I have read your interim report on fertiliser prices, the ACCC's report and Incitec Pivot's submissions to the inquiries.   There seems to be an enormous credibility gap in what is actually happening in the farm fertiliser market and the rather muted conclusions that the ACCC inquiry and your interim report have arrived at. In particular I would hope your inquiry could address the following in the final report.

Incitec Pivot assertion to your inquiry that as international buyers and sellers of fertiliser they priced their products at internationally competitive prices is probable true of their exports but it is clearly untrue for their Australian sales and selling prices.

In their latest briefing to financial analysts Incitec Pivot management clearly stated that their projected profit for the 08/09 financial year of $450 million is predicated on a world DAP fertiliser price of $US350 per tonne or about $515 Australian at current exchange rates. While this means the company will export and buy DAP fertiliser at these prices it contrasts markedly with their current Australian domestic selling price of about $840 Australian per tonne for DAP.

Fertiliser Week publication reports that the company is shipping 40,000 tonnes of DAP overseas in April at a price of $US375 per tonne which, in all probability, reflects the current spot price of just under $US350 per tonne plus some handling charges. This export made during the local peak demand period demonstrates the company's two tiered pricing approach.

International competitiveness also does not apply to the Single Super Phosphate sold by the company. The over one million tonnes of Single Super Phosphate used annually in Australia is almost exclusively manufactured locally and there are very few exports of Single Super Phosphate from Australia. The company's market for Single Super Phosphate is soly an Australian domestic market and is anything but competitive, being dominated by Incitec Pivot.
Graham Denton gd@mirrin.com.au

30 April 2009

I spent 20 years running Davey Pumps and as part of my responsibilities organised the marketing of a large part of the company's products to the farm sector. I commenced farming 5 years ago and have now had a good opportunity to observe marketing to the farm sector, from the customer's point of view.

The Eastern Australian fertiliser market is dominated by a single large participant, Incitec Pivot. I contend that Incitec Pivot has too much market power and is able to set prices, pretty much as they please.

An example of Incitec Pivot's pricing approach is that in the year to 30 September 2008, when farmers were struggling with dramatic increases in fertiliser prices and the ACCC was conducting their fertiliser price inquiry, Incitec Pivot set fertiliser prices that more than doubled the profits they made from their traditional domestic fertiliser business. I attach a Goldman Sachs JB Were analyst's report that details this profit increase – *file analyst's report.jpg.*

According to a recent Incitec Pivot press release their resigning CEO, "transformed Incitec Pivot from an Australian fertiliser business to a leading international chemicals company". As I see it, this transformation involved buying Dyno Nobel (an explosives company) and investing in that business to the extent of 70% plus of the company's assets.

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The Incitec Pivot fertiliser business with about 30% of the company's assets is now being "flogged along" to try and produce about 60% of company profits. A sign of their quest for returns from the domestic fertiliser market is that they are now selling ammonium phosphate fertiliser (DAP) produced at their Phosphate Hill facility costing about $US200 per tonne (about $A286 per tonne) for $A800 plus per tonne to Australian farmers through their distributors. I include a Macquarie analyst's report in regard to the estimated cost of Incitec Pivot's ammonium phosphate fertiliser production – *file IPL270409.pdf.* The international spot DAP price is currently $US320 (about $A457) per tonne.

Incitec Pivot's very low cost of phosphate fertiliser production at Phosphate Hill deters other industry participants from competing in the market for DAP fertiliser in Eastern Australia and allows Incitec Pivot to continue to set fertiliser prices.

Incitec Pivot's price for Single Super Phosphate peaked at about $560 per tonne and has only been reduced by about 30% while the world price for the product's major constituent, phosphate rock, in now about one third of its peak price.

I contend that Incitec Pivot's dominant market position and pricing power in the Eastern Australian fertiliser market together with their ambitions for international and corporate expansion seriously conflict with the interests and viability of their Australian farm customers.

