

# Fertilisers

## Sector outlook – September 2018

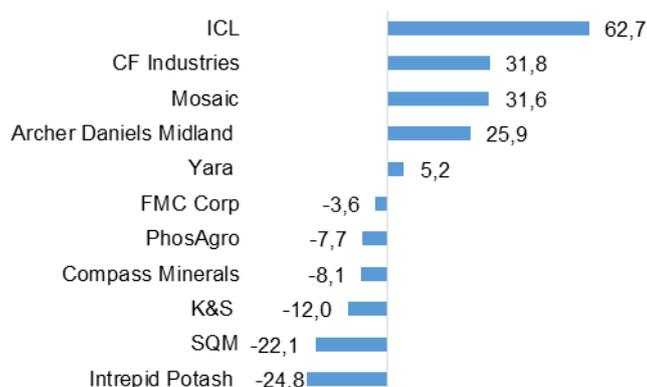
- ▶ **The fertilizer sector demonstrated a robust performance over the last three months.** The favorable fertilizer price environment and supportive crop statistics resulted in some 5-10% fertilizer stocks performance since the beginning of September. The 2Q18 earnings season came with reported revenue increase by most of the fertilizer majors. Nutrien, Mosaic, and PhosAgro showed over 10% revenue and operating income growth driven by higher YoY sales volumes and product prices. Nutrien and Mosaic increased their FY18 EBITDA guidance. Yara met higher production costs and foreign exchange differences that resulted in a weaker net result. K+S announced about EBITDA FY18 down correction on the back of drought and production decline in 3Q18.
- ▶ **The food producers have a stable price environment on the back of lower expected grain stocks in the U.S.** The FAO Food Price Index (FFPI) was down 1.37% MoM and 7.39% below its last year level in September 2018 due to lower dairy, vegetable and cereals' prices. However, the Cereals price index stays 7.97% higher its last year level supported by lower projected drain stocks level. According to the USDA WASDE report, the global wheat ending stocks estimated at 261.29mt for 2018/19 compared to 274.36mt for 2017/18.
- ▶ **The fertilizer prices remain QoQ higher in 3Q18.** The granular urea price was at c. \$310/t in NOLA at the end of September compared to \$227/t a year ago. The tight urea supply in China, closures of ammonia and urea capacity in Ukraine, seasonal shutdowns for maintenance work and higher production costs positively affected nitrogen prices. Potash price was \$270/t in NOLA, and \$357/t in Brazil, some \$30-40/t above the level seen in June this year. The global potash shipments may reach 65-67 mt. DAP Tampa was at \$435/t at the end of September compared to \$419/t in June this year. Phosphate prices were supported by a slower ramp-up of new capacity, plant closures and higher raw materials costs compared to the last year. The global shipments of phosphate fertilisers DAP/MAP/NPS/TSP are expected at 70mt for FY18 and 70-72mt for FY19. Overall, the market environment remains stable for fertilizer producers as we approach their earning season.

Report date:	9 October 2018
S&P 500	
Chemicals*	YTD -0.95%
P/E	28.10

\*as of 09/10/2018

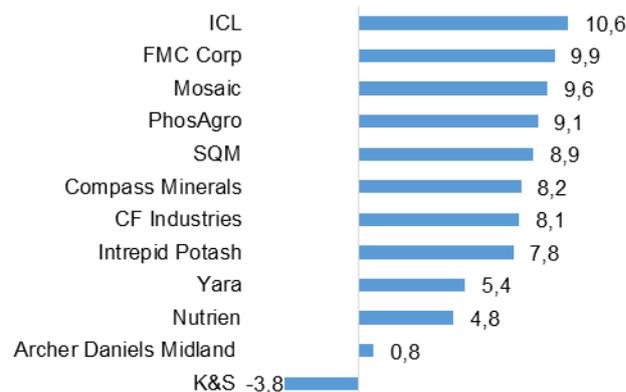
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Figure 1: Price performance – YTD, %



