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Incitec Pivot Ltd (IPL)

Process Industries

UNDERPERFORM

IPL A\$3.74

TARGET PRICE A\$3.65

IPL engages in the manufacturing and distribution of industrial explosives, industrial chemicals and fertilisers, and the provision of related services.

Company Data

Number of shares	1,942.2 M
Market Capitalisation	\$7,264 M
Free float (%)	99.9
12-month high/low	\$2.26/\$4.15
Average Daily Turnover (\$m)	27.89
% S&P/ASX200	0.344%
DDM Ranking	304
% All Ordinaries	0.269%
GICS Industry Group	Process Industries

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	4,348.5	5,595.3	5,234.0	4,764.8
EBITDA (\$M)	934.9	1,994.7	1,666.4	1,208.4
Reported NPAT (\$M)	149.1	1,155.3	862.9	579.1
Adjusted NPAT (\$M)	358.6	1,158.0	889.2	543.1
Reported EPS (c)	7.7	58.6	44.8	29.9
Adjusted EPS (c - FD)	18.4	58.9	46.7	28.9
Adjusted EPS growth (%)	70.4	220.0	-20.7	-38.0
Adjusted P/E (x)	20.3	6.4	8.0	12.9
Dividend (c/sh)	9.3	29.7	23.2	14.8
Gross yield (%)	3.6	11.3	8.9	5.6
Net yield (%)	2.5	7.9	6.2	4.0
ROIC (%)	5.6	17.2	13.5	8.3

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

H1 FY22 Half Year Results

On 23rd May 2022, Incitec Pivot Limited (IPL) released their half year results for the year ended 31st March 2022 with the following highlights:

Highlights:

- Net Profit After Tax (NPAT) of A\$384m for 1H22, an increase of A\$348m compared to A\$36m in 1H21;
- Earnings Before Interest and Tax (EBIT): A\$568m, up A\$458m from A\$110m on pcp;
- Earnings Per Share: 19.8 cents per share, up 17.9 cents per share from 1.9 cents per share on pcp;
- Operating cashflow of (\$79m), which improved from (\$103m) in 1H21;
- Strengthened balance sheet with net debt of \$1.4bn and Net Debt/ EBITDA ratio of 1.0x, down from 2.1x on pcp;
- Return on invested capital (ROIC) improved during the year to 10.1%, up from 3.2% on pcp;
- Interim dividend of 10 cents per share declared, fully franked;
- D&A Explosives saw improved volumes across all sectors, with margins also moving higher;
- Waggaman plant production and efficiency was strong through to the unexpected outage (Feb 2022);
- Ag&IC earnings were significantly higher on the back of higher commodity prices and improved manufacturing reliability;
- DNAP's earnings improvement was underpinned by customer and technology growth (emulsions up 16% on pcp, EDS up 20% on pcp);
- Fertilisers record first half results demonstrates the benefit of local manufacturing; and
- Corporate costs increased principally due to costs associated with the pursuit of strategic projects and provisions to legacy legal matters.

Comment:

IPL's MD and CEO, Jeanne Johns, commented on the Company's performance: "Our record first half result reflects the quality of our two category leading businesses and our sharp focus on executing in a high demand, highly disrupted market. Our team has done an excellent job navigating operational complexity to deliver for our customers. This has enabled us to capture the very strong commodity price environment and foreign exchange tailwinds, as well as successfully manage inflationary pressures and supply chain disruptions. Our supply chain teams in both the Americas and Australia have done an outstanding job in responding to these challenges."

Outlook:

- Continued above market growth and margin improvement expected from technology driven businesses – in excess of CPI which is being actively managed; and
- IPL set to continue to capture significant value for shareholders in 2H22.

Earnings changes

IPL reported H1FY22 EBITDA of \$568.2M, up A\$458m from A\$110m on pcp. This compares to market expectations of \$608.1m. However, we do not expect any significant earnings revisions for FY22 or for future periods.

Valuation

We are updating our 12-month price target on IPL from \$2.90 to \$3.65 and retaining our UNDERPERFORM recommendation. The price target is underpinned by our valuation.

Disclaimer

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

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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Valuation Methodology

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)