Graham Denton

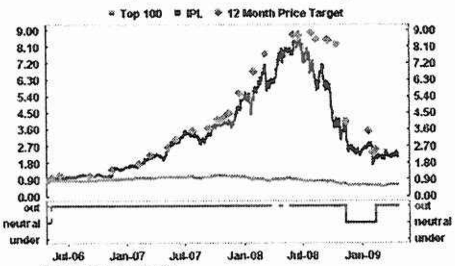
Monday 27 April 2009

IPL AU		**Outperform**
Relative to		top 100
Volatility index		very high
Stock price as of 23 Apr 09	A$	2.06
12-month target	A$	2.45
12-month TSR	%	+26.4
Valuation	A$	2.45
- Sum of Parts		
GICS sector		materials
Market cap	A$m	3,472
30-day avg turnover	A$m	41.8
Number shares on issue	m	1,685

Investment fundamentals

Year end 30 Sep		2008A	2009E	2010E	2011E
Sales revenue	m	2,918.0	3,962.3	4,012.9	4,173.0
EBIT	m	969.1	713.6	799.4	908.6
Reported profit	m	614.3	350.3	477.0	507.1
Adjusted profit	m	666.7	400.3	477.0	507.1
Gross cashflow	m	727.5	548.4	641.8	692.3
CFPS	¢	59.1	35.3	39.7	42.9
CFPS growth	%	180.4	-40.4	12.7	7.9
PGCFPS	x	3.5	5.8	5.2	4.8
PGCFPS rel	x	0.48	0.69	0.63	0.65
EPS adj	¢	54.2	25.7	29.5	31.4
EPS adj growth	%	nmf	-52.6	14.9	6.3
PE adj	x	3.8	8.0	7.0	6.6
PE rel	x	0.34	0.58	0.53	0.59
Total DPS	¢	26.4	15.4	17.7	18.8
Total div yield	%	12.8	7.5	8.6	9.1
Franking	%	100	30	50	70
ROA	%	20.0	8.8	9.4	10.1
ROE	%	36.2	11.2	11.7	11.9
EV/EBITDA	x	4.7	6.2	5.6	4.9
Net debt/equity	%	64.5	44.6	50.4	49.4
Price/book	x	0.9	0.8	0.8	0.8

IPL AU vs top 100, & rec history



Source: FactSet, Macquarie Research, April 2009 (all figures in AUD unless noted)

Incitec Pivot Limited

Global demand catch-up required

Event

- Potash Corp downgraded 2009 profits and now expects earnings will be US$7–8 a share vs $10–12/share prior guidance and $9.33 consensus. However, the stock was down only 2% in New York on Thursday, indicating the market is looking through near term cyclical weakness to an extent.

Impact

- Commentary from Potash is **bearish for near term fertiliser demand/ pricing but bullish on a 6–12 month view**. In simple terms, the expected 20–25% reduction in US NPK (nitrogen, phosphate, potash) use this year is unprecedented, particularly given flat projections for corn and soy plantings. This reflects excess inventory, US farmers deferring purchases/ cutting back on applications and weather impacts. However, this increases the demand catch-up required over the next 6–12 months as crop yields are likely to suffer This will need to be rectified next season (we see signs of this in Latin America).
- **DAP prices continue to drift lower and are now US$320/t (FOB Tampa).** India remains the only scale buyer in the global DAP market. According to British Sulphur and based on forward pricing there is potential for DAP prices to fall to US$300/t or below in the near term. As a result **we have reduced our 2H09 DAP assumption and now factor in US$321/t 2H average versus IPL's prior guidance of US$360/t** for the rest of FY09. The positive is that the domestic DAP price has largely been set at US$360/t with imports having landed over the last few months at this price - our trade feedback suggests this price is holding. This means that IPL's 200kt of DAP for export in September quarter is negatively impacted (we assume US$300/t export price) rather than the majority of IPL's DAP tons. DAP and urea prices are the only things we can see that have changed in the three weeks since IPL's 30 March guidance re-iteration.
- Our **revised $400m NPAT forecast (previously $424m) compares to IPL's $450m FY09 guidance**. Our already lower Dyno earnings account for half the difference and lower fertiliser prices/single super (SSP) profits the rest. Separately, **much needed rainfall is in prospect for Southern Australia over the weekend, which is likely to kick-start the fertiliser season.** We expect 1H NPAT of $165m on 11 May, which represents 41% of our FY09 forecast.