Source: Thomson Reuters as of 05-Oct-2018

Figure 2: Price performance – 1 Month, %



Source: Thomson Reuters, as of 05-Oct-2018

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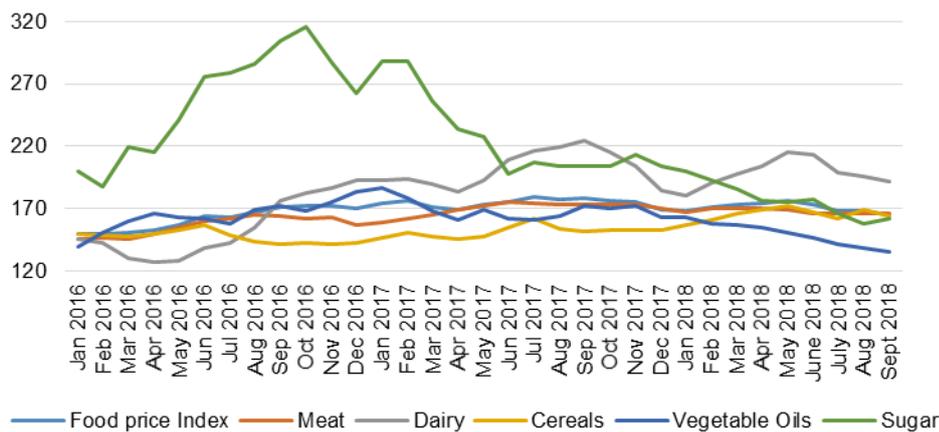
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## Food producers news

### FAO Food price index fell 7.4% YoY in September 2018

The FAO Food Price Index (FFPI), which is based on five commodity group prices for meat, dairy, cereals, vegetable oils, and sugar, was 1.37% down MoM and 7.39% down YoY in September 2018 due to lower dairy, vegetable and sugar prices. FFPI achieved the lowest level since July 2016. The FAO Cereal Index was 164, down 2.79% MoM and up 7.97% YoY in September 2018, on expectations of a very large maize crop in the U.S. and ample supply globally. The FAO Dairy price index averaged 191.5 points in September, down 2.4% MoM and 14.59% YoY on declining prices for cheese, whole milk powder, and butter. Sugar index was 161.4, up 2.61% MoM, down 20.96% compared to the last year level, and was affected by falling below expectations harvesting volumes in Brazil. The FAO Meat price index was down 0.06% MoM and down 4.04% YoY at 166.2, reflecting lower bovine prices. The FAO Vegetable oil price index was 134.9, down 2.39% MoM and down 21.52% YoY to a three-year low on the back of declined palm oil prices, rapeseed, and soy oil prices.

Figure 3. FAO Food price index



Source: FAO

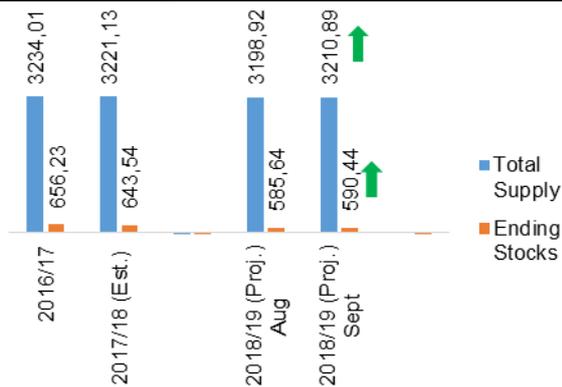
### September 2018 WASDE report

WASDE report released in September 2018 came with the following developments:

- ▶ The world 2018/19 total grains production forecast is 2,567.4mt and ending stocks are 590.44mt in September 2018. The global wheat output forecast is 733mt for 2018/19 in September versus 729.63mt in August. The global wheat ending stocks estimated at 261.29mt for 2018/19 compared to 274.36mt for 2017/18. In September projections of total grain output, total supply and ending stocks came a bit higher compared to August forecast.
- ▶ The global coarse grain outlook for 2018/19 included higher YoY production and lower ending stocks. Corn production is forecast at 1,078.56mt in 2018/19. Global corn ending stocks are expected at 227.83mt for 2018/19.
- ▶ Global 2018/19 rice production is projected at 487.16mt in September, slightly down from August projections. Global 2018/19 rice ending stocks are projected at 144.4mt in September, up from 143.57mt in August.

