



SMALL-CAPS

RECOMMENDATION

ipd group 

The logo for ipd group, consisting of the text 'ipd group' in a lowercase, italicized sans-serif font, followed by a stylized orange and red circular graphic.

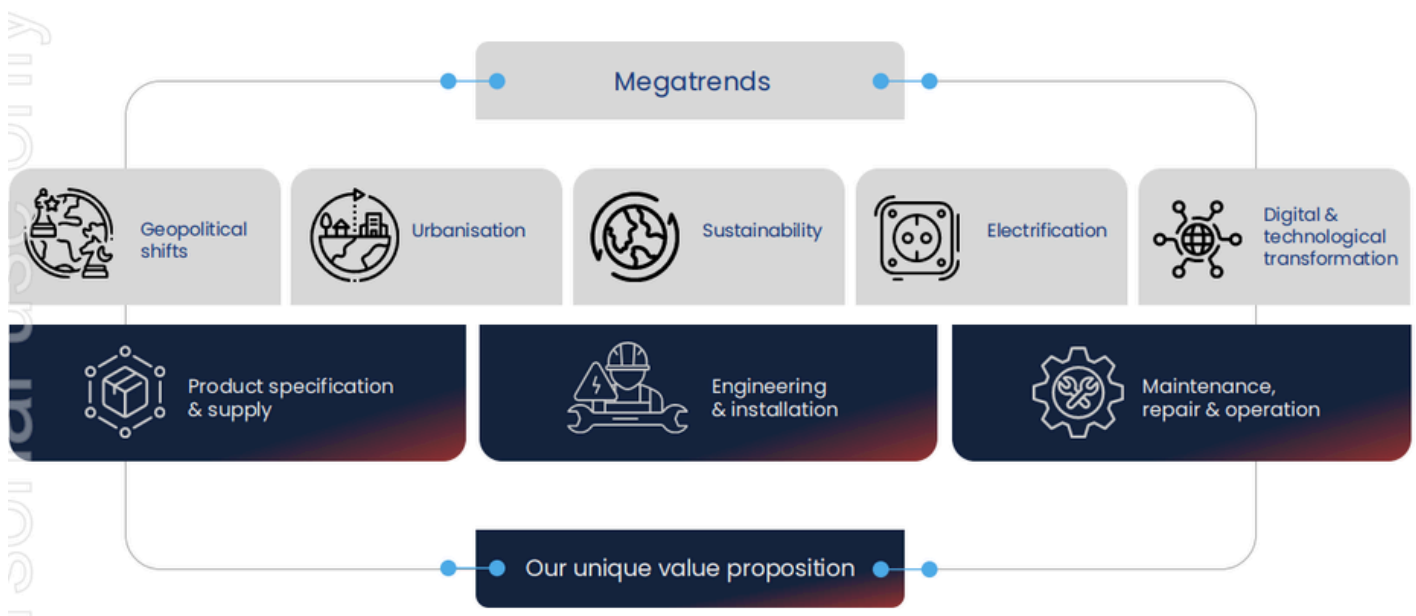
IPG:ASX
November 2024

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SMALL-CAPS RECOMMENDATION

IPD Group Limited IPG:ASX

IPD Group Limited is a leading Australian distributor of electrical equipment and solutions, specializing in power distribution, energy management, and automation products. With a history dating back to 1889, the company has established itself as a key player in the electrical infrastructure sector. IPD Group offers a comprehensive range of services, including product distribution, installation, calibration, and maintenance across various industries such as commercial construction, infrastructure, data centers, and utilities. The company's portfolio includes well-known brands like ABB, Elsteel, Emerson, and Red Lion, positioning it as a one-stop shop for electrical infrastructure needs. IPD Group's recent acquisitions of EX Engineering and CMI Operations have further expanded its capabilities and market reach, contributing to its strong financial performance and growth trajectory. The company's focus on sustainable electrical infrastructure aligns well with global trends towards energy efficiency and renewable energy adoption, positioning it favorably for future growth opportunities in the rapidly evolving electrical sector.



