

# Fertilisers

## Sector outlook – March 2018

► **The fertilizer stock prices were weak during March'18, reflecting risks of Chinese-USA trade tariffs and weaker seasonal demand.**

The uncertainty of US-China trade restrictions raises investors' concerns and market volatility. Meanwhile, the fertilizer companies continued FY17 reporting. PhosAgro results came above our expectations on stronger sales volumes and prices in 2017. Uralkali, EuroChem, and Acron also reported good operating and financial results despite strengthening Ruble. The CIS producers continue capacity expansions, including EuroChem's potash projects with total 8.3mt KCl capacity planned by 2024/25.

► **The food prices remain flat.** The USDA forecasts meanwhile may give a positive background for the corn market. According to forecasts, the US domestic corn supply has been falling, as well as lower corn ending stocks expected for the following year due to lower planted area. According to USDA, just 32% of winter wheat is in good state compared to 51% last year. The wheat forecasts were affected by dry weather. Overall, the current crop prices are supportive for the fertilizer consumption.

► **The fertilizer prices still slightly higher than a month ago.** The potash price stays flat, however volumes until June are committed, according to Canpotex. Phosphate price is flat in Brazil, slightly higher in India. Urea prices are weaker MoM, reflecting the seasonal decline. Fertiliser producers will report strong YoY figures for 1Q18 already in April-May'18, and we believe reporting season will be supportive for the stocks. The potential implications of Chinese trade restrictions are the critical variable for the market in the coming month.

**Report date:** 3 April 2018  
**S&P 500**  
**Chemicals\*** YTD -8.45%  
**P/E** 26.08

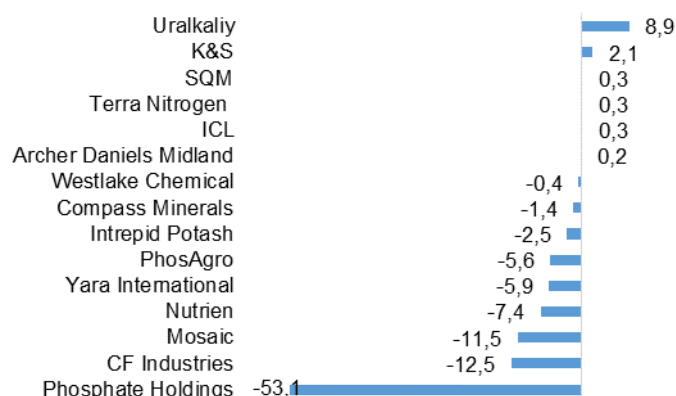
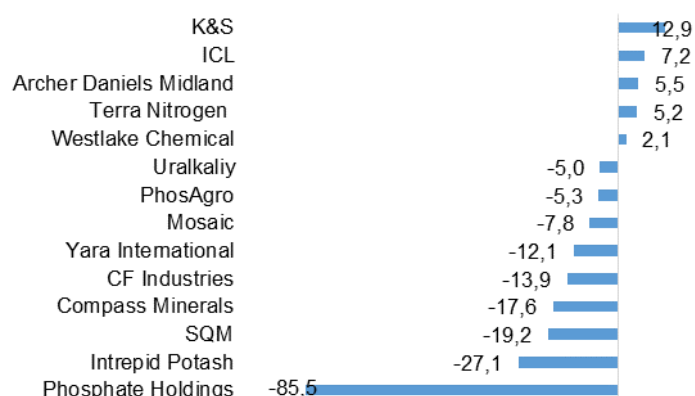
Nutrien TP US\$58 , HOLD  
Mosaic TP UR, HOLD  
PhosAgro TP US\$14.7, HOLD

\*as of 03/04/2018

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**Figure 1: Price performance – YTD, %**

**Figure 2: Price performance – 1 Month, %**



Source: Thomson Reuters as of 03-Apr-2018

Source: Thomson Reuters, as of 03-Apr-2018

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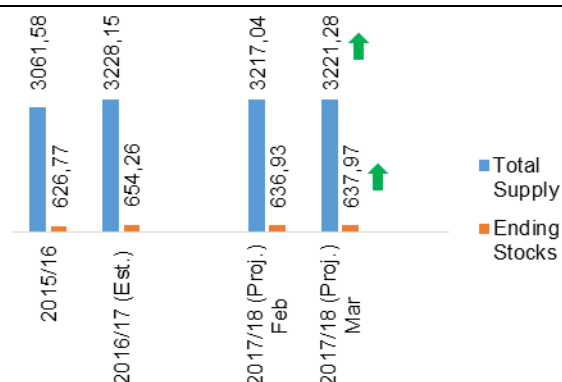
## Food producers news

