

INCITEC PIVOT LIMITED

December 12, 2022



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Incitec Pivot Limited

Equity Analysis

Kapitales Research Rating ★★★★★
Recommendation Buy
Current Market Price \$3.880
Risk Moderate

52 Week Range (AUD)



Average volume	8,985.342 K	52 Week Range (AUD)	2.900 - 4.170
Shares outstanding	1.94 B	Dividend amount (AUD)	0.170
Free float	1.94 B	Dividend Yield	6.92%
P/E (TTM)	7.48x	Ex-date	05-Dec-22
Market cap (AUD)	7.57 B	Record date	06-Dec-22
EPS (TTM)	0.520	Pay date	21-Dec-22
ROE	17.39%	Franking	100%

Source: (ASX and Refinitiv), Analysis by Kapitales Research

Incitec Pivot Limited (ASX: IPL) is an Australia-based manufacturing facilities company, which produces a range of explosives, fertilizers, and industrial chemicals. The Company’s geographic divisions include Asia Pacific and Americas. The Asia Pacific segment includes Fertilizers Asia Pacific, which manufactures and sells fertilizers in Eastern Australia and the export market and also manufactures, imports, and sells industrial chemicals to the agricultural sector and other specialist industries; Dyno Nobel Asia Pacific, which manufactures and sells industrial explosives and related products and services to the mining industry in the Asia Pacific region and Turkey, and Asia Pacific Eliminations.