- ▶ The global 2018/19 oilseed forecast includes higher output and ending stocks compared to last year level. Global oilseed production is projected at 604.7mt, up from 603.1mt in Aug and compared to 573.6mt in 2017/18.
- ▶ The U.S. sugar output for 2018/19 is projected at 9.328mn STRV, including 5.343mn of beet sugar production and 3.985mn cane sugar production. Ending stocks for 2018/19 are projected at 1.687mn, and the stocks-to-use ratio is estimated at 13.5 in September compared to 18.1 in August.

Figure 4. World total grains forecast, mt



Source: USDA WASDE

Figure 5. World Wheat forecast, mt



Source: USDA WASDE

Figure 6. US total grains forecast, mt



Source: USDA WASDE

Figure 7. US wheat forecast, mt



Source: USDA WASDE

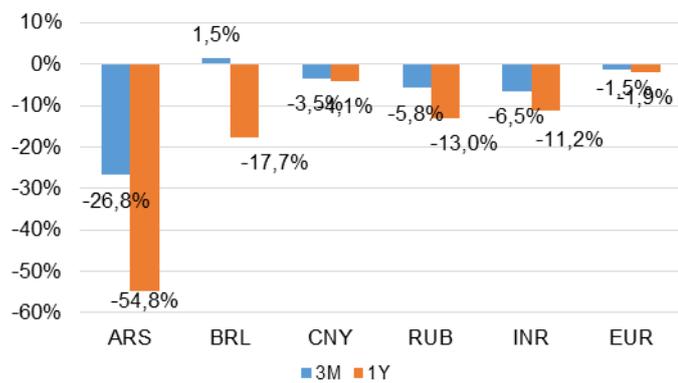
## Fertiliser prices' drivers

The fertiliser and crop price developments over the last month are the following:

- The nitrogen prices were flat compared to the previous month. The granular urea was at \$306-316/t in NOLA at the end of September compared to \$227/t a year ago. Ammonia prices remained flat at \$355/t at Tampa at the end of September.

- DAP Tampa was at \$435/t at the end of September compared to \$419/t in June this year. MAP was \$431/t in NOLA and \$458/t in Brazil. Phosphate raw material and sulphur prices were at \$91/t and \$121/t respectively, that is \$5-6/t higher than at the beginning of summer this year. DAP processing margin went down to \$270/t in September.
- Potash price was \$270/t in NOLA, and \$357/t in Brazil, some \$30-40/t above the level was seen in June this year. Belarus Potash signed a contract at \$290/t for potash supply in Asia. Potash prices are moving higher, staying some \$45-50/t above last year level.

Figure 8. Currencies performance versus USD



Source: Thomson Reuters

Figure 9. Raw sugar - ISA daily price (c/lb)



Source: Thomson Reuters

Figure 10. London Brent crude oil price index, \$/bbl



Source: Thomson Reuters

Figure 11. DAP, New Orleans CFR Barge, \$/t



Source: Thomson Reuters

## Companies' news

### 1H18 earning reporting is over, 3Q18 results and updated FY18 guidance is coming soon

We cover here the 1H18 financial results reporting by selected major fertilizer producers. In 2Q18, most of the U.S. crop prices have declines driven by favorable crop yields. The projected by USDA decline in global grain ending stocks relative to the previous season, including decline in U.S. corn ending stocks and some wheat, corn, and soybean production reduction by several key producing countries were supportive for soft commodities environment. Among the fertilisers, potash demand was high in major spot markets, and most of the producers reported their commitments for 3Q18 and partially for 4Q18. The global potash shipments may reach between 65 and 67 mt. Nitrogen prices were supported by the tight urea supply in China, closures of ammonia and urea capacity in Ukraine, seasonal shutdowns for maintenance work and higher production costs. A slower ramp-up of new capacity, plant closures and higher raw materials costs compared to the last year were positive for phosphate prices. The global shipments of phosphate fertilisers now expected at 70mt for FY18 and 70-72mt for FY19, including DAP/MAP/NPS/TSP.