### March 2018 WASDE report

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

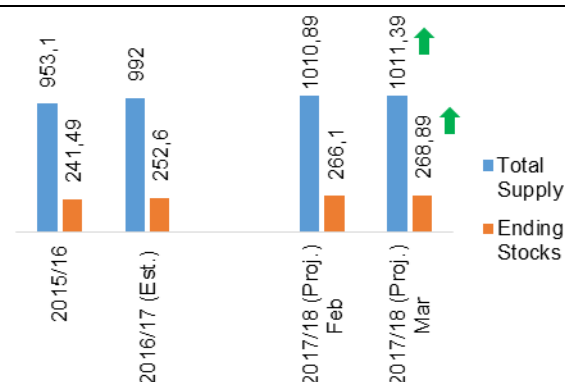
- ▶ The world 2017/18 total grains production forecast is 2567mt and ending stocks are 637.98mt in March, up from January projections of 2564.5mt and 636.93mt respectively. The global 2016/17 ending stocks estimated at 654.26mt now. The global wheat output forecast is 750.51mt for 2016/17 and 758.79mt for 2017/18 in March, up from previous estimates. The global wheat ending stocks estimated at 252.6t for 2016/17, and is forecast at 268.89mt for 2017/18.
- ▶ The global coarse grain outlook for 2017/18 includes lower production and ending stocks now. Corn production is forecast at 1041.74mt in 2017/18 compared to 1075.97mt for 2016/17. Global corn ending stocks are expected at 199.17mt for 2017/18 down from 203.09 in February estimate.
- ▶ Global 2017/18 rice production is projected at 486.26mt, up from 484.33 in last month forecast. Global 2017/18 ending stocks are projected at 143.06mt, up from 2016/17 estimated level of 137.29.
- ▶ The global 2017/18 oilseed forecast includes lower production, but higher trade compared to last year level. Global oilseed production is projected at 574.5mt, up from 575.3mt in 2016/17. The vegetable oil output is estimated at 197.8mt for 2017/18 in March compared to 189.1mt for 2016/17.
- ▶ The U.S. sugar output for 2017/18 is projected at 9.24mn STRV, including 5.219mn of beet sugar production and 4.021mn cane sugar production. Ending stocks for 2017/18 are projected residually at 1.953mn, and stocks-to-use ratio is estimated at 15.5 in March.

