Ingredion Inc. (INGR)

Updated November 8th, 2022 by Derek English

Key Metrics

Current Price:	$93	**5-Year CAGR Estimate:**	7.7%	**Market Cap:**	$6.1 B
Fair Value Price:	$103	**5-Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/29/2022[1]
% Fair Value:	90%	**5-Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	01/03/2023
Dividend Yield:	3.1%	**5-Year Price Target**	$119	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 third-quarter 2022 results on November 3rd, 2022. Ingredion saw growth in all regions as net sales increased 15% to $2.02 billion. The company has begun to offset inflation by rising prices in North America and South America, where net sales grew 21% and 17%, respectively. Asia-pacific and EMEA also had solid gains and increased sales by 13% and 9% again due to rising prices and the momentum of PureCircle, which has 19% net sales growth year over year. In addition, global specialties grew mid-double digits while plant-based protein grew ~145% worldwide, driven by Sioux City pea protein isolate while reducing sugar ingredients by 24%. Adjusted EPS was $1.73, an increase of 17% year over 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	***$2.84***	***$3.14***
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, growth has declined 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. In addition, the recent increase in inflation rates is also putting pressure on the company's bottom line, even though we are starting to see evidence that the company is passing on higher costs to its customers. Nevertheless, due to its cost-smart initiative, the company aimed for High-single-digit growth by 2023. Under this initiative, the company saved $170 million last year. As a result, despite its challenges and the impact of inflation, the company has exceeded expectations and increased its target for net sales to grow in the mid-double digits for 2022.

We are more conservative over the long term and expect the growth to be around 3% which is implied by our $7.96/share earnings estimate for 2027. In September 2022, the company announced a 9.2% dividend increase and paid a total of $133 million in dividends in 2022. This was the company's 12th consecutive dividend increase and its most significant increase since 2017. Moreover, The size of the dividend increase breaks the declining trend for dividend increases over the last four years. However, we maintain our conservative 2% dividend growth rate with an open mind to adjusting this higher depending on how the company performs in the 1st half of 2023.

[1] Ex dividend and Dividend payment are Estimated based on past dates

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	***13.5***	***15.0***
Avg. Yld.	1.5%	2.1%	2.3%	2.0%	1.6%	1.7%	2.1%	2.9%	3.1%	2.9%	***3.1%***	***2.6%***

Ingredion expects to return to double-digit growth in 2022 as the global market share in clean and simple ingredients, global alternative protein ingredients, and reduced sugar ingredients will 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. This will enable rapid, efficient customer co-creation to develop new food and beverages. The company is starting to see the benefits of this expansion as Sioux City has doubled its production of pea protein isolate, helping to increase sales by three figures worldwide. Ingredion is currently trading at a price-to-earnings ratio of 13.5, which is below its average PE ratio since 2012. The stock is also trading at 90% of our fair value estimate of $103, and we currently have a five-year price target of $119.

Safety, Quality, Competitive Advantage, & Recession Resiliency

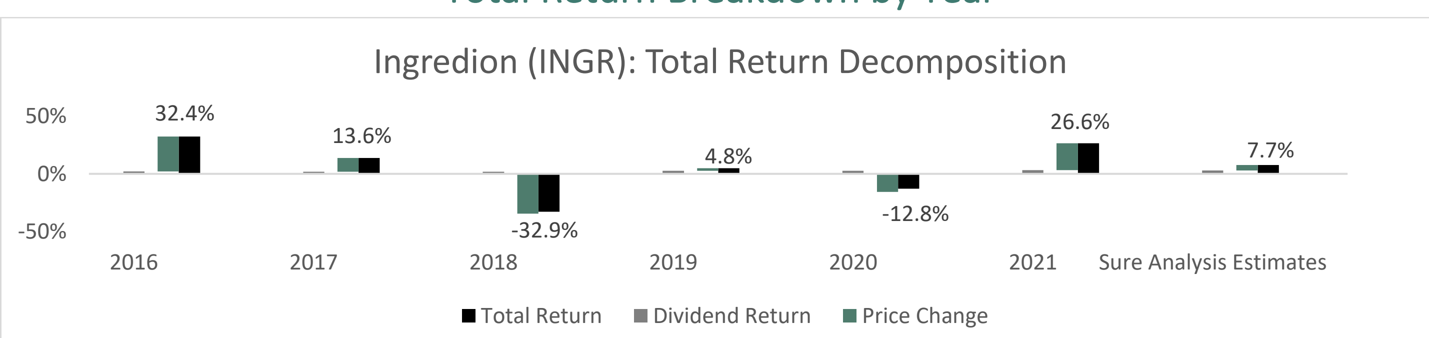
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	17%	31%	35%	32%	29%	31%	40%	41%	41%	39%	***41%***	***39%***