**Figure 12. Average prices in 1H2018, \$/t**

	1H2018	1H2017	YoY
Urea granular, fob Egypt	254	233	9%
CAN, gif Germany	228	215	6%
Ammonia, fob Black Sea	259	291	-11%
DAP, fob US Gulf	406	255	59%
Phosphate rock, fob Morocco	88	95	-7%

Source: Yara

Nutrien, the world largest fertilizer producer, reported Retail segment EBITDA up 10% YoY in 1H18 compared to combined PotashCorp and Agrium figures as a result of strong seed and crop protection product margins. Potash segment EBITDA was up 34% YoY due to higher realized prices and strong offshore sales, while nitrogen segment EBITDA improved 17% YoY due to lower production costs, higher urea prices and increased sales volumes. Nutrien repurchased 29.3mn shares under the issuer bid program, providing some support for the securities. In 3Q18, Nutrient agreed to sell its stake in Arab Potash Company to China's SDIC, also reported about the sale of its SQM series A shares and closed the auction of its SQM series B shares for total proceeds are expected to be c\$5bn by the end of 2018. The company reported \$246mn in run-rate synergies as of 30 June 2018. The synergies may reach \$350mn versus \$250mn expected before by the end of 2018.

Mosaic reported strong results with net sales reached \$2,205mn in 2Q18 compared to \$1,755mn in 2Q17, and \$4,139mn and \$3,333mn net sales reported in 1H18 and 1H17 respectively. The operating earnings reached \$196.3mn in 2Q18 and \$536.7mn in 1H2018 compared to \$192.3mn and \$321.9mn in 2Q17 and 1H17 respectively. The net profit of the company was affected by \$110.9mn foreign currency translation loss in 1H18 related to South America's operations, including \$78.7mn loss reported in 2Q18. In 1H17, the company reported foreign currency translation gain of \$18mn. The transformation of Mosaic Fertilizantes may result in \$100mn of value in FY2018, according to the MOS estimates. Mosaic's 2Q18 adjusted EBITDA was \$461mn in 2Q18 and \$833mn in 1H18, and the company increased the FY18 adjusted EBITDA guidance from \$1.70-1.90bn to \$1.80-\$1.95bn. The cash cost reduction of mined Florida rock has positively affected the margin. Another positive development is reported on-track debt decline to reach \$4.6bn by YE2020.

Yara reported a net loss of \$211mn in 2Q18 compared to \$82 in 2Q17. The negative earning reported by Yara includes a currency translation loss of \$302mn due to a stronger US dollar. The 1H18 result was \$46mn compared to \$93mn a year ago excluding net foreign currency translation gain/loss and special items. Despite 13% higher deliveries, Yara reported 5% weaker EBITDA due to increased energy costs.

PhosAgro reported RUB56.6bn revenue in 2Q18 (\$916mn), up 27% YoY. EBITDA was RUB18.7bn (\$302mn) and EBITDA margin reached 33% in 2Q18 compared to 27% in 2Q17. Net income adjusted for non-cash foreign exchange items was RUB11.6bn (\$188mn) in 2Q18 and RUB18bn (\$303mn) in 1H18. Net debt of the company was RUB123bn as of 30 June 2018 compared to RUB120bn as of end 2017. Net debt to LTM EBITDA reduced from 2.34x as of end 2017 to 2.7x as of end June 2018. According to PhosAgro, the key drivers of the phosphate prices recovery over the 2Q18 were idling of Plant City by Mosaic, robust import demand in India due to a loss-making domestic production of DAP, and slower than expected ramp-up of new production facilities in Saudi Arabia and Morocco. PhosAgro expects a seasonal growth in demand for DAP/MAP in EU, US, and Africa, a healthy import demand to India, and the start of a new season in China in October-December 2018 to support demand and phosphate prices in 4Q18. PhosAgro shareholders approved the dividend in amount RUB5.83bn or RUB45 per common share (RUB15 per GDR) from undistributed net income. The record date is 12 October 2018.

Israel Chemicals reported \$1,371mn sales in 2Q18 compared to \$1,322mn in 2Q17. Operating income reached \$458mn in 2Q18 versus \$415mn a year ago. Net income of the company was \$101mn compared to \$57mn in 2Q17. Higher prices and volumes were positive for the financial result while a negative effect of the foreign exchange rates and raw materials price growth created pressure on profitability.

Saudi Ma'aden reported 45% profit increase YoY to 517.8mn riyals (\$138.1mn) in 2Q18 due to the growth on sales of gold, alumina and ammonium phosphate fertilisers.

