Ingredion Inc. (INGR)

Updated Novemeber 7th, 2021 by Derek English

Key Metrics

Current Price:	$98	**5 Year CAGR Estimate:**	1.8%	**Market Cap:**	$5.7 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/31/2021
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.1%	**Dividend Payment Date:**	01/04/2022
Dividend Yield:	2.6%	**5 Year Price Target**	$92	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.60%

Overview & Current Events

Ingredion Inc (INGR) is a multinational ingredient solutions company headquartered in Westchester, Illinois. Founded in 1906, INGR was incorporated as a Delaware corporation in 1997, operates in over 44 countries, and employs more than 11,000 people. The company is principally engaged in producing and selling starches and sweeteners for a wide range of industries. Essentially Ingredion turns grains, fruits, vegetables, and other plant-based materials into value-added ingredient solutions for the food, beverage, animal nutrition, brewing, and industrial markets. Ingredion operates in four business segments: North America, South America; Asia-Pacific; and Europe, Middle East, and Africa ("EMEA").

INGR released Q3 2021 results on November 2nd, 2021. The company continues to deliver good results as net sales increases by 17% due to strong consumer demand. Every geographic region has seen double-digit growth despite inflation costs rising and global supply chain constraints. Ingredion has been able to pass on most of the expenses associated with inflation to the customer, but higher input costs totalted $249 million while mean adjusted operating income was down 9%. The specialty segment has seen strong demand, particularly in Europe, with the acquisition of Katech proving to have a positive impact. In addition, the Asia Pacific benefited from PureCircles contributions which increased net sales by 200%. At the same time, North America saw improvement due to the company passing through higher-margin corn and freight costs to the customer. Sugar reduction and Specialty sweeteners contributed the most sales dollar growth while nutrition and wellness continue to see robust growth as customers focus more on their health.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$5.32	$5.47	$5.05	$4.74	$5.51	$6.55	$7.06	$6.17	$6.13	$5.15	**$5.30**	**$6.15**
DPS	$0.66	$0.92	$1.56	$1.68	$1.74	$1.90	$2.20	$2.45	$2.51	$2.54	**$2.60**	**$3.32**
Shares	76.4	76.5	77.0	73.6	71.6	72.3	72.0	70.9	66.9	67.2	**67.0**	**66.5**

Ingredion's earnings-per-share have grown at a CAGR of 1.6% over the last nine years. However, they have been declining since 2017 due to lower operating results in North America and the Asia Pacific segments. The main drivers of this decline were lower sweetener demand, commodity margin pressures, and higher production and supply chain costs. Nevertheless, the company aims for high single-digit growth up to 2023 due to its cost-smart initiative. Under this initiative, the company has saved $135 million this year and are on track to beat their $170 million target. While the company saw a $0.39/share increase on reported EPS, ongoing supply chain problems and labor shortages could impact short-term future growth. Nevertheless, the company is still bullish and expects high single-digit growth. We are more conservative and expect the growth to be around 3% which is implied by our $6.15/share earnings estimate for 2026.In September, the company announced its second 1.6% increase in a row with a $0.01 increase. While this was the companies 11 straight dividend increase, it is below the 5 year average of 6.3% and our estimated 5% growth rate through to 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.7	10.0	13.4	14.3	15.2	16.9	16.1	16.4	13.0	15.3	**18.5**	**15.0**
Avg. Yld.	1.2%	1.5%	2.1%	2.3%	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	**2.6%**	**3.6%**

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Ingredion expects to return to high single-digit growth as the global market share in clean and simple ingredients, global alternative protein ingredients, and reduced sugar ingredients increase to over $70 Billion within the next five years. The company has positioned itself to take advantage of this growth by expanding its specialty ingredient portfolio in 2019 to enable rapid, efficient customer co-creation to develop new food and beverages. Ingredion is currently trading at a price-to-earnings ratio of 18.5, which is just above the five-year average of 15.5. Therefore, we believe the company is presently overvalued at its current price and consider the fair value closer to $80. Our 5-year price target of $92 is based on an estimated annual earnings growth of 3% and a P/E ratio of 15.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12%	17%	31%	35%	32%	29%	31%	40%	41%	49%	**48%**	**53%**