INVESTMENT CONSIDERATIONS

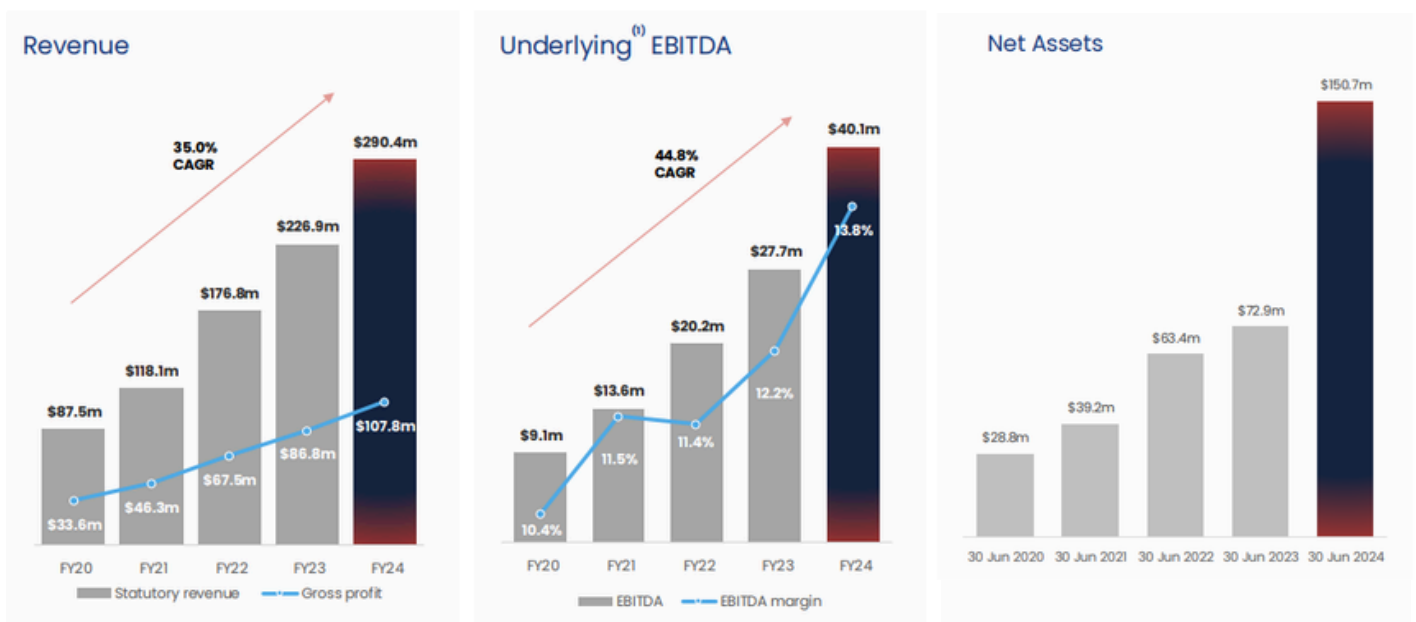
Leadership

IPD Group boasts a seasoned management team with a proven track record of growth and strategic acquisitions. The leadership comprises David Rafter as Non-Executive Chair, bringing extensive industry experience and corporate governance expertise; Michael Sainsbury as Executive Director & CEO, driving the company's growth strategy and operational excellence; and Mohamed Yoosuff as Executive Director - Strategic Development, spearheading strategic initiatives and mergers and acquisitions.

The team's combined expertise provides IPD Group with a competitive advantage in the market. Their focus on strategic growth, operational efficiency, and customer-centric solutions has been instrumental in the company's impressive financial performance and market share gains. The management's ability to identify and successfully integrate complementary businesses, as demonstrated by recent acquisitions like EX Engineering and CMI Operations, underscores their commitment to creating long-term shareholder value and expanding the company's capabilities.

This leadership team's industry knowledge and strategic vision position IPD Group for continued success in the electrical industry, enabling the company to capitalize on emerging opportunities and effectively navigate market challenges.

Financial Performance



INVESTMENT CONSIDERATIONS

Valuation

IPD Group's current valuation presents an attractive investment opportunity, with the stock trading at a P/E ratio of 19.6x based on FY24 underlying earnings. This valuation appears compelling given the company's strong growth prospects and established market position. The company has demonstrated impressive financial performance, with FY24 results showing significant year-over-year improvements across key metrics:

- Revenue increased by 28.0% to \$290.4 million, reflecting strong organic growth and contributions from recent acquisitions.
- Underlying EBITDA grew by 44.8% to \$40.1 million, indicating improved operational efficiency and successful integration of acquired businesses.
- Underlying NPAT rose by 44.7% to \$23.3 million, demonstrating the company's ability to translate top-line growth into bottom-line results.
- Underlying EPS increased by 30.1% to 24.2 cents per share, showcasing the company's commitment to delivering shareholder value.

The company's strong financial performance is underpinned by a robust balance sheet, with net assets of \$150.7 million as of 30 June 2024. IPD Group's ability to generate consistent revenue growth, with a 35.0% CAGR over the past five financial years, further supports its attractive valuation. The company's focus on high-growth sectors such as data centers, renewable energy, and electric vehicle infrastructure positions it well for continued expansion and margin improvement. Additionally, the successful integration of recent acquisitions and the resulting synergies are expected to drive further earnings growth in the coming years, potentially leading to multiple expansion and share price appreciation.