Figure 3. World total grains forecast, mt



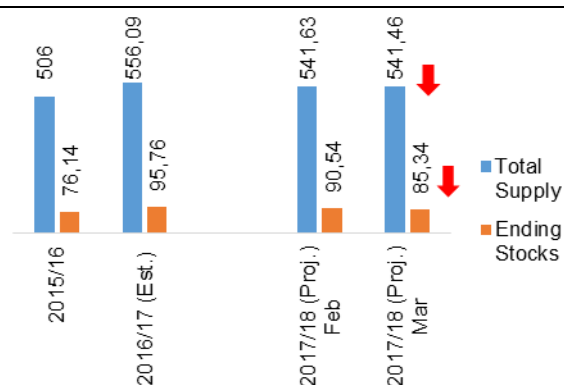
Source: USDA WASDE

Figure 4. World Wheat forecast, mt



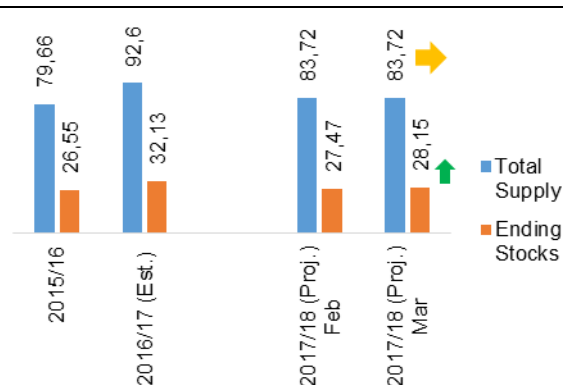
Source: USDA WASDE

Figure 5. US total grains forecast, mt



Source: USDA WASDE

Figure 6. US wheat forecast, mt



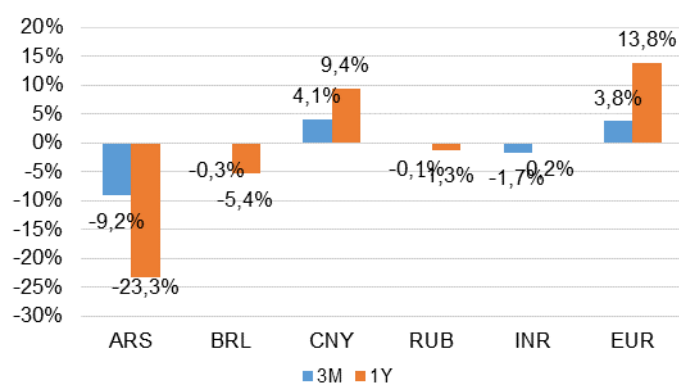
Source: USDA WASDE

## Fertiliser prices' drivers

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

- The nitrogen prices were lower in March compared to February this year. The NOLA granular urea price was at \$232 per short ton in Mar, compared to \$188/ST last year. Granular urea rice in Brazil was at \$252/t.
- Phosphate prices also were flat in March compared to February. DAP Tampa price was at \$409/t compared to \$410/t in February, and to \$373/t a year ago. MAP price in Brazil was also higher at \$426/t in Mar versus \$433/t in Feb and \$384/t a year ago. NOLA DAP price was at \$388 per short ton, compared to \$340/ST a year ago. Sulphur price remained flat at \$116/t in March, compared to \$75/t a year ago.
- Potash prices remained flat at \$266/MT in SEA in March and \$296/MT in Brazil. This is compared to \$245/MT and \$256/MT respectively a year ago. Canpotex reported committed volumes for 1H2018 that will support prices.

Figure 7. Currencies performance versus USD



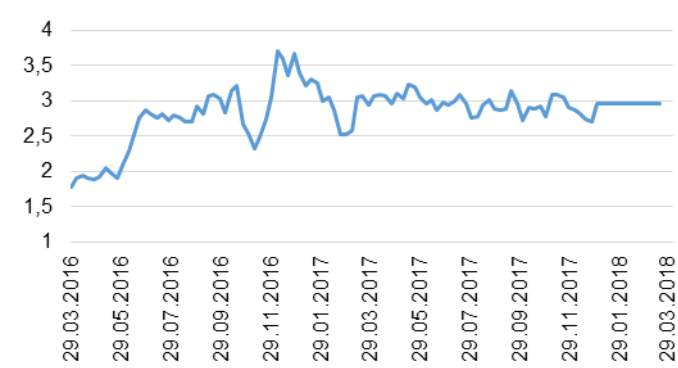
Source: Thomson Reuters

Figure 8. Raw sugar - ISA daily price (c/lb)



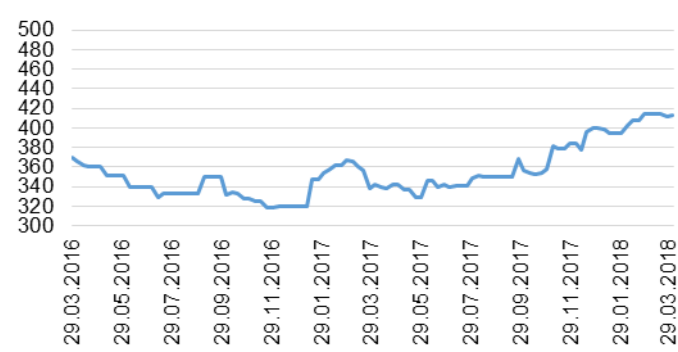
Source: Thomson Reuters

Figure 9. Natural Gas, Henry Hub, \$/MMBTU



Source: Thomson Reuters

Figure 10. DAP, New Orleans CFR Barge, \$/t



Source: Thomson Reuters

## Companies' news

### India lowered 2018/19 subsidy for potash by 10%

The Indian government announced about the 10% decrease of potash subsidies in the year starting from 1 April 2018. The potash subsidy is set at 11.124 rupees per kg for 2018/19 down from 12.395 rupees. That will likely result in higher retail prices for potash fertilisers domestically and potentially decrease of demand and imports. Largest potash suppliers to India are Uralkali, Nurtien, Mosaic, K+S, Arab Potash and ICL.

