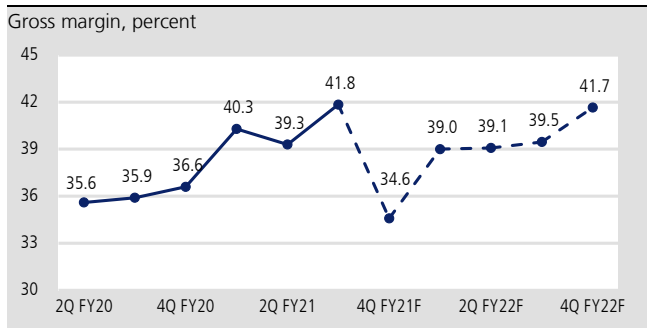
Source: Company data; KGI Research

Figure 10: EPS & YoY



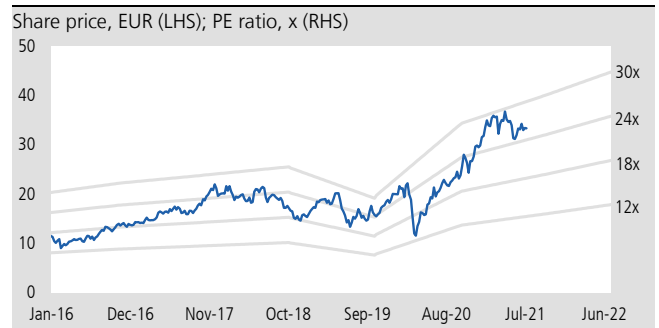
Source: Company data; KGI Research

Figure 11: Gross margin



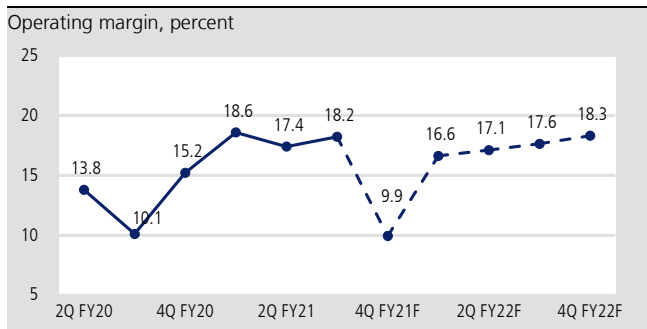
Source: Company data; KGI Research

Figure 12: 12M forward PE band



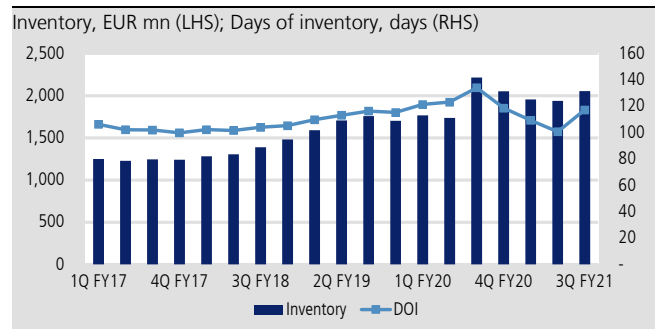
Source: Bloomberg; KGI Research

Figure 13: Operating margin



Source: Company data; KGI Research

Figure 14: Inventory & DOI



Source: Company data; KGI Research

Figure 15: Infineon Technologies AG supply chain – KGI coverage

Company	Ticker	Analyst	Rating	Target price (NT\$)	Sales contribution (%)	Products and services
GlobalWafers	6488 TT	Jennifer Liang	-	-	-	Wafer
SDI Corp.	2351 TT	Roger Huang	-	-	-	Lead frame
TSMC	2330 TT	Laura Chen	Outperform	740	1-3	MCU (automotive)

Source: Company data, KGI Research

Infineon Technologies AG – Recommendation & target price history


Source: Bloomberg, KGI Research

KGI Locations

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances. <i>Total return = (12M target price - current price) / current price</i>

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