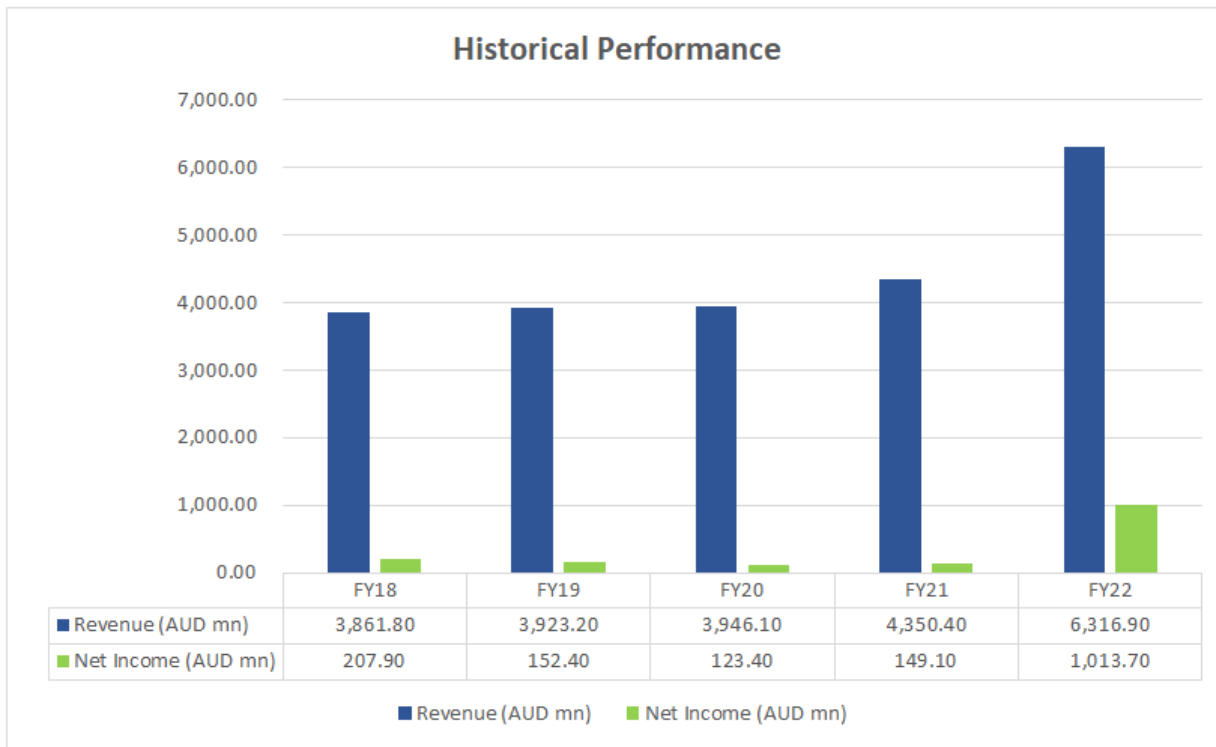
SWOT Analysis

SWOT Analysis

<p style="text-align: center;">Strength</p> <ol style="list-style-type: none"> The group reported its D/E ratio of 0.31x in FY22, improved from 0.36x in FY21, which indicates lower financial flexibility. The company’s net income stood at AUD 1,013.7 million in FY22 versus a net income of AUD 207.90 million in FY18, which indicates a 48.60% CAGR. 	<p style="text-align: center;">Weakness</p> <ol style="list-style-type: none"> In FY22, the group reported a higher employment expense, along with an increase in selling expense and a surge in operating expense. The group reported its D/E ratio of 0.56x in FY22, as compared to the industry median of 0.29x, which indicates lower financial flexibility.
<p style="text-align: center;">Opportunity</p> <p>The group expects its momentum to continue in FY23 supported by the continuation of higher volume and customer and technology growth for DNA and DNAP. Moreover, the company expects resilient margins from its DNA segment, as it expects to benefit from cost pass through revised contracts from its existing clients for FY23. Phosphate Hill expected to produce ~1 million tonnes in FY23.</p>	<p style="text-align: center;">Threat</p> <p>The company’s margin can be impacted due an increase in cost and lower demand for the premium products. Moreover, the company’s market share might be impacted due to an arrival of new players within the industry, which might also lead to price competition.</p>

Historical Performance

The company’s revenue stood at AUD 6,316.9 million in FY22, compared to AUD 3,861.8 million in FY18, reflecting a CAGR of ~13.09% from FY18 to FY22. The company’s net income stood at AUD 1,013.7 million in FY22 versus a net income of AUD 207.90 million in FY18, which indicates a 48.60% CAGR.

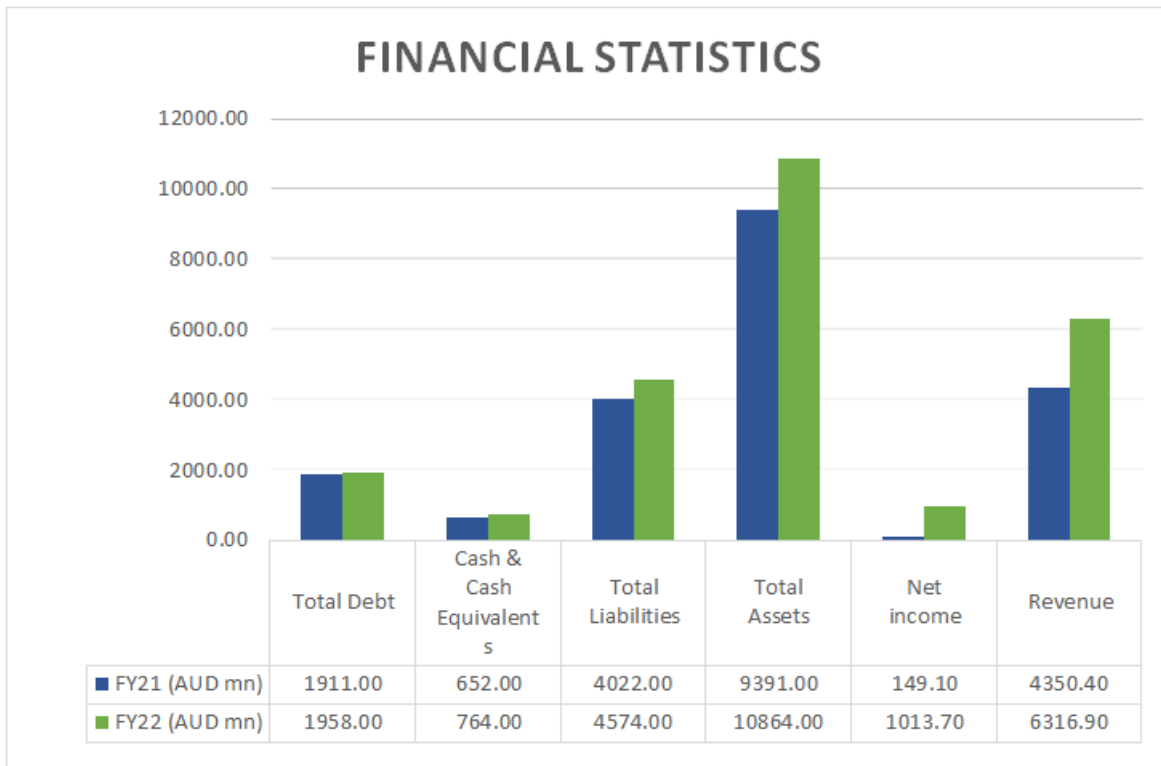


Source: Refinitiv, Analysis by Kapitales Research

FY22 Performance (Ended 30 September 2022)

