

11 November 2021

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## Orica Ltd (ORI)

### Materials

#### UNDERPERFORM

**ORI A\$15.35**      **TARGET PRICE A\$13.35**

Orica (ASX: ORI) is an Australian-based, multinational company that primarily provides commercial blasting and tunnelling solutions. It manufactures and distributes a wide variety of explosives and blasting chemicals and products to the mining, energy and infrastructure sectors.

#### Company Data

Number of shares	407.5 M
Market Capitalisation	\$6255.3 M
Free float (%)	99.7
12-month high/low	\$17.28/11.69
Average Daily Turnover (\$m)	19.2
% S&P/ASX200	0.30%
DDM Ranking	295
% All Ordinaries	0.244%
GICS Industry Group	Materials

Source: FactSet, Barclay Pearce Capital

#### Earnings summary

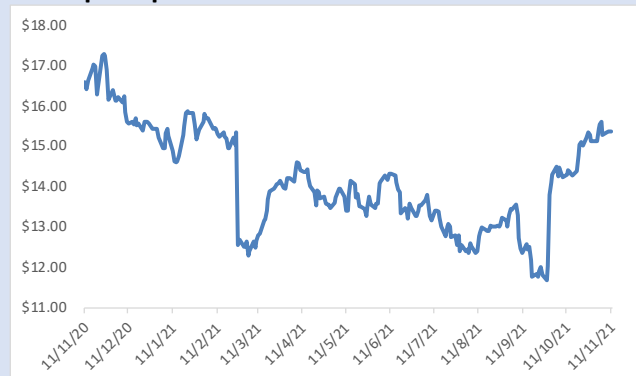
##### Earnings Summary (AUD)

Year end September	2021F	2022F	2023F
Revenue (\$M)	5,231.4	5,512.7	5,714.8
EBITDA (\$M)	820.3	947.6	1,025.1
Reported NPAT (\$M)	83.0	283.3	339.7
Adjusted NPAT (\$M)	204.4	293.0	350.8
Reported EPS (c)	20.4	69.5	83.4
Adjusted EPS (c - FD)	50.9	70.8	83.8
Adjusted EPS growth (%)	-32.4	38.9	18.4
Adjusted P/E (x)	30.1	21.7	18.3
Dividend (c/sh)	23.6	37.7	45.6
Gross yield (%)	1.8	2.8	3.4
Net yield (%)	1.5	2.5	3.0
ROIC (%)	4.4	6.3	7.6

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 Full Year Results

On 11<sup>th</sup> November, Orica Ltd (ORI) released their results for the year ended 20 September 2021 with the following highlights:

#### Financial Result Snapshot:

- Statutory NLAT: \$174M, including \$382M significant items after tax;
- Underlying EBIT: \$427M
- Underlying eps: 51.2cps, down 32%;
- Net operating cash flows: 619M;
- Capital expenditure: \$323M, down 5%;
- Net debt: \$1.5BN, gearing: 34.6%;
- Unfranked final dividend: 16.5cps

#### Outlook:

- Global commodity growth is anticipated to continue, particularly in copper and gold; and in quarry and construction markets;
- Subject to market conditions, FY22 EBIT is expected to increase on the prior comparative period from continuing operations as the strong momentum in the final quarter of FY21 continues;
- Improvement in earnings is expected to be attributable to: volume growth, increased adoption of advanced technology offerings, key strategic initiatives, and sustainable overhead cost reductions;
- Capital expenditure is expected to be within \$340M to \$360M;
- Depreciation and amortisation expense is expected to be up to 5% higher than the prior comparative period;
- Gearing expected to remain within 30-40%

Sanjeev Gandhi, Orica Managing Director and CEO, said: *“The fundamentals of the business are strong. We have refreshed our strategy to refocus on driving profitable growth and creating enduring value for our shareholders and other stakeholders.*

*As our strategy is embedded in our business, we will be well placed to seize opportunities as the market stabilises. Our four key business verticals will allow us to leverage our strengths and create opportunities for growth beyond blasting. Our customers share our appetite to leverage new technology in order to improve safety, productivity and sustainability outcomes which will play a pivotal role as we look to build on our expanded offering in high growth and future-facing commodities. Importantly, our refreshed strategy does not rely on significant additional organic capital investment. As we execute on our key priorities, we expect to see our return on net assets improve.”*

## Earnings changes

ORI reported FY21 revenue of \$5,231.4M and adjusted NPAT of \$204.4M, down 7% and 30% on FY20, respectively. However, ORI's underlying NPAT were \$208M compared FactSet market expectation of \$205.2M. As such, we do not expect any significant earnings revisions for future periods.

## Valuation

We are setting our price target on ORI to \$13.35 and an UNDERPERFORM 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 (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 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.

### Conflicts of Interest

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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.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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### Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

### Barclay Pearce Capital Recommendation Proportions

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)