

# Incitec Pivot Ltd

7 July 2022

## Disclaimer

*This bond or financial product has not been reviewed or recommended by FIIG research nor should this document be considered as credit research. This Factsheet is only a summary document, designed to assist Investors identify the key elements of the company bond or financial product referred to in this document and should be read in conjunction with the other offering documentation available in relation to the financial products. This Factsheet is not complete information concerning any financial product and should not be relied on as such.*

## Issuer Outline

Incitec Pivot Limited (IPL, Company) is an Australia-based company which manufactures explosives and industrial chemicals for the international mining and construction sectors. IPL is also the largest fertilisers manufacturing and distribution business in Australia. It is listed on the Australian Stock Exchange and has a market capitalisation of AUD6.3bn as of 7 July 2022.

It has operations primarily in Australia and across North America, where it enjoys strong market positions through its Dyno Nobel and Incitec Pivot Fertilisers (IPF) brands. Dyno Nobel is the second largest industrial explosives distributor in Australia and North America by volume, and IPF is Australia's largest domestic manufacturer and supplier of fertilisers by volume.

IPL has equity interests in a number of joint ventures across the US, Canada, and Mexico. This includes a manufacturer of ammonium nitrate in Australia, Queensland Nitrates Pty Ltd, and manufacturers of initiating systems, Sasol Dyno Nobel (Pty) Ltd and DetNet South Africa (Pty) Ltd, both in South Africa.

In early 2022, IPL announced its intention to separate its explosive and fertiliser activities into two separate ASX-listed entities (Dyno Nobel and Incitec Pivot Fertilisers), with Dyno Nobel assuming all of the existing debt. The demerger, if approved, is expected to complete in early 2023.

Sector: Industrial  
Sub-sector: Manufacturing  
Country: Australia  
Ownership: Public

## Key Financials (AUDm)

LTM (31 March)	2022
Revenue	5,204.1
EBITDA	1,281.2
Net Interest Expense	(87.9)
Total Assets	9,217.3
Cash	215.3
Gross Debt	1,780.0
Net Debt/EBITDA	1.2x
EBITDA/Interest Exp.	14.8x

Source: Company, S&P Capital

## Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
AU3CB0261576	AUD450m	Senior Unsecured	4.30%	Semi-Annual	18 December 2025	18 March 2026

<sup>1</sup>Redeemable earlier at a make whole amount calculated by reference to relevant swap + 0.45%

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

## Incitec Pivot Ltd

### Strengths

- **Well-established business model:** IPL operates with solid positions in both the explosives and fertiliser markets. The company is the second-largest participant in the Australian and North American explosives industry, and also the leader in the Australian east coast fertiliser market. Its globally recognised Dyno Nobel and Incitec Pivot Fertilisers (IPF) brands provides the Company with good recognition due to its scope of services provided. Customers of IPL's explosives and blasting services are well-diversified amongst various mining sub-sectors, which include the metal, coal, quarrying, and construction sectors, highlighting the strong demand for its products. Its access to long-life phosphate reserves and the proximity of its manufacturing facilities to its end markets provides cost advantages to both IPL and its customers, and security of supply. In the fertiliser space, Australia is a net-importer and it is an essential commodity (even in periods of drought fertiliser is imported). Bulk and packaged fertiliser products are distributed to farmers via a network of over 1000 dealers and agents, strengthening IPL's position.
- **International operations in various markets:** IPL has a worldwide presence across a number of regions including Australia, North America, Europe, and Asia. As of 30 September 2021, the primary contributors to IPL's revenue were Australia (63%), the US (29%), Canada (7%) and Turkey (1%), with additional operations in Mexico and Indonesia. IPL's joint venture partnerships also expose the Company to South Africa. This diversification gives the Company direct exposure to the world's two largest economies: the US (via Americas Explosives and the Waggaman plant), and China (via Asia Pacific Explosives and Asia Pacific Fertilisers).
- **Use of technologies:** IPL is adopting a wider range of emerging technologies within its explosives business, which has delivered additional growth for the Company. Products such as Electronic Detonator Systems and Premium Emulsion have demonstrated a volume-based compounded annual growth rate of 36% and 26% respectively over the past four years. These technologies are vital to extract minerals which are required to meet the demand for power, infrastructure and consumer goods. It also provides a safer environment during the blast loading process as it facilitates a shorter blast cycle, increasing efficiency and the number of tonnes mined. This product innovation, together with further diversification of their end user markets, should support earnings growth over the longer-term. Further take-up of these products in the explosives industry should offset structural changes in the thermal coal industry, as demand is likely to decline over the longer-term as energy production transitions toward renewables and other less emissions-intensive technologies.