### Acron reported FY17 results

The Russian complex fertilizer producer Acron reported FY17 results. The revenue rose 6% YoY to RUB94.3bn (\$1,617mn, up 21% in US dollar terms) in FY17. The main revenue driver was sales volume increase by 15% from 6.35mn in FY16 to 7.28mn in FY17. Global NPK16:16:16 prices were rather stable during FY17, staying between \$262-271/t quarterly averages FOB FSU. NPK and bulk blends represented 45% of total company's revenues, ammonium nitrate took 16% share in revenues, and UAN represented 11% in FY17 revenues. The company's 18% sales revenues came from Latin America, 17% from Russia, 17% from Europe and 10% from USA and Canada. EBITDA was at RUB29.8bn, flat YoY (\$511mn, up 15% in US dollar terms). The strengthening of ruble was partially eliminated by sales volume growth. Net income was down 44% YoY to RUB14.3bn (\$244mn, down 36%) in FY17. Total debt of the company was RUB74.5bn as of the end 2017, down 6% YoY. Net debt of the company was RUB60.2bn (\$1,045mn). Net debt/EBITDA was 2.0x at the end of 2017 compared to 1.9x a year ago. The weighted average interest rate is 6% as of end 2017, down from 7.5% as of end 2016. The company reported RUB11.3bn capex (\$194mn). The company's dividend for FY17 was RUB224/share.

Acron expects fertilizer prices in 2018 at least at the level of 2017, supported by higher raw material prices. The NP premium to the basket will remain at the same level, keeping NPK prices stable. Acron will continue to implement its capex program to expand production facilities. The commercial output target is 9.1mt in 2024, up 25% from 2017 level. This forecast does not include Talitsky project, which is not started yet.

**Figure 11. Acron key results for FY17, \$mn**

\$mn	2017	2016	YoY
Revenue	1617	1333	21%
EBITDA	511	445	15%
EBITDA margin	32%	33%	
Net profit	244	381	-36%
Adjusted net profit	225	205	10%
Adjusted net profit margin	14%	15%	
Total debt	1294	1304	-1%
Net debt	1045	856	22%
Net debt/EBITDA	2,0	1,9	
Net cash flow from operating activities	285	270	6%
Capex	194	181	7%
Sales volumes, mt	7,279	6,352	15%

Source: Company data

### ICL completes \$1bn sale of its fire safety business

ICL reported that it completed the sale of its Fire Safety and Oil Additives business to SK Capital. Net considerations will be c \$1bn. ICL expects to record a capital gain of \$840mn in 1Q2018. The Fire safety business reported \$309mn revenues and \$144mn gross profit in FY17.

Overall, the company reported sales of \$5.4bn in FY17, flat YoY and \$629mn operating income compared to \$3mn loss last year.

**Figure 12. ICL key financials in FY17**

\$mn	2017	2016	YoY
Sales	5418	5363	1%
Gross profit	1672	1660	1%
Operating income	629	-3	
Income before income tax	505	-117	
Net income	364	-122	
DPS	0,13	0,18	-28%