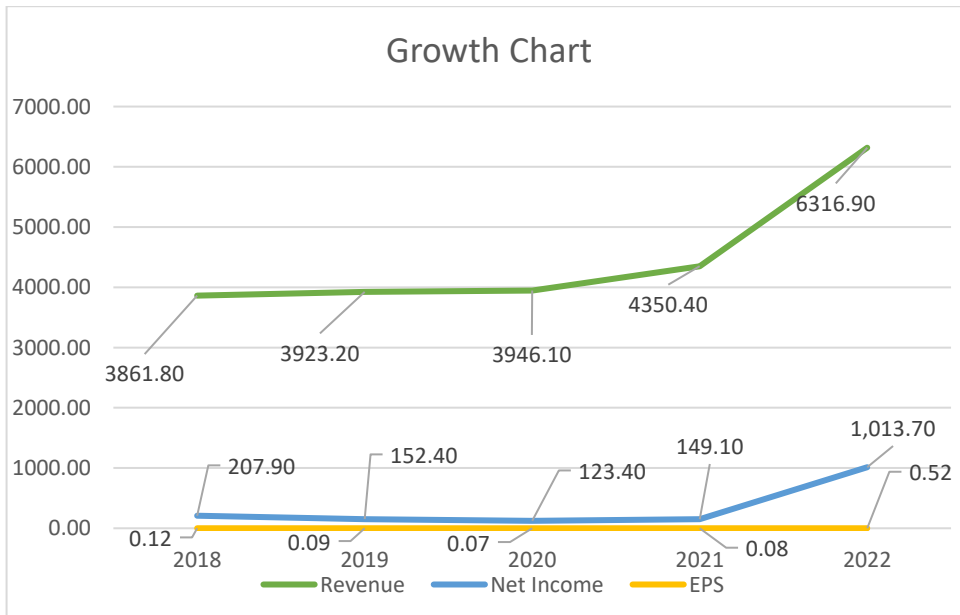
- In FY22, the company reported its revenue of AUD 6,316.9 million, significantly higher than AUD 4,350.4 million in FY21. This was primarily due to higher income from all its three operating segments.
- The group reported a higher employee expense, along with an increase in raw materials and consumables costs along with an increase in repairs & maintenance expense.
- Profit for the year period stood at AUD 1,013.8 million, higher than AUD 149.1 million in FY21. Profit before income tax surged AUD 1,358.8 million in FY22, significantly higher than AUD 160.2 million in FY21.
- The company ended the period with a cash balance of AUD 764 million, while its total assets were recorded at AUD 10,864 million.

Sector: Materials
 Industry: Chemicals
 12 December 2022






Source: Refinitiv, Analysis by Kapitales Research

Revenue, Net Income and EPS growth History



Source: Refinitiv, Analysis by Kapitales Research

Year	2018	2019	2020	2021	2022	Growth Trend
Revenue	3,861.80	3,923.20	3,946.10	4,350.40	6,316.90	
Net Income	207.90	152.40	123.40	149.10	1,013.70	
EPS	0.12	0.09	0.07	0.08	0.52	

