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# Ingham's Group (ING)

## Feed on the decline

### Recommendation

**Buy** (unchanged)

**Price**

**\$3.52**

**Target (12 months)**

**\$4.35** (unchanged)

### GICS Sector

Food Beverage and Tobacco

### Expected Return

Capital growth	<b>23.6%</b>
Dividend yield	<b>6.5%</b>
Total expected return	<b>30.1%</b>

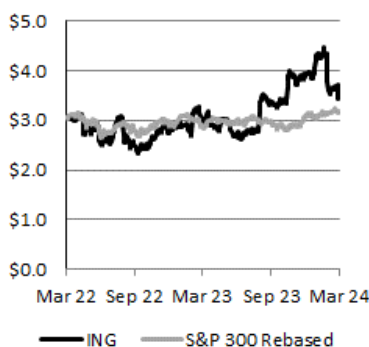
### Company Data & Ratios

Enterprise value	<b>\$3,097m</b>
Market cap	<b>\$1,308m</b>
Issued capital	<b>371.7m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$6.5m</b>
12 month price range	<b>\$2.58-4.51</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.35	3.88	3.09
Absolute (%)	-19.66	-9.92	13.11
Rel market (%)	-21.52	-15.90	4.47

### Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED  
 ABN 25 006 390 772  
 AFSL 243480

### Feed falling

ING's share price has remained fairly depressed post-1H24 despite the continued downdraft in both domestic wheat and imported soybean pricing. Key points:

**Feed costs:** Since reporting Australian ASW benchmark wheat and soybean meal prices have fallen ~5%. Given ING's forward purchasing arrangements, we see CY24TD feed cost indicators (drives FY25e COGS) down -13% relative implied FY24e levels, with our spot feed index -19% below the implied FY24e average. While our forecasts already assume a downdraft in FY25e feed COGS, the current implication if sustained is a more material downdraft than allowed for in our forecasts.

**Pricing has looked reasonable:** CPI indicators for Feb'24 in NZ demonstrated MOM gains of +1% and while down -1% YOY looks reasonable. CPI indicators for Australia in Jan'24 continued to demonstrate upward inflation, up +1% MOM and +3% YOY. Inflation data has so far supported outlook comments from ING at the 1H24 result.

**Bostock acquisition:** ING recently announced the acquisition of NZ organic poultry producer Bostock Bros. for NZ\$35.3m (or 8.8-10.1x PF24 EBITDA). The acquisition is expected to be immediately EPS accretive to FY25e and including identified synergies is expected to generate a ROIC materially in excess of ING's hurdle.

We have incorporated the acquisition of Bostock Bros in our forecasts resulting in NPAT upgrades of +1% in FY25e and +1% in FY26e. Our target price is unchanged at \$4.35ps. Our forecasts currently incorporate ~9% YOY compression in feed costs in FY25e and no material change in FY26e. The YTD/Spot implication is a more material downdraft than allowed for, implying a potential profit pool is emerging.

### Investment view: Buy rating unchanged

Our Buy rating remains unchanged. Feed cost drivers have weakened materially in CY24 and this is likely to manifest in COGS in FY25e. The upside from lower feed costs in our view mitigates the ongoing risk of channel shifts. Trading at the lower bound of its historical EV/EBITDAL trading range and well below its historical average (of 8.3x EV/EBITDAL) we retain our Buy rating.