Source: Company data

## PhosAgro reported FY17 results

The Russian phosphate and complex fertilizer producer PhosAgro reported FY17 results. Revenue reached RUB181.4bn (\$3.1bn) in FY17, down 3% YoY in US dollar terms. EBITDA reached RUB51.3bn (\$879mn), down 29% YoY in FY17. EBITDA margin was 28.3% in FY17 compared to 38.5% in FY16. Net income reached RUB25.3bn in FY17, down 58% YoY. Net debt was RUB120bn as of year-end 2017 compared to RUB105bn as of year-end 2016. Net debt/LTM EBITDA was 2.3x as of year-end 2017. Phosphate-based sales reached 6.489mt, up 11% YoY, while nitrogen-based fertilizer sales were 1.616mt, up 16% YoY. Phosphate rock sales increased 12% YoY to 2.732mt in FY17. The average price of DAP (FOB Tampa) reached \$364/t in 4Q17, up 13% YoY. The phosphate price decrease in 2017 was on the back of 30% YoY decrease in phosphate exports from China in 4Q17, idling Mosaic's capacity, and higher import demand in India. The average urea price reached \$241/t FOB Baltic in 4Q17 compared to \$206/t a year ago. The company's cost of sales increased to RUB101.4bn, up 15% YoY in FY17, driven mostly by 16% increase in Materials and services, and 46% increase in D&A. The company's capex were RUB35.9bn (\$615mn) in FY17. The company increase share of direct sales to customers to 90% in 2017. Results came 8% above our expectations on EBITDA line. PhosAgro recommended RUB15 per share dividend or RUB1.9bn in total for 2017. The record date is 13 June 2018.

PhosAgro expects the supply/demand balance in 1Q-2Q18 will remain tight due to production cuts in Tunisia and Morocco that may push prices up to \$410-415/t DAP FOB Tampa. In 2018, the company expects an increase in downstream fertilizer production of up to 10% YoY.

**Figure 13. PhosAgro FY17 results**

	FY17	FY16	YoY
Revenue, RUBbn	181,351	187,742	-3%
COGS, RUBbn	101,429	88,044	15%
EBITDA, RUB bn	51,263	72,365	-29%
EBITDA margin	28%	39%	
Capex/EBITDA	0,70	0,54	
Phosphate sales, mt	6,489	5,829	11%
Nitrogen sales, mt	1,616	1,394	16%
Phosphate rock sales, mt	2,732	2,448	12%

Source: Company data

## EuroChem produces first product at Usolsky potash site

EuroChem Group, the Russian diversified fertilizer producer registered in Swiss, announced about the test production of potash at its Usolsky potash site in the Perm region on 13 March 2018. The production of a marketable product is expected in 2Q2018. Usolsky phase 1 project will have 2.3mt annual production capacity once ramp-up completed. In 2018, the company is targeting 450kt production. EuroChem also develops VolgaKali potash project at Greymachinskoye deposit in Volgograd region. The first marketable product there is expected later this year. EuroChem invested \$4.13bn in two potash projects, including \$1.81bn in Usolsky project. The total targeted capacity of two potash projects is 8.3mt of KCl achievable by 2025, according to the company. The total potash production should reach 0.58mt in 2018, 2.1mt in 2019, and 3.5mt in 2020.

**Figure 14. EuroChem key FY17 figures**

\$mn	2017	2016	YoY
Revenues	4866	4375	11%
Gross margin	37%	37%	
EBITDA	1130	1133	0%
EBITDA margin	23%	26%	-12%
Net debt/EBITDA	2,88	2,85	1%
ROCE	17%	17%	
Fertiliser sales, mt	13,47	13,415	0%
Mining products, mt	5,927	6,029	-2%
Industrial products, mt	1,512	1,494	1%