Earnings revision

- We have reduced our FY09/10 EPS forecasts by 6% and 4%, reflecting lower DAP/urea price assumptions, and pasture market weakness impacting SSP profits partially offset by a slightly lower tax rate (Dyno tax benefits).

Price catalyst

- 12-month price target: A$2.45 based on a Sum of Parts methodology.
- Catalyst: 1H result 11 May, 2H recovery in US/global fertiliser demand

Action and recommendation

- We maintain our Outperform rating on IPL with a $2.45 target price (sum-of-parts, $2.50 previously). MD Segal's departure is a hurdle for investors to overcome, along with declining near-term fertiliser prices. We think IPL has a good asset suite with plenty of cyclical leverage to an eventual improvement in global fertiliser demand and pricing.

Key fertiliser price assumptions

Post	FY08a	1H09e	2H09e	FY09e	FY10e	FY11e
DAP (US$/t)	921	539	321	395	390	500
A$:US$	$0.953	$0.718	$0.693	$0.706	$0.727	$0.790
DAP (A$/t)	966	751	464	559	536	633
Urea (US$/t)	456	300	275	285	300	300

Source: Company data, Macquarie Research, April 2009

- We have reduced our FY09 & FY10 DAP assumptions to US$395/t and US$390/t respectively compared to US$410/t and US$400/t previously. In 2H09, we now assume a US$321/t average DAP price versus IPL's prior guidance of US$360/t for the rest of FY09 and US$410/t as an average across FY09. We also now assume urea of US$285/t in FY09 vs US$300/t previously
- DAP (FOB Tampa) has now fallen to US$320/t. The lack of demand in the US continues to be a drag on the market with wet weather delaying the season, US farmers deferring purchases and cutting back on applications. India remains the only scale buyer in the global DAP market. According to British Sulphur there is potential for DAP prices to fall below US$300/t in the near term. We expect some improvement in US demand over the next two months, however the Chinese export tax reduces from 110% to 10% from 1 July which is likely to see increased Chinese DAP exports in 3Q.

IPL's key profit sensitivities

- Based on IPL's DAP assumption of US$410/t, urea of US$300/t and A$:US$0.70, profit sensitivities are as follows:
  - ⇒ +/-US$10 DAP price = +/- A$12.9m EBIT (prior guidance A$9.4m)
  - ⇒ +/-US$10 Urea price = +/- A$6.1m EBIT (prior guidance A$4.5m)
  - ⇒ +/-1 cent A$:US$ = +/- A$15.9m EBIT (prior guidance A$14m). This includes Dyno translation and import parity impacts on DAP pricing

FY09 profit drivers

FY09 profit drivers	$m	Comment
FY08e EBIT	969	
Urea prices	-104	$US10/t=A$6.1m EBIT
Squeeze in distribution margins, SSP profits	-110	10% reduction in vols, SSP profits down
DAP price	-679	US$920/t 08 avge vs US$410/t fct in FY09
FX	388	95c vs 71c
Dyno	242	Full year impact less FX
Non-recurrence of trading profits	-20	
Increase in SCF tons produced	30	Absence of FY08 outages
Other	-2	
Net EBIT change	-256	
FY09e EBIT	714	

Source: Macquarie Research, April 2009

- We have shown our profit bridge above. The negative move in the DAP price highlights the degree of IPL's operational leverage with a -$679m YoY impact. This is partly clawed back by FX (supporting A$ prices) and increased SCF tonnes this year. Profit in the base fertiliser business will decline substantially (halving) based on a fall in urea prices, margin squeeze in distribution (partly due to carrying higher priced stock) and a tough year for SSP due to weak dairy sales. We **now factor in a larger negative impact from SSP**/distribution (profits down $110m on pcp vs prior -$84m) with SSP taking a big hit from extremely weak pasture / dairy end-markets. We understand IPL has taken production downtime at its Geelong SSP facility.
- A full period impact from Dyno and Velocity synergies (US$50m) supports overall earnings. Dyno's earnings are holding up relatively well so far (mainly due to Velocity) despite clear weakness in Quarrying & Construction in North America and Canada/Australia. On the positive side, pricing discipline remains solid in North America and Australia and Dyno will benefit from a full period impact of the 200kt AN Solution expansion in Cheyenne (~$15m EBIT impact).

