

19 February 2021

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Inghams Group Limited

Food, Beverage & Tobacco

BUY

ING A\$3.62
TARGET PRICE A\$4.56

ING's Principal Activity is the production and sale of chicken and turkey products across its vertically integrated primary, free range, value enhanced, further processed and by-product categories.

Company Data

Number of shares	371.7 M
Market Capitalisation	\$ 1,345.5 M
Free float (%)	99.3
12-month high/low	\$3.67/\$2.85
Average Daily Turnover (\$m)	5.4859
% S&P/ASX200	0.07%
DDM Ranking	135
% All Ordinaries	0.06%
GICS Industry Group	Food, Beverage & Tobacco

Source: FactSet, Barclay Pearce Capital

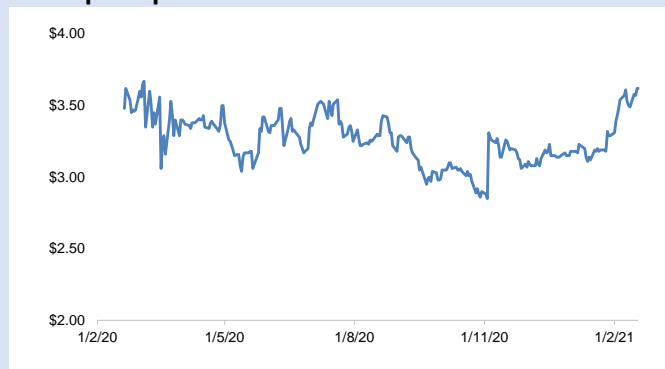
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	2,555.3	2,754.6	2,831.4	2,911.9
EBITDA (\$M)	179.7	446.4	473.2	488.4
Reported NPAT (\$M)	40.1	79.4	100.9	109.0
Adjusted NPAT (\$M)	78.8	81.8	101.0	110.9
Reported EPS (c)	10.8	18.4	22.8	24.7
Adjusted EPS (c - FD)	21.2	22.2	26.9	29.4
Adjusted EPS growth (%)	-23.9	4.8	21.4	9.2
Adjusted P/E (x)	17.1	16.3	13.4	12.3
Dividend (c/sh)	14.0	15.7	19.0	20.7
Gross yield (%)				
Net yield (%)	3.9	4.1	5.0	5.5
ROIC (%)	12.5	12.3	15.6	18.1

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Half Year Results

On 19th February, Inghams Group Limited (ING) released their interim results for the half year ended 26 December 2020 with the following highlights:

- Group core poultry volume growth of 4.0% on the prior corresponding period (pcp) and 5.6% on the second half of FY20, reflecting strengthened demand across most channels and the return of overall trading volumes to pre COVID-19 levels;
- Solid total revenue growth of 4.6% despite declining external feed revenue, with total poultry revenue growth of 6.1%, ahead of volume growth;
- Good progress achieved in the reduction of frozen poultry inventory arising in FY20 due to COVID-19, down \$42.3million during the half year and now close to normal levels;
- Statutory and Underlying EBITDA growth of 5.0% and 4.3% respectively driven by volume growth and improvements in operational efficiencies, Underlying EBITDA pre AASB 16 up \$9.0 million or 9.8%;
- Statutory NPAT of \$35.3 million up 34.7% and Underlying NPAT of \$37.5 million up 28.4%, with Underlying NPAT pre AASB 16 up 10.7%;
- Leverage of 1.7x down from 1.8x at June 2020 with Net Debt of \$327.5 million at December 2020 and;
- Interim dividend of 7.5 cps (fully franked), up 0.2 cps on pcp, reflecting a payout ratio of 74.3% of Underlying NPAT post AASB 16, in line with the revised dividend policy.

Outlook

ING's will continue to focus on the execution of its five-year strategy to deliver more consistent, predictable and reliable returns to shareholders.

The net impact of lower feed prices is expected to be modest in the second half, given the recent surge in international demand and our customer cost pass through mechanisms.

Ongoing volatility remains in regard to Ingham's operating conditions and/or consumer behaviours due to COVID-19 and the potential re-opening of some Australian export markets.

The Company expects the second half of FY21 to experience normal seasonal influences.

Earnings changes

For H1 FY21 ING reported underlying NPAT of \$37.5M. The company has indicated that the impact of lower feed prices is expected to be moderate in the second half due to the increase in international demand. Hence, we expect positive earnings revisions of 5% for FY21 and future periods.

Valuation

We are initiating on ING with a price target of \$4.56 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)