### Earnings Forecast

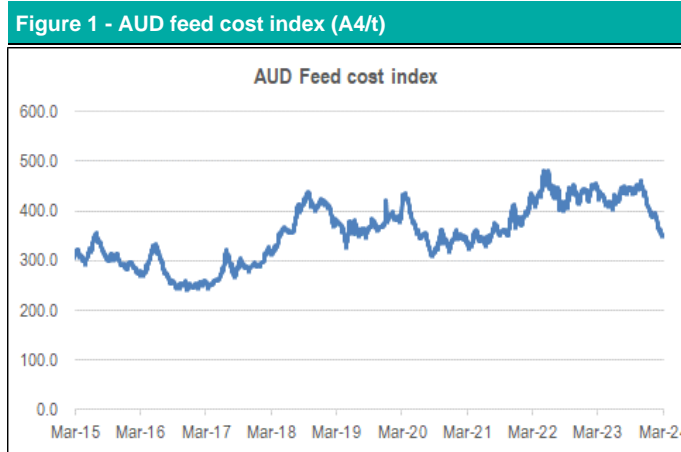
Year end June	2023	2024e	2025e	2026e
Sales (A\$m)	3,044.0	3,228.0	3,233.4	3,307.3
EBITDAL (\$m)	183.6	253.1	262.7	268.2
Underlying NPAT (\$m)	71.1	109.2	115.2	118.7
Underlying NPATL (\$m)	83.1	117.1	119.9	122.7
Core EPSL (eps)	22.4	31.5	32.3	33.0
EPS growth (%)	46.0	40.9	2.3	2.4
FCF yield (%)	(0.2)	0.2	0.1	0.0
PER (x)	15.7	11.2	10.9	10.7
EV/EBITDAL (x)	9.4	6.8	6.6	6.4
Dividend (eps)	14.5	23.0	24.0	25.0
Yield (%)	4.1	6.5	6.8	7.1
Franking (%)	100.0	100.0	100.0	100.0
ROE (%)	35.2	48.4	45.8	42.8

SOURCE: BELL POTTER SECURITIES ESTIMATES

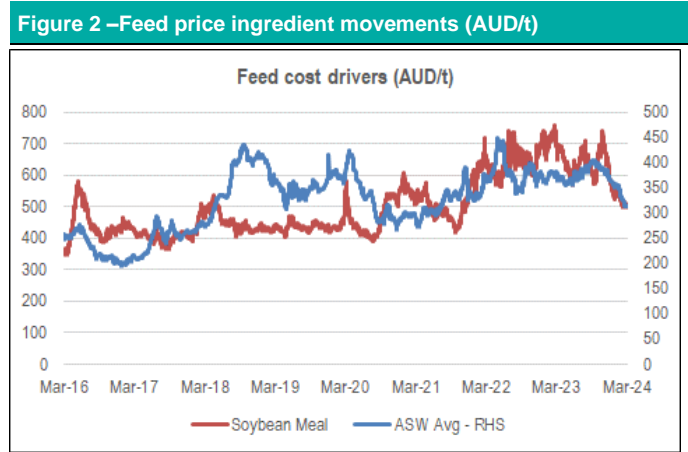
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# ING variable earnings drivers

**Feed:** Feed cost indicators have continued to ease and matching down ~12% from recent highs, largely driven by lower ASW prices.

