

20 November 2020

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ORICA LIMITED (ORI)

Process Industries

Underperform

ORI A\$16.17

TARGET PRICE A\$15.36

Orica is the world's largest provider of commercial explosives and innovative blasting systems to the mining, quarrying, oil and gas and construction markets, a leading supplier of sodium cyanide for gold extraction, and a specialist provider of ground support services in mining and tunnelling.

Company Data

Number of shares	405.9M
Market Capitalisation	\$6,887.8M
Free float (%)	99.6
12-month high/low	\$24.10/\$13.25
Average Daily Turnover (\$m)	28.1055
% S&P/ASX200	0.38%
DDM Ranking	295
% All Ordinaries	0.31%
GICS Industry Group	Industrial Specialties

Source: FactSet, Barclay Pearce Capital

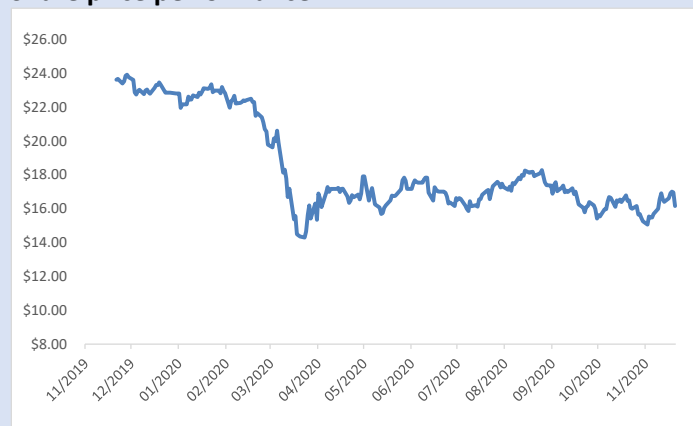
Earnings Summary (AUD)

Year end September	2020A	2021F	2022F
Revenue (\$M)	5,611.3	5,712.4	5,878.9
EBITDA (\$M)	955.8	1,012.0	1,087.6
Reported NPAT (\$M)	168.3	350.4	403.4
Adjusted NPAT (\$M)	299.3	353.4	408.5
Reported EPS (c)	41.5	86.0	98.2
Adjusted EPS (c - FD)	73.7	86.7	100.4
Adjusted EPS growth (%)	-24.7	13.6	15.7
Adjusted P/E (x)	23.0	19.6	16.9
Dividend (c/sh)	33.0	47.0	55.2
Gross yield (%)	2.2	3.4	4.0
Net yield (%)	1.9	2.9	3.4
ROIC (%)	6.5	6.7	7.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

FY20 Results Release

On 20 November 2020, Orica Limited (ASX:ORI) announced its financial results for the year ended 30 September 2020 with the following highlights:

Financial Results

- Underlying EBIT of \$605m, down 9% on the prior corresponding period (pcp), before individually significant items;
- Underlying NPAT down 20% on the pcp, before \$131m of individually significant items after tax;
- Underlying earnings per share (EPS) down 23% to 75.7 cents per share;
- Net Operating cash flows of \$277m and cash conversions of 74.4%;
- Capital expenditure of \$472m (including \$78m of rectification works at Burrup);
- Net debt of \$1.8 billion and gearing at 36.4%;
- Unfranked final dividend of 16.5 cents per share

Operational highlights

- New greenhouse gas emission target:** ORICA announced a new decarbonisation target – a reduction in Scope 1 and 2 emissions by at least 40% by 2030;
- Capital Management and Dividends:** Orica's gearing 36.4% remains within the company's target range of 30-40%. The Board has declared an unfranked final ordinary dividend of 16.5 cents per share, bringing the full year dividend to 33.0 cents per share.

Outlook

- Due to the ongoing global uncertainty, EBIT in the 2021 financial year is expected to be skewed towards the second half, subject to COVID-19 recovery;
- Capital Expenditure in the 2021 financial year is anticipated to be between \$380 - \$400m (excluding Burrup) with a continued focus on growth capital and plant reliability.

ORI's MD Alberto Calderon stated that: "with most of our customers operations returning to pre-COVID activity, we have cautious optimism about the year ahead. With continued momentum, we expect to deliver a significant increase in EBITDA and a return to EBIT growth in the year ahead."

Earnings changes

ORI reported FY20 revenue of \$5,611.3m and adjusted NPAT of \$299.3m, down 5% and 20% on FY19, respectively. ORI's adjusted FY20 NPAT was also 6% below market expectations of \$319.2m. As such, we expect negative earnings revisions of 5% for future periods.

We are initiating on ORI with a 12-month price target of \$15.36 and a Underperform recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Barclay Pearce Capital Recommendation Proportions

Buy	41.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)