

Incitec Pivots towards 850 Million USA Plant

Reported by Tim McArthur, *The Motley Fool*. Thursday, April 18, 2013

Global explosives and fertiliser producer **Incitec Pivot** (ASX: IPL) has confirmed it will spend US\$850 million constructing an ammonia manufacturing plant capable of producing 800,000 metric tonnes per annum in the US state of Louisiana.

Incitec Pivot, through its subsidiary Dyno Nobel, currently has nine sites in the USA for the manufacture of industrial explosives, so it makes sense for the company to create a vertically integrated supply base. The ammonia plant will supply 300,000 tonnes to these nine manufacturing sites with the balance of production being on-sold to other customers.

One of the key factors in management's decision to go ahead with construction was the low cost of gas in the USA. Thanks to the expanding shale gas market, gas and electricity prices have been driven down significantly. As management highlighted in their presentation, building the ammonia plant adjusts Incitec Pivot's US business and any future global ammonium nitrate expansions to "US gas economics".

While Incitec Pivot is a major Australian domestic player in fertiliser, its global ambitions and its growth projects are all focussed on explosives, which tells you where the company thinks its best future prospects are. Fellow explosive maker Orica (ASX: ORI) has a similar view, having spun-off its non-core paint business Dulux (ASX: DLX) in 2010 to concentrate on the global explosives market.

Not everyone is shunning fertiliser though. Global mining giant BHP Billiton (ASX: BHP) sees plenty of potential in fertiliser, with recent comments by BHP chief financial officer Mr Graham Kerr suggesting that potash, a key ingredient in fertiliser, is a major focus of BHP's future growth plans. Meanwhile, fellow agricultural input supplier Nufarm (ASX: NUF) which specialises in crop protection continues to struggle. As with fertiliser, crop protection products and seed sales are heavily dependent on the weather and recent weather patterns have been playing havoc with Nufarm's sales.

Incitec Pivot, Orica and Dulux all have September financial year-ends. Their half-yearly results are due to be released in early May.

<http://finance.ninemsn.com.au/newsbusiness/motley/8644356/incitec-pivots-towards-850-million-usa-plant>