

Infinera

Lighting up fiber optics

Infinera supplies a comprehensive set of electronics that activates long-haul fiber optic networks with its highly integrated photonic integrated circuits (PICs) and proprietary software. Over the last two years it has become the world's third largest provider of emerging 100Gbps ports to customers that include telecom carriers, cable operators, internet content providers and bandwidth wholesalers. It offers performance and time-to-market advantages, as well as a very quick potential software upgrade to next-generation 500Gbps performance.

Q4 international expansion

Revenue of \$139.1m declined by 2% sequentially but exceeded the high-end of expectations on record 100Gbps port shipments as subsea deployments occurred more smoothly than anticipated. Pro forma gross margin of 41% dropped by 800bp on a richer mix of new deployments, but was the second highest in eight quarters. International customers accounted for a record 46% of sales as the company expands its geographic footprint beyond the US. Infinera returned to both pro forma profitability and positive cash flow during H213 as planned, but was unprofitable on a GAAP basis in Q4. Cash, equivalents and short-term investments totaled \$297m, helped by a \$145m convertible offering last May, while debt was \$109m.

100Gbps growth, and lots of earnings leverage

Infinera stumbled in 2010 after a good start due to the lack of a scalable 40Gbps offering, and it addressed that issue for the emerging 100Gbps generation in 2012 by including a software upgrade for 500Gbps by basically adding together five 100Gbps channels. Last year that strategy paid off as revenue growth of 24% approximately doubled that of 100Gbps port growth due to considerable market share gains. Growth vectors now include: persistent 100Gbps market growth; Asia, where it is under-exposed; adding the fifth top cable provider and fourth top internet content provider in North America as customers; and the metro market later next year when it migrates to 100Gbps. Infinera is extremely well positioned for margin expansion when its customers upgrade to 500Gbps, and the company reconfigures software of the existing installation with a single click to deliver it.

Valuation: Upside awaits

We believe the shares are worth over 2x sales and 20x earnings, and that earnings could easily exceed expectations given the simplicity of network upgradability.

Consensus estimates

Year end	Revenue (\$m)	P/S (x)	GAAP EPS (\$)	Pro forma EPS (\$)	Pro forma P/E (x)	P/B (x)
12/12	438.4	2.4	(0.77)	(0.39)	N/A	N/A
12/13	544.1	2.0	(0.27)	0.03	286.0	2.6
12/14e	613.1	1.8	(0.10)	0.15	57.2	N/A
12/15e	682.6	1.6	0.09	0.31	27.7	N/A

Source: Company reports, Thomson Datastream

Technology

10 April 2014

Price **\$8.58**
Market cap **\$1,073m**

Share price graph



Share details

Code/ticker **INFN**
 Listing/exchange **NASDAQ**
 Shares in issue **125.1m**

Business description

Infinera supplies vertically integrated optical networks supporting 500 gigabits per second (Gbps) based on its unique large-scale PICs. It is based in California's Silicon Valley.

Bull

- Infinera offers simplicity, performance, and time-to-market competitive advantages.
- Gaining share in the growing market for 100Gbps optical networking ports.
- Well positioned for margin expansion when customers upgrade existing installations.

Bear

- Elusive profitability.
- Range-bound revenue since Q310.
- Only recently stopped burning cash.

Analysts

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