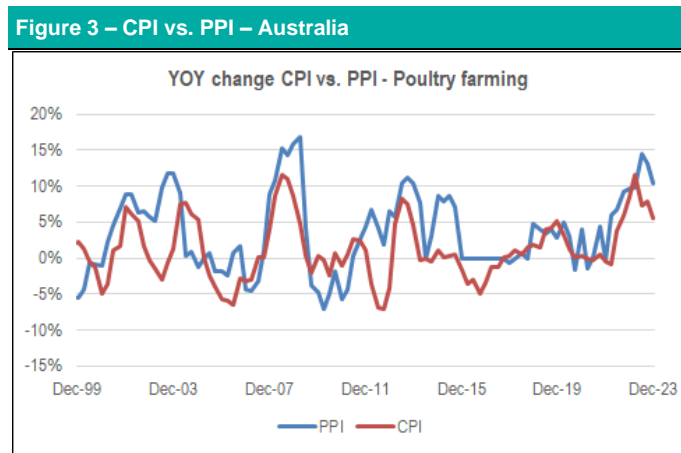


SOURCE: BLOOMBERG AND BELL POTTER ESTIMATES

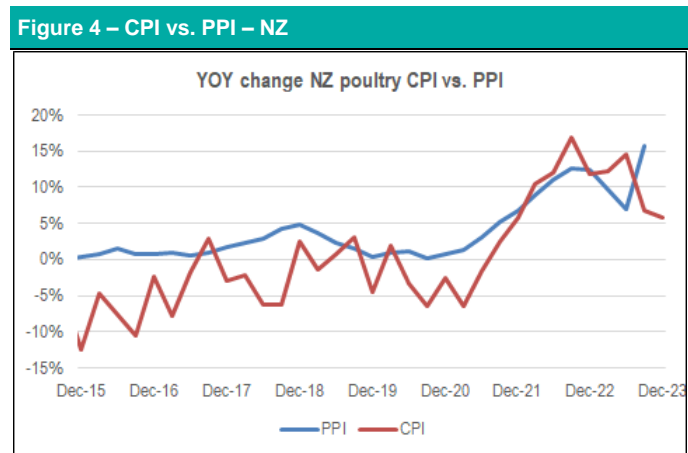


SOURCE: BLOOMBERG AND BELL POTTER ESTIMATES

**CPI & PPI:** Recent CPI indicators in Australia and NZ continue to demonstrate modest YOY gains. Our forecasts assume that this moderates with lower feed costs and the impact of pass through mechanisms.

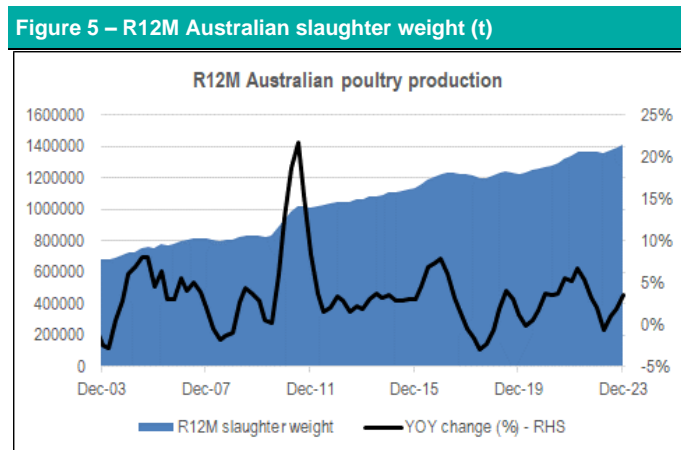


SOURCE: BASED ON ABS DATA

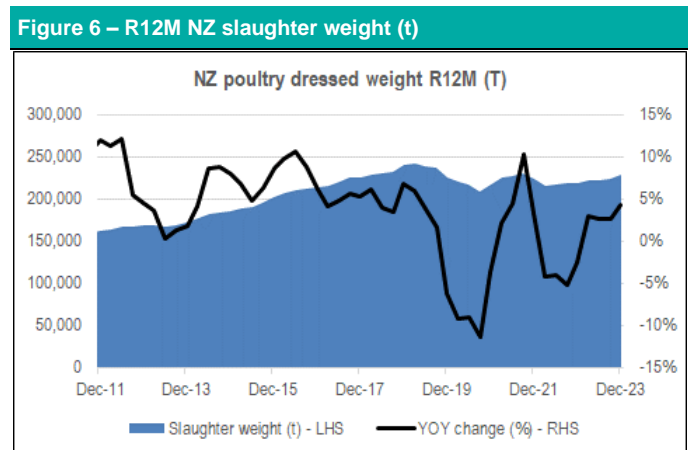


SOURCE: STATS NZ

**Volumes:** Australia and NZ continue to demonstrate low to mid-single digit volume growth rates in slaughter.



SOURCE: ABS DATA



SOURCE: STATS NZ

# Ingham's Group Ltd

## COMPANY OVERVIEW

Ingham's Group (ING) was founded in 1918 by Walter Ingham in Liverpool, NSW. It was acquired by TPG Capital in 2013 and subsequently listed on the ASX in 2016 with the stock code ING. Today, ING is a leading vertically integrated poultry producer (from stock feed to end products) with a market leading position in Australia and the number 2 participant in New Zealand.

## TARGET PRICE

Our \$4.35ps target price is derived utilising our ROIC based model, which capitalise FY24-25e forecasts as a means to remove temporary omicron staffing issues. Major assumption in driving this target price are: (1) ROIC of 34.4% in FY24e and 33.5% in FY25e; (2) a pre-lease cost WACC of 11.2%; and (3) net debt inclusive of factored payables, which we view as a debt to the group.