Sociological Factors

IPD Group is well-positioned to benefit from and contribute to key societal trends, making it an attractive investment. The company's focus on sustainable electrical infrastructure aligns with global efforts to combat climate change and transition to cleaner energy sources. IPD Group's expertise in renewable energy technologies and energy-efficient systems is likely to drive growth and positive environmental impact. The shift towards electrification presents opportunities for IPD Group, particularly in EV charging infrastructure. The company's involvement in data center infrastructure supports the digital revolution, contributing to the advancement of cloud computing and AI technologies. IPD Group's solutions for urban infrastructure play a vital role in creating smarter, more efficient cities. As a significant employer in the electrical infrastructure sector, the company also contributes to workforce development and skills training in cutting-edge areas.

RISKS

Risks

it is important to consider the potential risks associated with the company:

Economic slowdown: A significant downturn in construction or infrastructure spending could impact demand for IPD's products and services. The company's performance is closely tied to overall economic conditions, particularly in the construction and industrial sectors. Any prolonged economic recession or reduction in capital expenditure by businesses and governments could negatively affect IPD Group's revenue and profitability.

Supply chain disruptions: As a distributor, IPD Group is vulnerable to global supply chain issues. The company relies on a network of international suppliers, making it susceptible to disruptions caused by geopolitical tensions, trade disputes, or unforeseen events such as pandemics. Any significant supply chain disruptions could lead to inventory shortages, increased costs, and potential loss of sales.

Competitive pressures: The electrical equipment market is highly competitive, with both local and international players vying for market share. IPD Group must continuously innovate and adapt to maintain its market position. Increased competition could lead to pricing pressures, reduced margins, or loss of market share if the company fails to differentiate its offerings or maintain strong relationships with key customers and suppliers.

Technological changes: Rapid advancements in electrical and energy technologies could potentially render some of IPD Group's products or solutions obsolete. The company must stay at the forefront of technological trends and continuously update its product portfolio to remain relevant in the market. Failure to adapt to emerging technologies or changing customer preferences could negatively impact the company's competitive position and financial performance.

Integration risks: While IPD Group has demonstrated success in acquiring and integrating complementary businesses, there are always risks associated with mergers and acquisitions. The company may face challenges in fully realizing expected synergies, integrating different corporate cultures, or managing increased operational complexity. Any difficulties in integrating future acquisitions could lead to higher costs or lower-than-expected returns on investment.

WHY HOLD THE COMPANY?

Why hold the Company?

Strong market position: IPD Group has established itself as a leader in electrical infrastructure, with a diverse product portfolio and strong vendor relationships. The company's comprehensive range of products and services, combined with its national footprint, positions it as a one-stop shop for customers across various industries. This strong market position provides a solid foundation for sustained growth and profitability.

Exposure to growth sectors: The company is well-positioned to benefit from increasing demand in high-growth sectors such as data centers, renewable energy, and electric vehicle infrastructure. These sectors are driven by long-term trends such as digitalization, sustainability, and the transition to clean energy, providing IPD Group with significant growth opportunities in the coming years.

Successful acquisition strategy: IPD Group has demonstrated a track record of successful acquisitions, as evidenced by the recent purchases of EX Engineering and CMI Operations. These acquisitions have contributed to earnings growth and expanded the company's capabilities, allowing it to enter new markets and offer a broader range of solutions to customers. The management's ability to identify and integrate complementary businesses suggests potential for further value-creating acquisitions in the future.

Robust financial performance: The company has consistently delivered strong financial results, with a 35.0% revenue CAGR over the past five years. The recent FY24 results, showing significant growth in revenue, EBITDA, and NPAT, demonstrate the company's ability to translate market opportunities into tangible financial outcomes. This consistent performance provides investors with confidence in the company's business model and growth strategy.

Attractive dividend yield: IPD Group offers a fully franked dividend yield of 2.27% based on FY24 results, providing investors with a steady income stream. The company's dividend policy, with a 50% payout ratio, balances shareholder returns with reinvestment for future growth, making it an attractive option for both income-seeking and growth-oriented investors.

ESG focus: IPD Group demonstrates a strong commitment to sustainability and responsible business practices, which may appeal to socially conscious investors. The company's focus on sustainable electrical infrastructure aligns well with global efforts to combat climate change and transition to cleaner energy sources. This positioning not only contributes to positive societal impact but also positions the company to benefit from increasing demand for sustainable solutions.

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Our Commitment

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