Russian NPK producer Acron reported 5% YoY revenue growth to RUB49.4bn (\$833mn) in 1H2018. EBITDA was up 7% YoY to RUB15.7bn (\$264mn) and EBITDA margin reached 32%, while net profit was up 76% YoY to RUB3.4bn (\$58mn) in 1H18. Net debt was RUB71.1bn (\$1,133mn) as of end June 2018. The 4% production volume growth and higher prices contributed to the revenue growth.

**Figure 13. Key financials of fertilizer majors, \$mn**

	Revenue 1H18, \$mn	Revenue 1H17, \$mn	Revenue change, YoY	Operating profit 1H18, \$mn	Operating profit 1H17, \$mn	Operating profit change, YoY	Net Income 1H18, \$mn	Net income 1H17, \$mn	Net income change, YoY	EBITDA margin, 1H18	EBITDA 1H18, \$mn	Net debt, 30/06/ 2018
Nutrien	11840	2232	430,5%	1227	324	279%	740	258	186,8%	16,8%	1994	9089
Mosaic	4139	3333	24,2%	277	125	122%	110	96	14,3%	20,1%	833	3982
Yara	6048	5442	11,1%	171	310	-45%	-96	283	-133,9%	11,0%	666	2153
PhosAgro	1800	1564	15,1%	362	321	13%	182	233	-21,9%	29,6%	533	1957

Source: companies' data

## PhosAgro sings a \$1bn deal with India

PhosAgro announced that it signed an agreement with the Russian Direct Investment Fund (RDIF) and Indian Potash Limited (IPL), India's largest importer of mineral fertilisers. According to the agreement, IPL intends to purchase up to 2mt of DAP and NPK fertilisers from PhosAgro in 2019-2021. The total value of deliveries is estimated at \$1bn. RDIF, PhosAgro, and IPL also plan to consider and implement promising investment projects in the mineral fertilizer sector, including the associated infrastructure and advanced technologies. PhosAgro is one of the largest NPK and DAP suppliers to India and the agreement strengthen the position of the company on the Indian market.

## Israel Chemicals is in talks to buy Haifa Chemicals for over a \$1bn

According to WSJ, Israel Chemicals is in talks to buy Haifa Chemicals for more than \$1bn. The deal may generate over \$100mn synergies, according to media sources. The cash components may be c\$600mn. Haifa Chemicals is a private Israeli company with estimated revenue at c.\$600mn.

### China sets 2019 fertiliser import quota at 13.65mt

Chinese Ministry of Commerce said that China sets 2019 fertiliser import quota at 13.65mt, unchanged from 2018.

### K+S may meet EUR80mn hit on 3Q18 profit due to drought

K+S, the German potash and salt producer, announced that limits to waste water discharge into the river Werra near its main German fertilizer production site caused a hit of cEUR80mn (\$93mn) on 3Q18 earnings after a summer drought lowered river water levels. The EBITDA of the company will be revised down from EUR660-740mn on 15 November 2018, when the company plans to publish 3Q18 results. The company plans to return its Werra mine to full capacity in October. The production of potash fell below target in August and September.

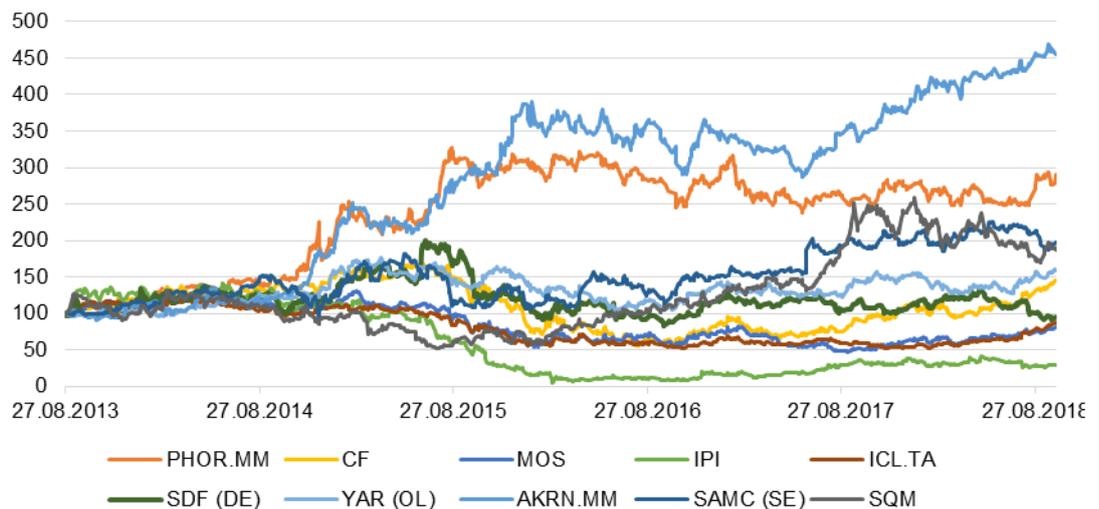
### South African phosphate miner Kropz plans AIM listing by the end of 2019