## INVESTMENT RISKS

Risks of an investment in ING include but are not limited to:

**COVID-19:** The substantial impact of COVID-19 on the global and domestic economies together with the Saudi Arabia-Russia oil price war is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.

**Import restrictions:** Changes to import quarantine conditions in Australia and/or New Zealand that would allow additional forms of poultry to be imported could result in changes to industry structure that could impact ING's financial performance.

**Food safety:** If products of ING's or a competitor became unsafe or were to be perceived as unsafe, reduced demand for ING's products or for poultry products as an industry could follow. In addition food safety issues can lead to significant costs being incurred for recalls as well as result in the potential for compensation, penalties or liability claims which could be incurred. Any issues with food safety could impact ING's financial performance.

**Disease outbreak:** Outbreak of avian diseases occurring in ING's flock or in geographic areas in which ING operates could lead to restriction on the use or transportation of affected poultry. Such disruption to supply, could impact ING's financial performance.

**Material increase in input costs:** There have been recent actual and forecast increases in a number of input costs such as utilities and commodities, i.e. grains and legumes. While ING has a range of cost pass through arrangements in place with customers, especially in respect of feed prices, there may be instances where ING is not able to pass through, or is delayed from passing through, increases in these costs to customers, resulting in the potential risk of margin erosion.

**Supply chain disruption:** Failure of a parent stock supplier, poor animal husbandry practices, poor feed quality or outbreak of disease could all cause a significant reduction in the volume or quality of ING's parent stock or broiler stock, limiting the Group's ability to supply sufficient volumes of product. Disruption to the supply chain such as time critical delays, failure or dispute with key suppliers, severe weather events, fires, floods, failure in the supply of energy, water or other significant inputs or other events of disruption could limit the Group's ability to supply sufficient volumes of product and impact ING's financial performance.

**Regulatory factors:** ING requires a range of licences, permits and accreditations/relating to food standards, animal welfare, workers compensation and the environment in order to

continue operating successfully. Inability to secure or retain these regulatory approvals, or amendments or revoking of these approvals could impact ING's financial performance.

**Failure to execute on transformation projects:** Project Accelerate involves material capital investment and is expected to deliver cost savings and efficiencies to the business in future periods. Delays in the project or cost overruns, in addition to realised results differing from estimates, could impact ING's financial performance.

**Reputation or brand damage:** ING's reputation and the value associated with its quality of products and brands could be impacted by a number of factors including: quality issues with ING products or a failure to supply quality products; the occurrence of an animal welfare event due to the failure of ING or third parties it engages to follow Ingham's strict animal welfare policies and procedures; the actions of contractors and their employment practices or a breach of environmental legislation.

**Competition risks:** There are a number of suppliers of chicken products in Australia and New Zealand. Any material increase in the supply of chicken in these markets that exceeds the increase in demand could lead to an oversupply of chicken, which may result in reduced prices and could impact ING's financial performance.