$2.45 sum of parts valuation

IPL sum-of-parts valuation			A$	$0.70	
IPL	Tonnes	A$ value per tonne	US$/t	A$m	Comment
SCF (DAP)	970	1445	1012	1402	5.3x FY09 EBITDA (Mosaic multiple)
Urea (includes Industrial)	450	1083	758	567	4.5x FY09 EBITDA
SSP	700	357	250	357	1/3 P205 content of DAP
Distribution earnings	40			320	8x FY09 EBIT
Dyno Nobel				3088	8.0x FY10 EBIT (Orica multiple)
EV	5734			5734	Implied 8.0x FY09 EBIT
Net debt (FY09e)	-1,776				Includes $300m Moranbah spend
Equity value	$3,958				
Value per share	$2.45				

Source: Macquarie Research, April 2009

- We have valued each division separately above. We have used the average EBITDA multiple (5.3x) for Mosaic. For IPL's urea manufacturing operations, we have used 4.5x FY09 EBITDA. SSP is a relatively low margin product for IPL as it does not have an integrated position and hence we have applied a substantial discount to DAP on a per tonne basis.
- We value distribution on 8x EBIT and note that distribution earnings are expected to halve in FY09 due to a ~10% fall in volumes and reduced margins. For Dyno, we have applied 8x FY10 EBIT which represents an Orica multiple. This equates to a $3.1bn valuation for Dyno which represents a discount to the $3.7bn acquisition price (difference accounted for by expected increase in synergies beyond 2010). We note that we have used our forecast FY09 net debt of $1.7bn which includes $300m of capex re Moranbah.

IPL now trading largely in line with global peers

		PER			EV/EBITDA			EV/EBIT		
	Yr end	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
Mosaic	May	nmf	8.9	6.3	nmf	5.2	4.0	nmf	6.3	4.1
Yara	Dec	5.2	8.7	6.8	4.8	7.1	6.2	5.6	10.0	8.1
Agrium	Dec	4.6	5.8	5.3	3.4	4.8	4.7	3.8	5.3	4.6
Potash	Dec	6.7	8.3	6.6	5.9	6.2	5.1	6.4	6.4	5.0
CF Industries	Dec	4.7	8.2	9.1	2.1	3.9	4.0	2.3	4.8	4.4
Terra Industries	Dec	4.3	8.3	7.9	2.5	4.1	4.1	2.8	5.6	4.4
Orica	Sep	9.8	10.2	10.0	5.9	6.5	6.3	8.4	8.1	8.1
Incitec Pivot	Sep	3.5	8.1	7.1	3.4	6.0	5.1	3.6	7.2	6.1
INT'L AVERAGE		5.4	8.1	6.9	3.5	5.2	4.8	4.3	6.4	5.8
Avge (Mosaic,Agrium,Yara, POT)		5.4	7.7	6.2	4.5	5.7	4.9	5.0	6.6	5.3
IPL prem(disc) ex CF, Terra		-35%	6%	14%	-24%	5%	4%	-28%	8%	15%

Source: Bloomberg, Company data, Macquarie Research, April 2009

- Based on FY09 PER, EV/EBIT and EV/EBITDA multiples, IPL is trading at a 6% premium to a basket containing Mosaic, Potash, Yara, & Agrium. **IPL is trading on 8.1x FY09 PER vs the peer group at 7.7x. IPL is trading at a discount to ORI on a PER, EV/EBIT and EV/EBITDA basis.**
- We have excluded CF and Terra as these are relatively higher-cost US nitrogen plays (IPL's premium is slightly larger if include them). We note that the above **peer valuations are partly dependent on what fertiliser price assumptions** are being adopted. This is difficult to observe from consensus data which is what our peer multiples are based on. We suspect that consensus earnings for Mosaic and Potash are using DAP prices above the US$410/t we assume for IPL; if so this means that global peer multiples are actually higher on a like for like basis with IPL..
- We also note that Dyno Nobel now represents 46% of IPL's FY09 earnings. Orica trades at a premium to the global fertiliser peers largely because ORI's explosives based earnings are relatively more stable (ORI is a relatively late cycle price and volume play). All things being equal, we think IPL also deserves a premium versus global peers for the 46% of its earnings from Dyno particularly given the $200m in targeted efficiency savings are still to come.

