Ingredion Inc. (INGR)

Updated February 6th, 2022 by Derek English

Key Metrics

Current Price:	$84	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$5.7 B
Fair Value Price:	$103	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/16/2022
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.1%	**Dividend Payment Date:**	04/24/2022
Dividend Yield:	2.7%	**5 Year Price Target**	$119	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.6%

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 various 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 fourth-quarter and full year 2021 results on February 3rd, 2022. Excluding costs associated with the joint venture with Arcor in Argentina, Ingredion saw net sales growth in all regions as net sales increased 10% to $1.75 Billion. However, higher corn and raw material costs, including costs associated with the ramp-up of plant-based protein operations, have pushed the gross margin down to 16.5% from 22.1% the previous year. In addition, reported EPS was down to $1.09 compared from Q4 2020 due to a $5 million tax judgment in South America.

Focusing on the full-year results, the company had strong growth with a 15% increase in net sales to $6.9 billion. This is despite global supply chain disruptions to starch production. The company decided to switch from ocean to air travel which was more costly, but ensured customer demands were being met. Higher travel costs and higher corn and input costs meant that gross margin and operating income were negatively affected. EPS was $1.73 for the year, which includes Impairments of $5.01 per share due to costs related to the joint venture in Argentina. Adjusted EPS was $6.67, a 7% increase from the previous year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.47	$5.05	$4.74	$5.51	$6.55	$7.06	$6.17	$6.13	$6.23	$6.67	**$6.87**	**$7.96**
DPS	$0.92	$1.56	$1.68	$1.74	$1.90	$2.20	$2.45	$2.51	$2.54	$2.57	**$3.00**	**$3.83**
Shares	76.5	77.0	73.6	71.6	72.3	72.0	70.9	66.9	67.2	67.1	**67.0**	**66.5**

Ingredion's earnings-per-share have grown at a CAGR of 3% 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 $170 million this year. Despite all its challenges and the impact of inflation, the company has exceeded expectations and set a target for net sales to grow in the high single-digits to low double-digits for 2022. We are more conservative and expect the growth to be around 3% which is implied by our $7.96/share earnings estimate for 2027. In September, the company announced its second 1.6% increase in a row with a $0.01 increase and paid $172 million in dividends in 2021. While this was the company's 11 consecutive dividend increase, it is below the five-year average of 6.3% and our estimated 5% growth rate through 2027.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2026
Avg. P/E	10.0	13.4	14.3	15.2	16.9	16.1	16.4	13.0	15.3	14.6	**12.3**	**15.0**
Avg. Yld.	1.5%	2.1%	2.3%	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	2.9%	**2.7%**	**3.5%**

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 14.6 which is nearly inline with its average PE ratio since 2012. The company is also trading below our fair value estimate $103.

Safety, Quality, Competitive Advantage, & Recession Resiliency

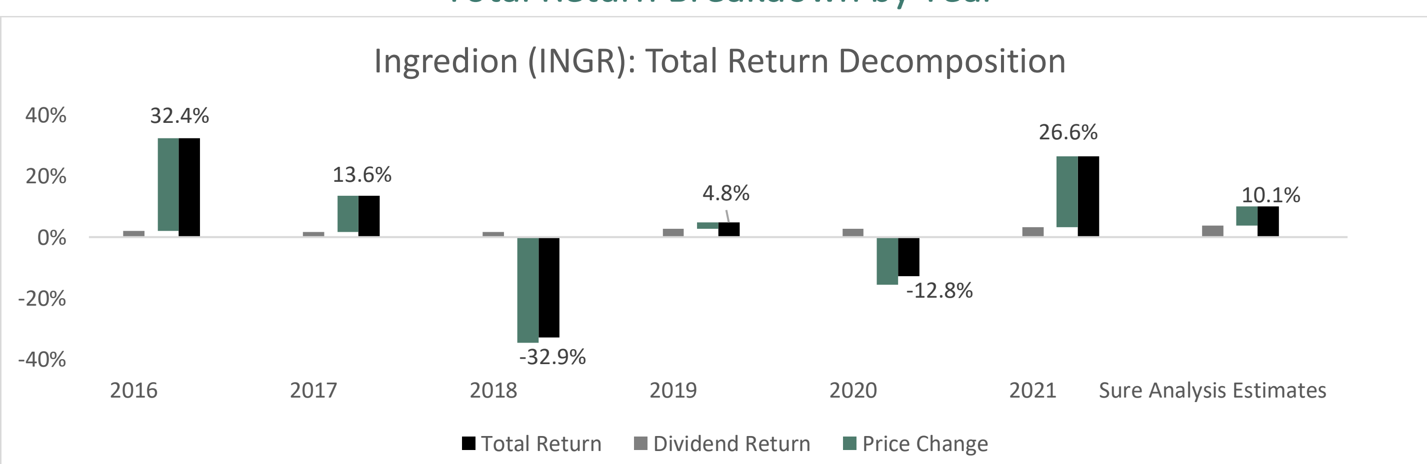
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17%	31%	35%	32%	29%	31%	40%	41%	41%	39%	**44%**	**48%**

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.

Final Thoughts & Recommendations

INGR is a solid and straightforward business that will likely 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. Despite these challenges, we are confident the company can deliver on its expectations, and we estimate an average compounded five-year annual growth rate of 10.1%. Accordingly, Ingredion receives a buy recommendation from Sure Dividend.

Total Return Breakdown by Year



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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
LTD/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.