Table 1 - Financial summary

June year end	Pre-AASB1			Post-AASB16					Share price (\$)	3.52							
	2019	2020	2021	2022	2023	2024e	2025e	2026e			Target price (\$)	4.35					
<b>Profit &amp; Loss (\$m)</b>																	
Australia	2,109.4	2,170.1	2,275.2	2,314.7	2,597.3	2,721.9	2,692.9	2,744.6	Rating	Buy							
New Zealand	380.4	385.2	393.6	398.4	446.7	506.1	540.4	562.7	Diluted issued capital (m)	371.7							
Other	-	-	-	-	-	-	-	-	Market cap (\$m)	1308.3							
<b>Sales revenue</b>	<b>2,489.8</b>	<b>2,555.3</b>	<b>2,668.8</b>	<b>2,713.1</b>	<b>3,044.0</b>	<b>3,228.0</b>	<b>3,233.4</b>	<b>3,307.3</b>	Enterprise value (\$m)	3096.9							
... Change	4.9%	2.6%	4.4%	1.7%	12.2%	6.0%	0.2%	2.3%	Free Float	100%							
Australia	179.0	348.9	375.9	322.6	371.1	385.5	379.9	373.2	<b>Note: Enterprise value includes operating leases. Pre-AASB16 EV/EBITDA multiple removes lease liability.</b>								
New Zealand	29.6	60.0	72.8	58.2	62.6	91.6	101.7	104.0	<b>EBITDAL, NPATL, EPSL are all pre AASB lease accounting.</b>								
Other	-	-	-	-	-	-	-	-	<b>June year end</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
<b>EBITDA</b>	<b>208.6</b>	<b>408.9</b>	<b>448.7</b>	<b>380.8</b>	<b>433.7</b>	<b>477.1</b>	<b>481.7</b>	<b>477.2</b>	<b>Valuation Ratios</b>								
Deprec. & amort.	(46.8)	(263.4)	(265.3)	(270.6)	(268.2)	(237.4)	(233.8)	(228.8)	Core EPSL (\$ps)	27.4	21.2	27.2	15.3	22.4	31.5	32.3	33.0
EBIT	161.8	145.5	183.4	110.2	165.5	239.7	247.9	248.4	Change (%)	(3.4%)	(22.8%)	28.4%	(43.7%)	46.0%	40.9%	2.3%	2.4%
Interest expense	(15.7)	(68.3)	(65.6)	(65.1)	(76.2)	(84.5)	(84.4)	(80.1)	PE (x)	12.8	16.6	12.9	23.0	15.7	11.2	10.9	10.7
Pre-tax profit	146.1	77.2	117.8	45.1	89.3	155.1	163.5	168.3	EV/EBITDAL (x)	8.29	9.65	8.25	12.78	9.41	6.83	6.58	6.44
Tax expense	(42.9)	(22.1)	(31.1)	(2.7)	(18.2)	(45.9)	(48.3)	(49.6)	EV/EBITDA (x)	8.29	7.57	6.90	8.13	7.14	6.49	6.43	6.49
... tax rate	29.4%	28.6%	26.4%	6.0%	20.4%	29.6%	29.5%	29.5%	EV/EBIT (x)	19.14	21.28	16.89	28.10	18.71	12.92	12.49	12.47
Minorities	-	-	-	-	-	-	-	-	NTA (\$ps)	0.44	0.35	0.44	0.43	0.54	0.61	0.68	0.75
<b>Net Profit</b>	<b>103.2</b>	<b>55.1</b>	<b>86.7</b>	<b>42.4</b>	<b>71.1</b>	<b>109.2</b>	<b>115.2</b>	<b>118.7</b>	P/NTA (x)	7.95	10.13	8.00	8.27	6.48	5.80	5.20	4.72
Abs. & extras.	23.0	(15.0)	(3.4)	(7.3)	(10.7)	-	-	-	Book Value (\$ps)	0.44	0.35	0.44	0.43	0.54	0.61	0.68	0.75
<b>Reported Profit</b>	<b>126.2</b>	<b>40.1</b>	<b>83.3</b>	<b>35.1</b>	<b>60.4</b>	<b>109.2</b>	<b>115.2</b>	<b>118.7</b>	Price/Book (x)	7.95	10.13	8.00	8.27	6.48	5.80	5.20	4.72
<b>Pre-AASB16 operating results:</b>																	