Key highlights from Potash result: Bearish near term ...bullish on 6-12 month view

- **Skimping on fertiliser will affect yields in 2009.** Potash Corp noted this situation cannot continue indefinitely without potential consequences to the world's food supply. This can be seen in Brazil/South America where farmers materially reduced fertiliser applications, and with less than ideal weather conditions in the most recent planting season, are now experiencing substantial declines in yield.
- **Potash's current estimates are for phosphate applications to be down 20–25% this year.** In North America, fertiliser applications for 2009 are expected to be down significantly more than the record 15% reduction in 1983 when plantings declined by 40m acres. Applying approximately the same amount of fertiliser this year as 1983 despite current year plantings expected to be largely flat on prior year's record plant has unpredictable consequences for crop yields.
- Customers are nearing the completion of massive destocking efforts in all major markets and **Potash expects a more normal second half of 2009 followed by a rush to refill the pipeline and feed necessary consumption growth in 2010.** However, prices may take longer to recover.
- Potash Corp CEO Bill Doyle said "While buyers have delayed purchases since Q408 the need for potash and other fertilisers cannot be denied. The fundamentals of our business remain extremely favourable, with historically low global grain stocks, supportive crop prices, depleting customer potash inventories and expectations of tight potash supply/demand dynamics for at least the next five years".
- CF Industries in contrast believes that phosphate demand could strengthen across the industry as spring planting progresses.
- Potash Corp's phosphate gross margin of US$8.8m was 94% lower than the US$156m in pcp with weak demand. Within this, Potash's industrial segment generated a positive gross margin, feed phosphate generated no gross margin and solid fertilisers had negative gross margin of -US$30.5m. **Total phosphate sales volumes were 36% lower than pcp** (solid fertilisers were flat with prices down 48% and liquid fertiliser volumes were down 63% with prices up 25%). Higher sulphur and other costs incurred in 2008 are now being recovered.
- Potash noted that **nitrogen needs to be replenished every year in the soil**, which helped urea volumes from US producers move in 1Q. Total nitrogen sales volumes were down 5% on pcp, however fertiliser volumes increased 32% due to more export shipments.

DAP cash cost breakdown (high cost producer)

Component cost		
Phosphate Rock	120	US$/t
Freight cost	30	
Effective cost	255	1.67t of rock into 1t of DAP
Ammonia	250	Spot price (CFR India)
$/t fertiliser produced	55	0.22t of ammonia in 1t of DAP
Sulphur	50	Sulphur CFR India
Sulphur content $/t DAP	22	0.44t sulphur in 1t of DAP
Total raw material costs	332	
Conversion costs	50	
Total DAP cash cost /t	382	
Costs starting from Phos acid		
Phosphoric Acid	630	CFR to India
Phos acid content /t of DAP	290	46% P content per ton of DAP
Ammonia	250	
$/t fertiliser produced	55	
Total raw material costs	345	
Conversion costs	50	
Total DAP cash cost /t	395	

Source: Macquarie Research, April 2009

- Phosphate rock costs are the biggest component with 1.67t of rock required to produce 1t of DAP (based on Moroccan rock). 0.22t of ammonia is required to produce 1t of DAP and 0.44t of sulphur is required to produce a tonne of DAP.
- The latest list phosphate rock price settlement is between US$115–120/t (FOB Morocco). We have also added US$30/t freight costs to reflect a landed phosphate rock cost and combined this with current ammonia and sulphur prices (CFR India basis). **The result is a US$382/t estimated cash cost for an unintegrated high-cost producer (ie India) based on the above input prices. This represents a premium to the current US$320/t DAP price (Tampa).**
- Moroccan phosphate producer OCP recently agreed a 2Q phos acid supply contract with India at $630/t CFR. This is down $130/t on the 1Q phos acid price of $760/t. The new phos acid price **implies a DAP cash cost of production of US$395/t** for an unintegrated producer.