### Risks

- **Exposure to cyclical industries and prices:** IPL operates within cyclical industries where the prices of commodities change rapidly. The mining sector can be impacted by weak market conditions, and any sustained decline in commodity prices, which impacts the spending capabilities and demand of its customers, could result in further decreases in demand for explosives and blasting services which will have an adverse effect on the Company's operations. Specifically, the explosives business, which sells mainly to coal and metal miners and the US construction and quarrying sectors, could add volatility to earnings through the cycle. Offsetting this is the contractual set-up of IPL's operations. The majority of contracts are structured with major mining companies on a take-or-pay basis, with agreed upon pricing. Supply and demand can also heavily impact the fertiliser industry especially during times of natural disasters (e.g. drought), however IPL's cost-cutting initiatives and Australia's position as a net-importer should continue to provide some buffer against a deterioration in earnings.
- **Exposure to foreign exchange fluctuations:** IPL's large US dollar-denominated revenue base, given the translation of Dyno Noble Americas earnings and the sale of the DAP and urea in US dollars, significantly exposes the company to volatility from foreign currency exchange rates. So far in 2022, the Australian dollar has weakened against the US dollar which has benefited IPL. We expect this trend to continue, especially as recessionary fears grow and concerns about China's zero-COVID policy weigh on the strength of the Australian dollar.
- **Potential accidents on site:** Given the industry which IPL operates in, accidents can arise on site. Examples included equipment failures, broken fertiliser bags, chemical leaks, and injuries resulting from equipment maintenance. IPL has a methodology in place to record incidents and improve them. It's Total Recordable Injury Frequency Rate for the period ending 31 March 2022 (1H22) was 0.89, a slight increase from 0.87 as of 30 September 2021. There were 18 Process Safety

---

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

---

## Incitec Pivot Ltd

Incidents recorded in 1H22, and IPL recorded a small decrease in Potential High Severity Incidents with 17 during 1H22. IPL's refreshed safety programs are reversing negative trends and will focus on returning to, and exceeding, the key performance indicators the Company has in place.

- **ESG considerations:** Environmental credit factors are a moderately negative consideration, as this reflects the adverse environmental impacts of chemicals (particularly ammonia and nitric acid), water consumption, waste generation, and greenhouse gas emissions. These risks are partially mitigated by the group's track record of sustainability and adherence to emission targets, including alignment with the U.N.'s Sustainable Development Goals. The production of emerging technologies should offset a decline in demand for coal in the future.
- **Loss of diversification on demerger:** If the proposed demerger of Dyno Nobel and Incitec Pivot Fertilisers goes ahead, holders of the notes will be exposed to a more concentrated business (solely focused on explosives) which will retain all the debt (while losing about half of the earnings). While a negative, the company has indicated its intention to maintain financial policies that would support an investment grade rating. Further, we note that the separation from Incitec Pivot Fertilisers will be positive from a working capital perspective.

---

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

---

## Incitec Pivot Ltd

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced or distributed to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

*Certain statements contained in the information may be statements of future expectations and other forward-looking statements. These statements involve subjective judgement and analysis and may be based on third party sources and are subject to significant known and unknown uncertainties, risks and contingencies outside the control of the company which may cause actual results to vary materially from those expressed or implied by these forward looking statements. Forward-looking statements contained in the information regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Opinions expressed are present opinions only and are subject to change without further notice.*

*No representation or warranty is given as to the accuracy or completeness of the information contained herein. There is no obligation to update, modify or amend the information or to otherwise notify the recipient if information, opinion, projection, forward-looking statement, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.*

*FIIG shall not have any liability, contingent or otherwise, to any user of the information or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the information. In no event will FIIG be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using information even if it has been advised of the possibility of such damages.*

*FIIG provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at [www.fiig.com.au/fsg](http://www.fiig.com.au/fsg).*

*An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation (unless otherwise stated), foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information.*

---

*The contents of this document are copyright. Other than under the Copyright Act 1968 (Cth), no part of it may be reproduced, distributed or provided to a third party without FIIG's prior written permission other than to the recipient's accountants, tax advisors and lawyers for the purpose of the recipient obtaining advice prior to making any investment decision. FIIG asserts all of its intellectual property rights in relation to this document and reserves its rights to prosecute for breaches of those rights.*

---