<b>EBITDAL</b>	<b>208.6</b>	<b>179.7</b>	<b>209.6</b>	<b>135.2</b>	<b>183.6</b>	<b>253.1</b>	<b>262.7</b>	<b>268.2</b>	DPS (¢)	19.5	14.0	16.5	7.0	14.5	23.0	24.0	25.0
<b>NPATL</b>	<b>103.2</b>	<b>78.8</b>	<b>101.2</b>	<b>57.0</b>	<b>83.1</b>	<b>117.1</b>	<b>119.9</b>	<b>122.7</b>	Payout on pre-AASB16 (%)	71%	66%	61%	46%	65%	73%	74%	76%
<b>Balance Sheet (\$m)</b>																	
Cash & near cash	134.5	134.2	158.1	131.6	136.3	87.0	87.0	87.0	Yield (%)	5.5%	4.0%	4.7%	2.0%	4.1%	6.5%	6.8%	7.1%
Inventories	166.7	217.0	196.1	238.7	220.7	234.0	234.4	239.8	Franking (%)	100%	100%	100%	100%	100%	100%	100%	100%
Biological assets	124.2	120.7	121.8	135.6	159.8	186.4	187.8	192.3	<b>Performance Ratios</b>								
Receivables	214.6	202.6	222.7	221.7	268.1	284.3	284.8	291.3	EBITDAL/sales (%)	8.4%	7.0%	7.9%	5.0%	6.0%	7.8%	8.1%	8.1%
Other	21.4	16.0	3.7	7.0	2.2	2.2	2.2	2.2	EBITA/sales (%)	6.5%	5.7%	6.9%	4.1%	5.4%	7.4%	7.7%	7.5%
<b>Current assets</b>	<b>661.4</b>	<b>690.5</b>	<b>702.4</b>	<b>734.6</b>	<b>787.1</b>	<b>794.0</b>	<b>796.2</b>	<b>812.6</b>	OCF Realisation (%)	100%	30%	52%	29%	25%	51%	50%	46%
Fixed assets	418.4	450.3	457.9	477.3	493.8	627.4	650.6	656.4	FCF Realisation (%)	(10%)	(101%)	75%	(70%)	(9%)	5%	3%	1%
Right of use assets	-	1,429.2	1,374.9	1,319.4	1,275.6	1,249.7	1,227.6	1,210.4	ROE (%)	62.7%	42.7%	53.0%	26.8%	35.2%	48.4%	45.8%	42.8%
Intangibles	-	-	-	-	-	-	-	-	ROIC (%)	38.8%	33.4%	43.3%	26.6%	37.2%	45.1%	40.7%	39.3%
Other	1.8	2.2	9.8	11.6	17.8	17.8	17.8	17.8	Asset Turn (years)	4.46	1.55	1.69	1.41	1.62	2.01	2.06	2.09
<b>Non current assets</b>	<b>420.2</b>	<b>1,881.7</b>	<b>1,842.6</b>	<b>1,808.3</b>	<b>1,787.2</b>	<b>1,894.9</b>	<b>1,896.1</b>	<b>1,884.6</b>	Capex/Depn (x)	1.78	0.33	0.25	0.23	0.27	0.38	0.36	0.31
<b>Total assets</b>	<b>1,081.6</b>	<b>2,572.2</b>	<b>2,545.0</b>	<b>2,542.9</b>	<b>2,574.3</b>	<b>2,688.8</b>	<b>2,692.3</b>	<b>2,697.2</b>	<b>Cashflow (\$m)</b>								
Creditors	360.7	402.9	396.6	452.6	462.1	485.6	485.6	496.7	EBITDA	208.6	408.9	448.7	380.8	433.7	477.1	481.7	477.2
Borrowings	-	-	-	-	-	-	-	-	Tax Paid	(50.9)	(46.1)	(10.9)	(31.9)	(15.2)	(32.1)	(47.1)	(48.9)
Lease liabilities	-	185.2	184.2	186.7	154.6	162.9	167.0	171.1	Net Interest Expense	(16.8)	(14.1)	(12.5)	(11.8)	(25.4)	(28.2)	(30.7)	(29.8)
Other	108.9	83.6	122.2	97.0	101.3	166.5	166.5	160.6	Change in Wkg Capital	3.2	7.4	(6.6)	0.6	(43.1)	(17.7)	(2.3)	(5.2)
<b>Current liabilities</b>	<b>469.6</b>	<b>671.7</b>	<b>703.0</b>	<b>736.3</b>	<b>718.0</b>	<b>815.1</b>	<b>819.0</b>	<b>828.5</b>	AASB16 Lease Payments	-	(234.0)	(243.1)	(239.4)	(247.1)	(212.1)	(217.4)	(222.8)