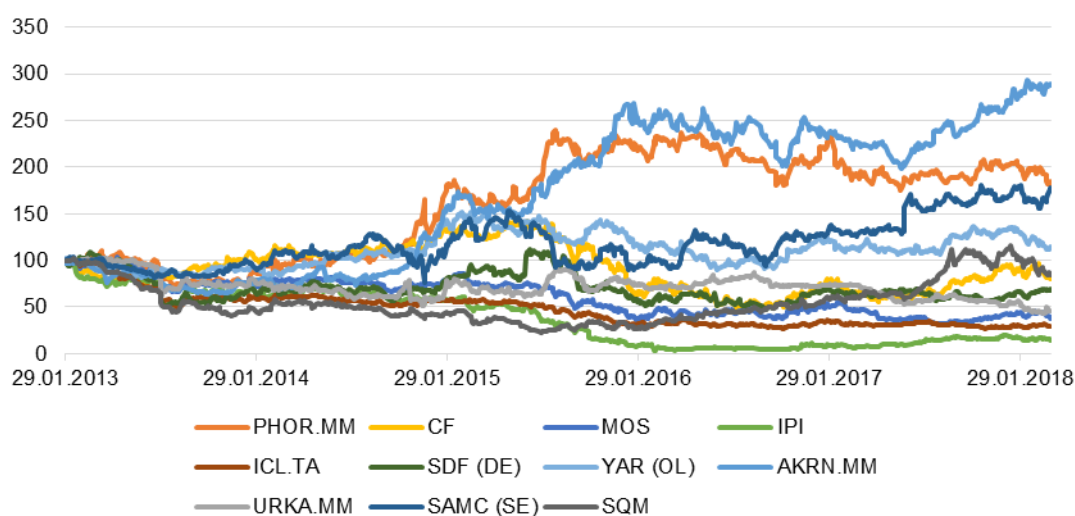
Source: Company data

### Uralkali reported net profit down 1.9x in FY17

Uralkali reported revenue of \$2,761mn, up 21% YoY in FY17. Export sales were up 16% YoY to 10.9mt. Net revenue was up 18% YoY to \$2183mn. EBITDA reached \$1340mn, up 13% YoY in FY17. The company's EBITDA margin was 61% in FY17 compared to 64% in FY16. Net profit reached \$875mn in FY17 compared to \$1427mn in FY16. The company reported a decrease in gains from foreign exchange differences and revaluation of derivative financial instruments as main reasons behind the net income drop. According to Uralkali, the potash demand reached 65mt in 2017, up 6% YoY. Imports of potash to China increased by 10% YoY to 7.5mt, while Indian exports amounted 4.5mt in FY17 (3.8mt a year ago). Imports to SEA region reached 10.3mt in FY17, while Brazilian imports were 9.2mt on higher soybean prices and stable real exchange rate.

## Sector performance

During the last month, the most of fertilizer prices went down. The end of the season, flat price environment, and unclear trade position between China and the US raise risks for investors in the sector despite still healthy margins. Largest stock in the universe, Nutrien lost over 7.5% in a month, Mosaic 11.5%, CF Industries 12.5%. We believe the demand will remain stable supporting prices for phosphates and potash, while nitrogen may stay weaker in 2Q18.

**Figure 15. Relative price performance of fertilizer stocks (in traded currency)**

Source: ThomsonReuters



Figure 16. 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/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Sales 1y fwd	EV/ Sales 2y fwd	EV/ Sales 3y fwd
Mosaic	9 123	12 219	16,2	12,6	10,0	7,2	6,4	5,9	1,4	1,3	1,2
CF Industries	8 546	15 508	39,1	21,3	17,3	11,2	9,7	9,7	3,5	3,3	3,3
Intrepid Potash	453	500	31,9	26,5	31,5	9,5	8,8	8,8	3,2	3,1	3,3
Archer Daniels Midland	23 624	30 375	14,6	13,5	12,6	9,5	8,9	8,6	0,5	0,5	0,5
Compass Minerals	2 013	3 339	20,2	14,7	13,4	10,4	8,9	8,5	2,2	2,1	2,1
Westlake Chemical	14 083	16 884	12,2	11,7	10,6	7,5	7,3	6,8	1,9	1,9	1,8
K&S AG	5 519	8 869	16,3	12,5	10,8	8,6	7,6	6,6	1,8	1,7	1,7
Yara International	11 506	14 478	15,2	11,1	9,3	8,0	6,2	5,4	1,1	1,0	0,9
Israel Chemicals	5 480	8 533	12,8	11,2	10,2	7,6	7,4	7,6	1,5	1,5	1,5
Ashland Global Holdings	4 256	6 594	21,5	17,8	15,9	9,8	9,2	8,8	1,8	1,7	1,7
Uralkaliy	5 700	11 361	4,1	3,6	NaN	8,9	8,5	NaN	4,5	4,4	NaN
SQM	12 824	13 083	27,1	22,3	17,3	14,2	11,7	9,3	5,7	4,8	4,2
PhosAgro	5 281	7 328	8,7	9,1	8,2	6,4	6,4	5,8	2,1	2,0	1,9
Terra Nitrogen	1 553	1 537	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
Nutrien	29 527	NULL	20,2	16,0	14,3	NaN	NaN	NaN	NaN	NaN	NaN

Source: Thomson Reuters, as of 28 March 2018

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