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 nicely positioned itself 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 was quickly returning to growth last year. However, supply chain issues and a higher inflationary environment can impact the company's bottom line. The starch and sweetener industry is a highly competitive industry, particularly in North America. Many companies' products are considered 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 should be 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 a five-year annual growth rate of 7.7%. Accordingly, Ingredion receives a hold recommendation from Sure Dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6868	6653	5998	5958	6082	6244	6289	6209	5987	6894
Gross Profit	1238	1131	1115	1242	1401	1472	1368	1312	1272	1331
Gross Margin	18.0%	17.0%	18.6%	20.8%	23.0%	23.6%	21.8%	21.1%	21.2%	19.3%
SG&A Exp.	556	534	525	---	---	---	---	---	---	---
D&A Exp.	211	194	195	194	196	209	247	220	213	220
Operating Profit	697	613	606	685	825	865	767	721	675	697
Operating Margin	10.1%	9.2%	10.1%	11.5%	13.6%	13.9%	12.2%	11.6%	11.3%	10.1%
Net Profit	428	396	355	402	485	519	443	413	348	117
Net Margin	6.2%	6.0%	5.9%	6.7%	8.0%	8.3%	7.0%	6.7%	5.8%	1.7%
Free Cash Flow	419	321	455	406	487	455	353	352	489	92
Income Tax	167	144	157	187	246	237	167	158	152	123

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5592	5360	5085	5074	5782	6080	5728	6040	6858	6999
Cash & Equivalents	609	574	580	434	512	595	327	264	665	328
Accounts Receivable	814	832	762	775	923	961	951	977	1011	1130
Inventories	834	723	699	715	789	823	824	861	917	1172
Goodwill & Int. Ass.	886	846	768	1011	1286	1296	1251	1238	1346	1348
Total Liabilities	3133	2931	2878	2894	3187	3163	3320	3268	3856	3774
Accounts Payable	590	458	430	423	440	493	452	504	599	774
Long-Term Debt	1780	1797	1808	1831	1953	1863	2101	1847	2186	2046
Shareholder's Equity	2437	2404	2177	2144	2565	2891	2388	2751	2981	3136
LTD/E Ratio	0.73	0.75	0.83	0.85	0.76	0.64	0.88	0.67	0.73	0.65

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.8%	7.2%	6.8%	7.9%	8.9%	8.8%	7.5%	7.0%	5.4%	1.7%
Return on Equity	18.9%	16.4%	15.5%	18.6%	20.6%	19.0%	16.8%	16.1%	12.1%	3.8%
ROIC	10.3%	9.4%	8.6%	10.0%	11.3%	11.1%	9.5%	9.0%	7.1%	2.2%
Shares Out.	78.2	78.3	74.9	73	74.1	73.5	71.8	67.4	67.6	67.8
Revenue/Share	87.83	84.97	80.08	81.62	82.08	84.95	87.59	92.12	88.57	101.68
FCF/Share	5.36	4.10	6.07	5.56	6.57	6.19	4.92	5.22	7.23	1.36

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