Borrowings	398.3	448.9	398.3	398.9	398.8	459.4	455.8	454.6	Other	6.1	(25.0)	8.3	(8.4)	(18.8)	(10.0)	(10.0)	(10.0)
Lease liabilities	-	1,287.1	1,248.1	1,216.9	1,213.9	1,147.0	1,124.1	1,095.0	<b>Operating Cash Flow</b>	<b>150.2</b>	<b>97.1</b>	<b>183.9</b>	<b>89.9</b>	<b>84.1</b>	<b>177.0</b>	<b>174.2</b>	<b>160.4</b>
Other	49.2	35.4	32.0	32.6	41.8	41.8	41.8	41.8	Capex	(83.1)	(86.7)	(66.3)	(61.9)	(71.9)	(90.0)	(85.0)	(70.0)
<b>Non current liabilities</b>	<b>447.5</b>	<b>1,771.4</b>	<b>1,678.4</b>	<b>1,648.4</b>	<b>1,654.5</b>	<b>1,648.2</b>	<b>1,621.7</b>	<b>1,591.4</b>	Div Paid	(77.1)	(66.1)	(52.8)	(57.6)	(18.6)	(81.8)	(85.5)	(89.2)
<b>Total liabilities</b>	<b>917.1</b>	<b>2,443.1</b>	<b>2,381.4</b>	<b>2,384.7</b>	<b>2,372.5</b>	<b>2,463.3</b>	<b>2,440.7</b>	<b>2,419.9</b>	<b>Free Cash Flow</b>	<b>(10.0)</b>	<b>(55.7)</b>	<b>64.8</b>	<b>(29.6)</b>	<b>(6.4)</b>	<b>5.3</b>	<b>3.7</b>	<b>1.2</b>
<b>Net assets</b>	<b>164.5</b>	<b>129.1</b>	<b>163.6</b>	<b>158.2</b>	<b>201.8</b>	<b>225.5</b>	<b>251.6</b>	<b>277.3</b>	Acquisitions	(39.1)	-	-	-	-	(115.2)	-	-
<b>Shareholders' funds</b>	<b>164.5</b>	<b>129.1</b>	<b>163.6</b>	<b>158.2</b>	<b>201.8</b>	<b>225.5</b>	<b>251.6</b>	<b>277.3</b>	Disposals	89.1	9.5	10.9	4.0	0.2	-	-	-
<b>Net Debt (Cash)</b>	<b>263.8</b>	<b>314.7</b>	<b>240.2</b>	<b>267.3</b>	<b>262.5</b>	<b>372.4</b>	<b>368.8</b>	<b>367.6</b>	Share Issues	(160.9)	-	-	-	-	-	-	-
<b>Balance Sheet Ratios</b>																	
Reported net debt (cash)	263.8	314.7	240.2	267.3	262.5	372.4	368.8	367.6	Other	2.5	(4.7)	(1.2)	(1.5)	11.0	-	-	-
Factored receivables	94.7	121.0	110.0	141.5	132.2	135.8	135.2	138.3	(Inc.)/dec. in net debt	(118.4)	(50.9)	74.5	(27.1)	4.8	(109.9)	3.7	1.2
AASB1016 Operating leases	-	1,472.3	1,432.3	1,403.6	1,368.5	1,309.9	1,291.1	1,266.1	<b>EBITDA Interest cover (x)</b>								
<b>Group indebtedness</b>	<b>358.5</b>	<b>1,908.0</b>	<b>1,782.5</b>	<b>1,812.4</b>	<b>1,763.2</b>	<b>1,818.1</b>	<b>1,795.0</b>	<b>1,772.0</b>	EBITDAL	13.29	5.99	6.84	5.85	5.69	5.64	5.71	5.95
EBITDAL Interest cover (x)	13.29	5.99	6.84	5.85	5.69	5.64	5.71	5.95	EBITDAL	13.29	13.31	14.16	10.09	8.02	8.96	8.55	8.99
Net Debt/EBITDAL (x)	1.72	2.42	1.67	3.02	2.15	2.01	1.92	1.89	Net Debt/EBITDAL (x)	1.72	2.42	1.67	3.02	2.15	2.01	1.92	1.89
Group Indebtedness/EBITDA	1.72	4.67	3.97	4.76	4.07	3.81	3.73	3.71	Group Indebtedness/EBITDA	1.72	4.67	3.97	4.76	4.07	3.81	3.73	3.71
Net debt/equity (%)	160%	244%	147%	169%	130%	165%	147%	133%	Net debt/equity (%)	160%	244%	147%	169%	130%	165%	147%	133%

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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