DAP price sensitivity to rock/sulphur

		Phos rock (US$/t)						
		25	50	100	150	200	250	300
Sulphur (US$/t)	0	199	241	326	411	496	581	666
	25	210	252	337	422	507	592	677
	50	221	263	348	433	518	603	688
	75	232	274	359	444	529	614	699
	100	243	285	370	455	540	625	710
	150	265	307	392	477	562	647	732
	200	287	329	414	499	584	669	754
	250	309	351	436	521	606	691	776
	300	331	373	458	543	628	713	798
	350	353	395	480	565	650	735	820

Source: Macquarie Research, April 2009

- The sensitivities of the DAP price to various rock and sulphur prices in shown in the table above.

How does the global phosphoric acid cost curve look?

- An estimated 8.7% of global phosphoric acid capacity relies on imported rock and sulphur and 10.6% uses imported rock and domestic sulphur. So roughly **20% of the global phos acid market is un-integrated.**
- 48% of global phosphoric acid capacity relies on imported sulphur and domestic rock and 32% is fully integrated into domestic rock and domestic sulphur. These are the high cost producers which include India which is largely an unintegrated DAP producer. As above the estimated cost of DAP production for un-integrated producers is around US$380–400/t (using spot phosphate rock and phos acid prices).
- However, there is some 80% of phosphoric acid production which relies on lower cost domestic rock and imported or domestic sulphur. **If we assume an average domestic rock price of $25–50/t (lower quality vs Moroccan rock), $30/t freight and a sulphur price between zero and US$50/t, this equates to a US$199–263/t DAP cost of production.**
- We estimate **IPL's DAP cash cost of production is around US$200/t**. This is one of the world's lowest cost DAP plants due to IPL's adjacent rock reserve next to the DAP plant and fully integrated ammonia production.

Risk that low cost DAP producers (US$199–263/t) become price setters until demand recovers

- In oversupplied markets, the low cost producer will set the price and in tight markets, the price will be set by the high cost, marginal producers. In the last few years, given strong demand and high utilisation, the DAP price has been set by the high cost un-integrated producer. However, DAP demand is much weaker than expected this year. Around 50% of global DAP capacity is currently idled due to weak fertiliser demand. The risk is that unless demand improves, the price over the next few months could be set by the low cost producers (US$199–263/t). This could be exacerbated by the Chinese export tax reducing to 10% from 110% as of 1 July. A global demand recovery later this year should then see the DAP price revert back to being driven by the high cost producers.

Supply discipline critical

- Critical to outcomes will be supply discipline among DAP producers. The extent of production downtime taken is positive in this regard (Mosaic has taken down 2mt of production). **If the DAP price did move back to US$250/t we would expect the likes of Mosaic & Potash to take more downtime to tighten up the market.** We note that with the top 5 producers accounting for around 30% of global capacity. Mosaic and OCP are the two largest DAP producers with 15% and 6% share respectively. However, in the **traded DAP market (around 20mt) we estimate Mosaic and OCP would have closer to a 50% market share.** Discipline in the rock market is also key and the Moroccan's will determine this with a 45% share of global rock trade.
- Across the fertiliser year, DAP demand/supply fundamentals are expected to remain relatively tight over the next few years. However, the 3mt Maaden expansion looms on the horizon in 2012 assuming no further delays. New capacity may actually be required at that point to meet demand (of course this depends on the extent of demand improvement going forward).