Source: Refinitiv, Analysis by Kapitaless Research

Ratio Analysis

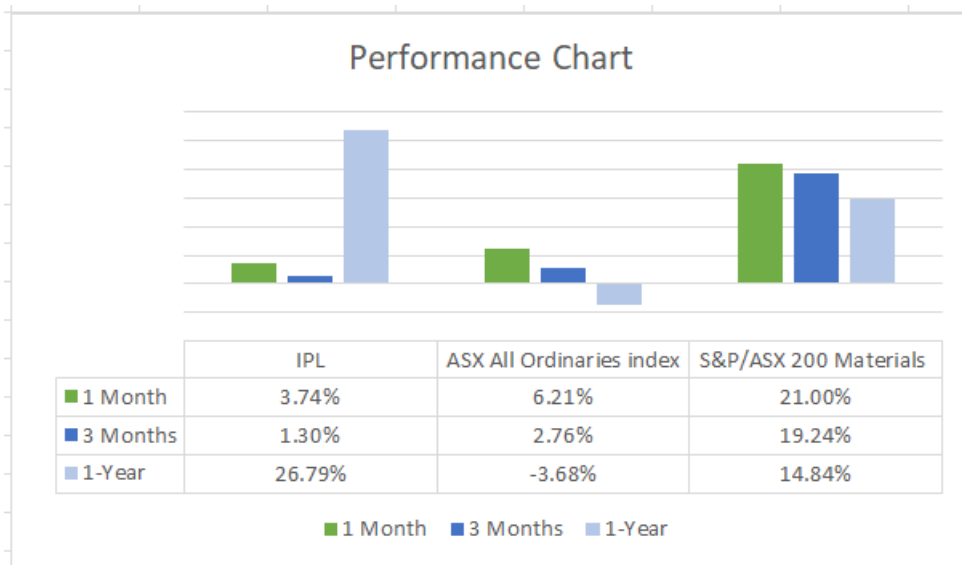
- The company’s EBITDA margin and operating margin stood at 26.2% and 20.2%, respectively in FY22, as compared to the industry median of 19.5% and 14.8%, respectively. This indicates that the company has a strong cost structure.
- Net margin stood robust at 16% in FY22, as compared to the industry median of 9.9%, which shows that the group has an excellent profitability margin.
- The company’s reported a ROE of 17.4% in FY22, versus the industry median of 14%, which indicates that the company has an improved return ratio.
- The group reported its D/E ratio of 0.31x in FY22, improved from 0.36x in FY21, which indicates improved financial flexibility.

	Industry Median	2022	2021	2020	2019	2018
Gross Margin	30.7%	52.9%	52.8%	53.7%	50.1%	55.5%
EBITDA Margin	19.5%	26.2%	19.3%	16.0%	13.3%	20.1%
Operating Margin	14.8%	20.2%	4.6%	5.5%	5.4%	6.3%
Net Margin	9.9%	16.0%	3.4%	3.1%	3.9%	3.0%
Asset Turnover	0.86	0.62	0.47	0.42	0.43	0.43
ROE	14.0%	17.4%	2.8%	2.5%	3.2%	2.3%
Quick Ratio	0.97	0.91	0.81	0.79	0.38	0.69
Current Ratio	1.39	1.45	1.19	1.15	0.62	1.05
Times Interest Earned	11.2	12.6	4.4	2.1	1.5	3.8
Cash Cycle (Days)	65.6	(28.6)	(73.0)	(80.7)	(73.7)	(97.7)
Assets/Equity	1.71	1.73	1.75	1.79	2.00	1.89
Debt/Equity	0.25	0.31	0.36	0.41	0.57	0.50
% LT Debt to Total Capital	13.3%	23.0%	25.4%	28.1%	19.6%	30.4%
ROIC	-	12.0%	1.9%	1.7%	2.1%	1.5%

Source: Refinitiv, Analysis by Kapitaless Research

Price Performance

The stock of IPL reported mixed return of 1.30% and 26.79%, respectively, in the last three months and one year, respectively, higher than the index return of 2.76% and -3.68%, respectively.



Source: Refinitiv, Analysis by Kapitaless Research

Shareholding Pattern

The Company's top 10 shareholders constitute around 29.72% of the total interest in the company. Janchor Partners Limited and The Vanguard Group, Inc. hold major stakes of 5.91% and 5.14%, respectively.

