

Incitec Pivot Limited (IPL)

Incitec Pivot Limited is a leading international chemicals company with nitrogen-based manufacturing at its core. IPL's expects its growth to be driven by global demand for fertilisers and explosives, in agricultural and mining.

Pros:

Current price reflects the cyclical low. The forward P/E of 6.8 is attractive.
Likely forward yield of around 10%
Significant insider purchases during Nov & Dec 2008.

Cons:

Overpaid for recent acquisition of Dyno Nobel. Future write-offs of goodwill will dampen reported earnings.
Negative tangible equity.



6 month chart from ASX

Recent Price	\$2.07 AUD
Year Low/High	\$1.63 - \$10
Market Cap	\$3.31B
Enterprise Value	\$5.43B
Cash/Debt (A\$ M)	\$480/\$2510
EPS cents (06,07,08,09e)	6.6, 18.2, 55.5, 30.4e
Forward P/E	6.8
PEG	N/A
Price/Sales	
Price/Book	0.89
EV/NPAT (09 est)	11.87
Book Value	2.33
ROA	
ROE	20.9
Current Ratio	0.51
Quick Ratio	0.3
Shares out	1.348B

The Numbers

By the Book

IPL has a high current debt of \$2.15B which is due in May 2009. Fortunately they have secured financing to roll this, \$1.68B due September 2011 and \$333M due August 2013.

The high current debt makes the current and quick ratios appear extremely low. As they have long term finance arranged for this debt, it is appropriate to remove the current debt to get a clearer picture of those ratios. With current debt removed the current and quick ratios are respectively 1.32 and 0.84, which are still low. Interest coverage is difficult to estimate due to the moving picture of debt. I roughly estimate interest coverage at 4-6x.

Goodwill of \$2.663B from Dyno Nobel purchase. Removing the intangible assets of \$3.856B reduces tangible book to \$4.183B. With liabilities at \$4.893B leaving no equity for shareholders.

It's Earnings That Count

IPL forecast earnings of \$450M for 2009. See the [2009 update](#) for further details.

Earnings and Dividends Forecast (cents per share)				
	2008	2009	2010	2011
EPS	55.5	30.4	39.5	41.1
DPS	29.7	18.0	25.0	29.7

The forward P/E of 6.8 is attractive.

Earnings estimates have been falling hard over the last ninety days. Down from 54.3cents to 30.4c. The possibility of further falls can not be ruled out. Risk adverse investors should wait until signs of strength in eps appear.

Cash Cow or Sink Hole

IPL is cash flow positive, more later.

Key Statistics

PER SHARE STATISTICS						
	9/03	9/04	9/05	9/06	9/07	9/08
Sales (\$)	1.00	0.88	0.83	0.89	1.23	2.47
Cash Flow (cents)	14.0	11.0	5.4	15.1	23.2	69.4
Earnings (cents)	5.1	6.3	2.9	6.6	18.2	55.5
Dividends (cents)	--	4.1	3.2	4.7	13.6	29.7
Franking (%)	100	100	100	100	100	100
Capital Spending (cents)	-2.3	-2.4	-2.0	-2.2	-8.2	-19.2
Book Value (\$)	0.44	0.49	0.44	0.34	0.48	2.33
Shares Outstanding (m)	1,289	1,289	1,289	1,115	1,115	1,348
Avg annual PE ratio	13.6	12.4	28.4	13.5	12.7	11.1

HISTORICAL FINANCIALS						
	9/03	9/04	9/05	9/06	9/07	9/08
Revenues (\$million)	688	1,135	1,074	1,111	1,376	2,921
Operating margin (%)	12.1	14.7	10.0	14.3	25.3	35.8
Depreciation (\$million)	-19	-30	-25	-31	-34	-60
Amortisation (\$million)	-5	-15	-15	-2	-2	-10
Net profit before abnormals (\$million)	35	81	37	82	202	657
Net profit (\$million)	-18	75	4	46	205	614
Income tax rate (%)	-52.2	30.0	62.6	21.2	28.6	27.8
Net profit margin (%)	5.1	7.2	3.5	7.4	14.7	22.5
Employees (thousands)	0.9	0.8	0.7	1.1	1.0	5.1
Long term debt (\$million)	55	--	--	430	630	271
Shareholders equity (\$million)	573	631	565	380	535	3,146
Return on capital (%)	6	14	8	12	19	21
Return on equity (%)	6.1	12.9	6.6	21.8	37.8	20.9
Payout ratio (%)	--	64	110	70	75	48

NOTE: the above figures should be adjusted to take into account the \$2.15B of current debt and the high level of intangibles on the balance sheet.

Dividends

No announcement on dividends going forward. Pay dividend in July. Payouts is currently 55-65% of earnings, 12-18 months ago was 65-75%.

If IPL payout 65% of the eps estimate of 30 cents the likely yield is around 10%.

Dividend Type	Cents Per Share	Franked %	Ex-Dividend Date	Pay Date
Final	19.50	100	18 Nov, 08	02 Dec, 08
Interim	10.2	100	08 May, 08	02 Jul, 08
Final	11.55	100	21 Nov, 07	13 Dec, 07
Interim	3.45	100	15 Jun, 07	05 Jul, 07
Final	4.05	100	21 Nov, 06	13 Dec, 06
Interim	1.1	100	04 May, 06	09 Jun, 06
Interim	2.5	100	12 Dec, 05	09 Jan, 06
Final	5	100	15 Nov, 04	09 Dec, 04
Interim	1.45	100	18 Jun, 04	08 Jul, 04

Other

[2009 Briefing](#): Assuming DAP pricing of \$350 going forward as input for \$450M profit estimate. IPL did a 20:1 share split in September 2008, be aware of this when looking at past results and dividends.

Dyno Nobel Acquisition

The initial offer of \$3.3B was a [25% premium](#) over the Dyno share price. [Actual consideration \$2.717B.]

Details of the offer can be [found here](#).

“The proposed transaction values Dyno Nobel at A\$3.3 billion¹ based on the implied offer price of A\$2.80 per share². Under the terms of the Agreement, Dyno Nobel shareholders will receive 0.01406 IPL shares and A\$0.70 in cash per share representing a mix of 75% scrip and 25% cash.”

Implementation of the offer can be [found here](#). “IPL today issued a total of 10,437,643” new shares. With the shares trading at pre-split \$184, IPL appears to have paid \$1.9B in scrip and the balance in cash. From the [2008 Annual Report](#) Note 28, cash paid \$551.9M less cash received \$25.5M for cash out of \$526.4M. Total purchase price \$2.717B. \$2.663B in goodwill. **IPL paid \$2717M for \$54M in net assets**. Articles from the time suggest IPL substantially overpaid for DN, by around \$1B.

Filings

Entitlement Offer to raise \$1.17B to assist in paying down bridging loan for DN acquisition, [more details](#).

Insider Purchases – Significant insider purchases occurred during November and December, following is a sample, [more details](#).

Insider	Shares	Price	Date	Cost	Owned
John Watson	26,000	\$2.51	19/11/08	\$65,260	100,000
Julian Segal	104,000	\$2.40	19/11/08	\$249,600	2,238,120

References

2009 Update

http://www.incitecpivot.com.au/zone_files/PDF_Media_Release/asx_announcement_030209.pdf

2008 Annual Report

http://www.incitecpivot.com.au/zone_files/PDFs/annual_report_to_shareholders_2008.pdf

Company details <http://www.investsmart.com.au/shares/asx/Incitec-Pivot-IPL.asp>

Aspect Financial Pty Ltd data via Commsec has been used as a reference.

Disclaimer

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