IPL

	2007a	1H08a	2H08a	2008a	1H09e	2H09e	2009e	2010e	2011e
Sales Revenue	1,373	749	2,169	2,918	1,873	2,089	3,962	4,013	4,173
Growth	*24%*	*38%*	*159%*	*113%*	*150%*	*-4%*	*36%*	*1%*	*4%*
Other Revenue	35	14	4	18	22	15	37	38	40
Total Revenue	**1,407**	**763**	**2,173**	**2,936**	**1,895**	**2,104**	**3,999**	**4,051**	**4,213**
EBITDA	349	269	770	1,039	387	474	862	964	1,094
Margin	*25%*	*36%*	*36%*	*36%*	*21%*	*23%*	*22%*	*24%*	*26%*
- Depreciation	36	19	42	61	71	77	148	165	185
- Amortisation	0	0	10	10	0	0	0	0	0
EBIT	**313**	**250**	**719**	**969**	**316**	**397**	**714**	**799**	**909**
Margin	*23%*	*33%*	*33%*	*33%*	*17%*	*19%*	*18%*	*20%*	*22%*
- Net Interest Exp	29	17	64	81	81	72	153	137	184
Pre-tax Profit	284	233	655	888	235	325	560	663	724
- Tax Expense	81	62	169	231	71	89	160	186	217
Tax Rate (Ord)	*28.6%*	*27%*	*26%*	*26%*	*30%*	*28%*	*29%*	*28%*	*30%*
Net Profit	203	171	486	657	165	236	400	477	507
+ Net Abnormals	3	-1	-42	-43	-50	0	-50	0	0
+ Net Extraordiaries	0	0	0	0	0	0	0	0	0
- Minority Interests	0	0	0	0	0	0	0	0	0
Reported Profit	**205**	**170**	**444**	**614**	**115**	**236**	**350**	**477**	**507**
Profit Before Abnormals	203	171	486	657	165	236	400	477	507
Adj Profit (pre-abnormals)	203	171	486	657	165	236	400	477	507
Gross Cashflow	285	210	630	840	87	332	419	673	698
EPS (adj)	20.1	17.0	43.0	60.0	11.1	14.6	25.7	30	31
EPS Growth	*-86%*	*245%*	*183%*	*198%*	*-35%*	*-66%*	*-57%*	*15%*	*6%*
CFPS	28	21	56	78	6	21	27	42	43
DPS	15	10	20	30	7	9	15	18	19
Franking	100%	100%	100%	100%	30%	30%	30%	50%	70%
EFPOWA	1,007.1	1,007.1	1,129.7	1,069.5	1,482.6	1,615.2	1,548.9	1,615	1,615
EBIT (A$m)	**313**	**250**	**719**	**969**	**316**	**397**	**714**	**799**	**909**
IPL Base business	112	122	181	303	60	88	148	167	127
SCF	201	128	459	587	118	126	245	246	353
Dyno Nobel			80	80	138	183	321	386	428
Moranbah									
Base + SCF EBIT margin	*22.8%*	*33.4%*	*40.0%*	*37.9%*	*22.6%*	*21.4%*	*21.9%*	*22.1%*	*24.0%*
Dyno EBIT margin			*13.9%*	*13.9%*	*12.7%*	*16.8%*	*14.8%*	*18.0%*	*19.7%*
Moranbah EBIT margin									
Group EBIT margin	*22.8%*	*33.4%*	*33.2%*	*33.2%*	*16.9%*	*19.0%*	*18.0%*	*19.9%*	*21.8%*
Cashflow Analysis									
EBITDA	349	269	770	1,039	387	474	862	964	1,094
ch. In Working Capital	30	-154	92	-62	-317	278	-39	-10	-5
Net Interest Paid	-26	-22	-40	-62	-94	-96	-190	-207	-225
Tax Paid	-38	-42	-35	-76	-169	-71	-240	-154	-212
Other	-56	-31	15	-16	0	0	0	0	0
Total Operating Cashflow	**259**	**21**	**802**	**823**	**-193**	**586**	**393**	**594**	**652**
Capex	-92	-24	-203	-227	-281	-245	-526	-681	-394
PPE Sale Proceeds	29	2	8	10	0	0	0	0	0
Investments Movement	-257	0	-586	-586	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Total Investing Cashflow	**-320**	**-22**	**-782**	**-804**	**-281**	**-245**	**-526**	**-681**	**-394**
Proceeds from Equity Issues	0	0	0	0	995	0	995	0	0
Borrowings Movement	193	-12	470	458	0	0	0	0	0
Dividends Paid	-76	-117	-103	-219	-237	-108	-345	-241	-314
Other	0	0	0	0	0	0	0	0	0
Total Financing Cashflow	**117**	**-129**	**367**	**239**	**758**	**-108**	**650**	**-241**	**-314**
Adjustments	0	0	0	0	-263	0	-263	0	0
Net Cash Movement	**57**	**-129**	**387**	**257**	**20**	**234**	**254**	**-327**	**-56**
Balance Sheet									
Cash	218	89	480	480	480	480	480	590	590
Other CA	691	735	1,389	1,389	1,636	1,085	1,085	1,198	1,285
Fixed Assets	502	502	1,689	1,689	1,899	2,067	2,067	2,583	2,792
Intangibles	194	191	3,856	3,856	3,856	3,856	3,856	3,856	3,856
Other NCA	35	307	626	626	626	626	626	626	626
Total Assets	**1,639**	**1,824**	**8,040**	**8,040**	**8,497**	**8,113**	**8,113**	**8,853**	**9,149**
S/T Debt	0	28	2,239	2,239	400	400	400	400	100
L/T Debt	630	590	271	271	2,090	1,856	1,856	2,294	2,650
Other Liabilities	474	631	2,383	2,383	2,121	1,877	1,877	1,988	2,026
Net Assets	**535**	**574**	**3,147**	**3,147**	**3,886**	**3,980**	**3,980**	**4,171**	**4,373**
S/H Funds	535	574	3,147	3,147	3,886	3,980	3,980	4,171	4,374
Total Equity	**535**	**574**	**3,147**	**3,147**	**3,886**	**3,980**	**3,980**	**4,171**	**4,374**
Net Debt/Equity	77%	92%	65%	65%	52%	45%	45%	50%	49%
ND:ND+E	43%	48%	39%	39%	34%	31%	31%	34%	33%
Int Cover (x)	10.9	15.0	n.m	12.0	3.9	5.5	4.7	5.8	4.9
RoE (%)	38%	60%	31%	21%	8%	12%	10%	11%	12%
RoA (%)	19%	27%	18%	12%	7%	10%	9%	9%	10%
NTA/share	0.34	0.38	-0.63	-0.66	0.02	0.08	0.08	0.19	0.32
Key assumptions									
A$:US$	**$0.81**			**$0.95**	**$0.72**	**$0.69**	**$0.71**	**$0.73**	**$0.79**
DAP price (US$/t)	**$393**			**$921**	**$539**	**$321**	**$395**	**$390**	**$500**
Urea price (US$/t)	**$264**			**$456**	**$300**	**$275**	**$285**	**$300**	**$300**