Number	Investor Name	% Outstanding	Position (mn)	Position Change (mn)	Value (\$mn)	Filing Date
1	Janchor Partners Limited	5.91%	114.75	+114.75	311.49	18-Nov-2022
2	The Vanguard Group, Inc.	5.14%	99.90	0	271.18	18-Nov-2022
3	Allan Gray Australia Pty Ltd	4.59%	89.09	-28.31	203.50	29-Jun-2022
4	State Street Global Advisors Australia Ltd.	3.05%	59.28	-2.66	155.66	05-Dec-2022
5	Schroder Investment Management (Singapore) Ltd	2.28%	44.25	-3.62	99.43	07-Sep-2022
6	AllianceBernstein L.P.	2.16%	42.03	+18.73	100.82	31-Oct-2022
7	Schroder Investment Management (Australia) Ltd.	2.11%	41.05	-15.16	92.25	07-Sep-2022
8	Vanguard Investments Australia Ltd.	2.04%	39.58	+0.23	94.96	31-Oct-2022
9	Fidelity International	1.28%	24.77	+0.60	59.43	31-Oct-2022
10	BlackRock Institutional Trust Company, N.A.	1.16%	22.59	+0.29	61.31	30-Nov-2022

Source: Refinitiv, Analysis by Kapitaless Research

Important Update

For FY22, the company's EBITDA stood at AUD 1,857.7 million, increased by AUD 922.8 million from FY21, driven by favourable realised commodity price movements (CAD 920 million) and favourable currency movements. Downstream business earnings improved by AUD 34 million, primarily due to growth in the DNAP business. On the flip side, the impact of supply chain disruptions and inflation was AUD 54 million during FY22.

Outlook

Sector: Materials
 Industry: Chemicals
 12 December 2022

The group expects its momentum to continue in FY23 supported by the continuation of higher volume and customer and technology growth for DNA and DNAP segments. Moreover, the company expects resilient margins from its DNA segment, as it expects to benefit from cost pass through revised contracts from its existing clients for FY23. Phosphate Hill expected to produce ~1 million tonnes in FY23. Lastly, the company’s soil health initiatives expected to drive increased margin for distribution business, which would further support the company’s overall margins.

Key Risks

The company’s margin can be impacted due an increase in cost and lower demand for the premium products. Moreover, the company’s market share might be impacted due to an arrival of new players within the industry, which might also lead to price competition.

Valuation

Relative Valuation Based on Price/Earnings Per Share	
Incitec Pivot Limited	IPL
Earnings Per Share (FY23E AUD)	0.360
Price/EPS Multiple (NTM) (Peer Mean) (approx)	13.26x
Target Share Price (AUD)	4.773
Current Market Price (AUD) (12 December 2022)	3.880
Recommendation	Buy

Source: Refinitiv, Analysis by Kapitaless Research

Technical Analysis



Source: Refinitiv, Analysis by Kapitaless Research

Company Name	Ticker	Sector	CMP (\$)	Advisory date	Rating	Target 1 (\$)	Target 2 (\$)	Stop Loss (\$)
Incitec Pivot Limited	IPL	Materials	\$3.880	12 December 2022	Buy	\$4.143	\$4.500	\$3.186

On a weekly price chart, the IPL’s stock closed above its 200-weeks, 50-weeks and 20-weeks EMAs, respectively, which indicates strong buying interest. Moreover, the stock has been in uptrend since April 2022, which indicates strong investor’s participation. The volume of the stock has remained at the same level since the beginning of CY21, which further suggests decent buying interest.

Investors can enter at the current price level of AU\$ 3.880 with a target price of horizontal resistance level of AU\$ 4.143 and pivot resistance level R2 of AU\$ 4.500, respectively. Investors can either book full or partial profits at target and wait for the stock to achieve target 2 (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$ 3.186 (200-weeks EMA) to protect their investments, in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

In the recent past, the group posted robust growth, and reported its operating cash flow of AUD 1,093 million in FY22, which surged from AUD 650 million in FY21. The group reported higher operational efficiency driven by the manufacturing excellence program through improved asset throughput and reliability. The company expects higher recurring revenues in the coming years, supported by higher client satisfaction as the company is driving customised product offerings as per the client requirements. The Liquid Fertilisers segments reported a ~33% CAGR during FY18 to FY22, supported by ~11% CAGR growth during the time horizon, which is commendable. We expect these above factors to support the company’s growth in the coming days. Hence, after considering the facts mentioned above facts, investors are advised to have a "Buy" rating on the stock of IPL at the closing price of AUD 3.880 on 12 December, 2022, with a target price of AUD 4.773.

Note: Kapitaless Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + \text{EMA (previous day)} * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

Kapitales Research, Level 13, Suite 1A, 465 Victoria Ave, Chatswood, NSW 2067, Australia | 1800 005 780 | info@kapitales.com.au