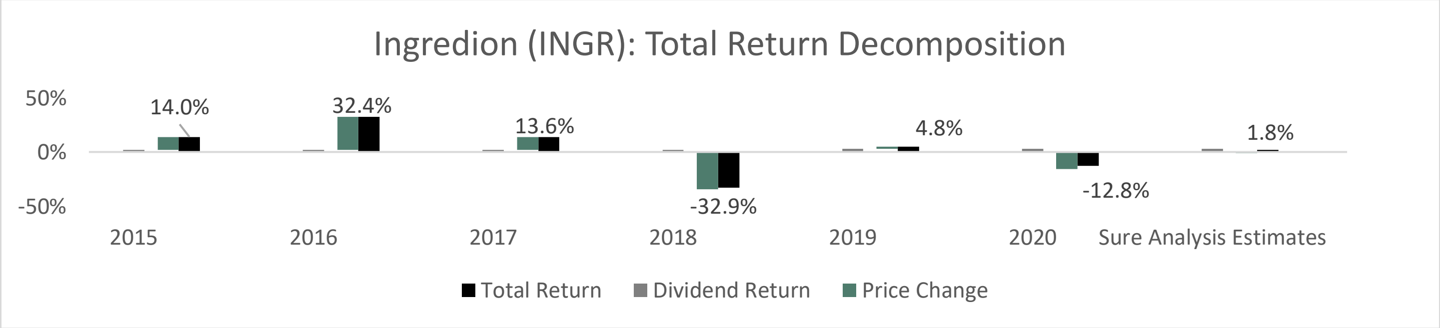
Ingredion is a leading provider of ingredients to industries that show growth potential, including the food and beverage industry. The company has a simple business model and has positioned itself nicely in the global food supply chain. During the Great Recession, the company performed relatively better than the broader market, with a slight drop in sales and earnings in 2009 before quickly returning to growth in 2010. We have seen a similar trend during the COVID pandemic, and the company is quickly returning to growth this year. The starch and sweetener industry is a highly competitive industry, particularly in North America. Many companies' products are viewed as essential ingredients that compete with virtually identical products manufactured by other companies in the industry, such as Archer-Daniels-Midland (ADM). The company tries to gain a competitive advantage by investing heavily in R&D with a team of over 500 scientists who work on plant science, food formulations, and the development of non-food applications such as starch-based biopolymers.

Over the last five years, Free cash flow has grown at a compounded annual rate of 3.8%, leaving an average FCF payout ratio of 40%. As consumer trends change, future growth can come from acquisitions, as demonstrated by the strategic investment of stevia supplier pureCirlce in 2020. But, of course, purchases can harm the balance sheet of a company. Luckily Ingredion has a reasonably strong balance sheet. Total Debt has increased moderately over the last ten years; shareholder equity stands at around $3 billion, total debt/equity is 74.8%, net debt/EBITDA is 1.79, and Interest coverage is above 9.

Final Thoughts & Recommendations

INGR is a solid and straightforward business that will likly grow its dividend for the next five years. However, some risks are considered, such as regulation, competition, and the price of raw materials, especially corn. Nevertheless, earnings have exceeded our expectations again this quarter, but we reaffirm our conservative approach and expect an average compounded five-year annual growth rate of 1.8%. Combine these modest returns with the company's current high valuation, and Ingredion receives a hold recommendation.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6544	6868	6653	5998	5958	6082	6244	6289	6209	5987
Gross Profit	1126	1238	1131	1115	1242	1401	1472	1368	1312	1272
Gross Margin	17.2%	18.0%	17.0%	18.6%	20.8%	23.0%	23.6%	21.8%	21.1%	21.2%
SG&A Exp.	543	556	534	525	---	---	---	---	---	---
D&A Exp.	211	211	194	195	194	196	209	247	220	213
Operating Profit	593	697	613	606	685	825	865	767	721	675
Operating Margin	9.1%	10.1%	9.2%	10.1%	11.5%	13.6%	13.9%	12.2%	11.6%	11.3%
Net Profit	416	428	396	355	402	485	519	443	413	348
Net Margin	6.4%	6.2%	6.0%	5.9%	6.7%	8.0%	8.3%	7.0%	6.7%	5.8%
Free Cash Flow	37	419	321	455	406	487	455	353	352	489
Income Tax	170	167	144	157	187	246	237	167	158	152

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5317	5592	5360	5085	5074	5782	6080	5728	6040	6858
Cash & Equivalents	401	609	574	580	434	512	595	327	264	665
Accounts Receivable	837	814	832	762	775	923	961	951	977	1011
Inventories	769	834	723	699	715	789	823	824	861	917
Goodwill & Int. Ass.	909	886	846	768	1011	1286	1296	1251	1238	1346
Total Liabilities	3184	3133	2931	2878	2894	3187	3163	3320	3268	3856
Accounts Payable	529	590	458	430	423	440	493	452	504	599
Long-Term Debt	1930	1780	1797	1808	1831	1953	1863	2101	1847	2186
Shareholder's Equity	2104	2437	2404	2177	2144	2565	2891	2388	2751	2981
D/E Ratio	0.92	0.73	0.75	0.83	0.85	0.76	0.64	0.88	0.67	0.73

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.0%	7.8%	7.2%	6.8%	7.9%	8.9%	8.8%	7.5%	7.0%	5.4%
Return on Equity	20.4%	18.9%	16.4%	15.5%	18.6%	20.6%	19.0%	16.8%	16.1%	12.1%
ROIC	10.6%	10.3%	9.4%	8.6%	10.0%	11.3%	11.1%	9.5%	9.0%	7.1%
Shares Out.	78.2	78.2	78.3	74.9	73	74.1	73.5	71.8	67.4	67.6
Revenue/Share	83.68	87.83	84.97	80.08	81.62	82.08	84.95	87.59	92.12	88.57
FCF/Share	0.47	5.36	4.10	6.07	5.56	6.57	6.19	4.92	5.22	7.23

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.