Source: Company data, Macquarie Research, April 2009

Goldman Sachs JBWere

News & Views

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IPL FY08 Result - part 1 [IPL]

Matthew McNee, Wed 12-Nov-2008 16:12

IPL; CHEMICALS; IPL FY08 Result - part 1

Incitec Pivot (IPL) has reported a FY08 NPAT of $657.2m, up 324% on pcp and above our forecast of $574.7m. The better than expected result was driven by improved results across all of IPL's businesses, with a particularly strong performance from the traditional Australian base fertiliser business.

- **Southern Cross Fertilisers (SCF):** Reported EBITDA of $596.5m up 285% on pcp and marginally above our forecast of $582.2. The better than expected result from this business can be explained by a higher realised DAP price than we were forecasting (A$968/t c/f GSJBW f'cast $936/t).

- **Dyno Nobel:** The recently acquired business generated a 3.5 month EBITDA contribution of $109.5m c/f our f'cast of $102.8m.

- **Domestic base fertiliser business:** IPL's traditional domestic fertiliser business reported EBITDA of $333.4m, up 238% on pcp and well above our forecast of $237.8m. The significantly better than expected result can be partly explained by a $41.7m trading profit from IPL trading third party fertilisers. This is a business that IPL did not have prior to FY08 and to a large extent these earnings are not sustainable, with much of the trading profit being a function of how quickly fertiliser prices were rising in the period. The remaining gap to our forecasts can be explained by slightly higher cost savings ($35m c.f GSJBW f'cast $28m) and higher realised Urea and Superphosphate prices.

Result Metrics

NPAT (reported, pre NRIs): up 224.5% to $657.2m vs GSJBW $574.7m.

EPS (pre g/will): up 205.5% to 61.4c vs GSJBW 53.4c.

DPS: final 19.5c vs GSJBW 26.8c and pcp 11.55c.

Revenue: up 112.5% to $2918.2m vs GSJBW $2794.0m.

EBIT: up 210.1% to $969.1m vs GSJBW $863.1m.

Costs: up 83.8% to $1,949.1m vs GSJBW $1,930.9m.

Recommendation: Hold
Share price: $4.14

I, Matthew McNee, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Associated Articles

Company Data
- IPL

Company Report
N/A