The South African phosphate miner Kropz is planning a listing on AIM by the end of 2019. The company prepares for the first production from its main asset in 2H2019. The full capacity of 900kt shall be reached in 2020. The cornerstone investor in the IPO will be African Rainbow Capital, according to ThomsonReuters,

## Sector performance

The fertilizer stocks remain on an upward trend, supported by a positive fertilizer price environment, tightening nitrogen market balance, and slow ramp up of new projects. New reporting season in October-November is expected generally positive, with the only K+S warning on production decline and EBITDA guidance cut. Top performers in the sector were ICL, CF Industries, PhosAgro, and Mosaic. K+S was among the worst performers recently.

Figure 14. Relative price performance of fertilizer stocks (in traded currency)



Source: ThomsonReuters

Figure 15. Consensus-based multiples for agrochemical producers

Company Name	MktCap, \$ mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITD A 1Y fwd	EV/ EBITD A 2Y fwd	EV/ EBITD A 3 fwd	EV/ Sales 1y fwd	EV/ Sales 2y fwd	EV/ Sales 3y fwd
Mosaic	13 021	17 223	19,7	15,4	13,8	9,0	8,0	7,6	1,8	1,7	1,6
CF Industries	13 088	19 821	39,1	25,1	16,9	13,4	11,4	10,5	4,4	4,1	4,0
FMC Corp	12 288	15 058	14,9	13,3	12,4	11,5	10,5	9,9	3,2	3,0	2,9
Intrepid Potash	469	503	56,3	25,1	33,7	11,2	9,0	9,6	3,0	3,0	2,9
Archer Daniels Midland Co	28 244	35 071	14,4	14,0	13,3	10,1	9,7	9,6	0,5	0,5	0,5
Celanese Corp	15 337	18 598	10,5	10,2	9,3	8,7	8,6	8,3	2,6	2,5	2,3
Compass Minerals	2 248	3 492	23,5	16,4	15,3	11,1	9,1	8,9	2,3	2,2	2,1
Westlake Chemical	10 483	13 151	9,6	9,9	8,3	5,9	6,1	5,4	1,5	1,5	1,3
K&S AG	4 012	7 148	33,2	11,4	9,5	9,4	6,7	6,2	1,6	1,5	1,4
Yara International	13 322	16 528	26,9	15,9	12,5	10,4	7,6	6,6	1,3	1,2	1,2
ICL Israel Chemicals	7 976	10 308	16,0	13,6	13,2	8,8	8,5	8,2	1,8	1,7	1,6
Bunge Ltd	9 648	17 929	13,1	12,3	11,7	9,2	9,0	8,9	0,4	0,4	0,4
Ashland Global Holdings Inc	5 182	7 532	23,2	20,7	17,1	10,9	10,3	9,7	2,0	2,0	2,0
Sociedad Quimica y Minera de Chile SA	12 368	12 845	24,1	18,9	16,5	12,8	10,5	9,5	5,3	4,5	4,1
PhosAgro PAO	5 137	6 945	8,5	8,2	7,8	6,4	6,3	5,8	2,0	1,9	1,8
Nutrien	35 670	45 777	21,9	17,3	14,9	11,8	10,0	9,2	2,4	2,3	2,2

Source: Thomson Reuters, as of 5 Oct 2018

Figure 16. Investor Calendar

18 October 2018	Yara International	3Q18 earnings release
6 November 2018	Nutrien	3Q18 earnings release
6 November 2018	Mosaic	3Q18 earnings release
15 November 2018	K+S	3Q2018 earnings release
14 November 2018	Acron	3Q2018 RAS release

Source: Companies data

# Important disclosures

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