



INDEPENDENT RESEARCH COMPANY

# FERTILISER SECTOR OUTLOOK

## FEBRUARY 2019

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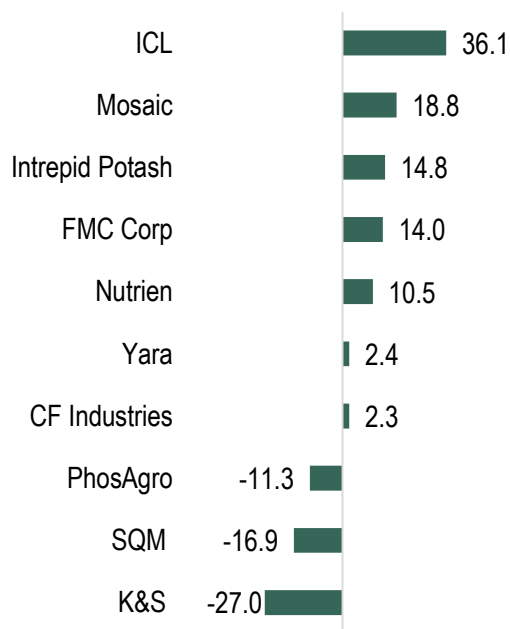
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# SUMMARY

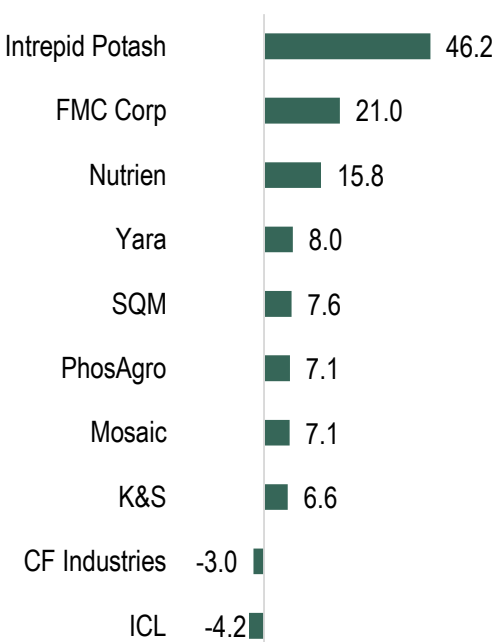
- Prices for most of soft commodities demonstrated some recovery, in particular for dairy products and vegetable oils at the beginning of 2019. The FAO Food Price Index was 164.8 in January 2019, up from 161.7 a month ago.
- Higher USDA WASDE projection for world grain in February came however with lower world ending stocks for wheat, affecting prices. Oilseed stocks are forecast lower as well.
- We are conservative about the fertilizer price level, in particular in phosphate and nitrogen segments. February price levels are lower MoM for most of regions and products, except for potash. Potash prices stay firm 15-20% higher YoY.
- Potash companies, including Nutrien and ICL, were among best performers over the last month.
- The FY18 earnings reports, disclosed by Mosaic, Nutrien and CF Industries, were positive with strong operating and financial performance during the year.
- Weaker fertilizer price environment may negatively affect the financial results of fertilizer majors. We may expect figures weaker than the guidance in 1Q19, in particular for phosphate producers Mosaic and PhosAgro.

# FERTILISER STOCK PERFORMANCE

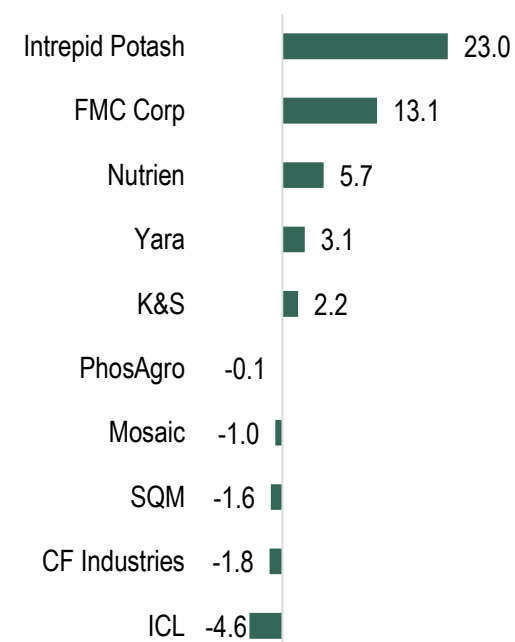
## 1-year performance



## YTD performance

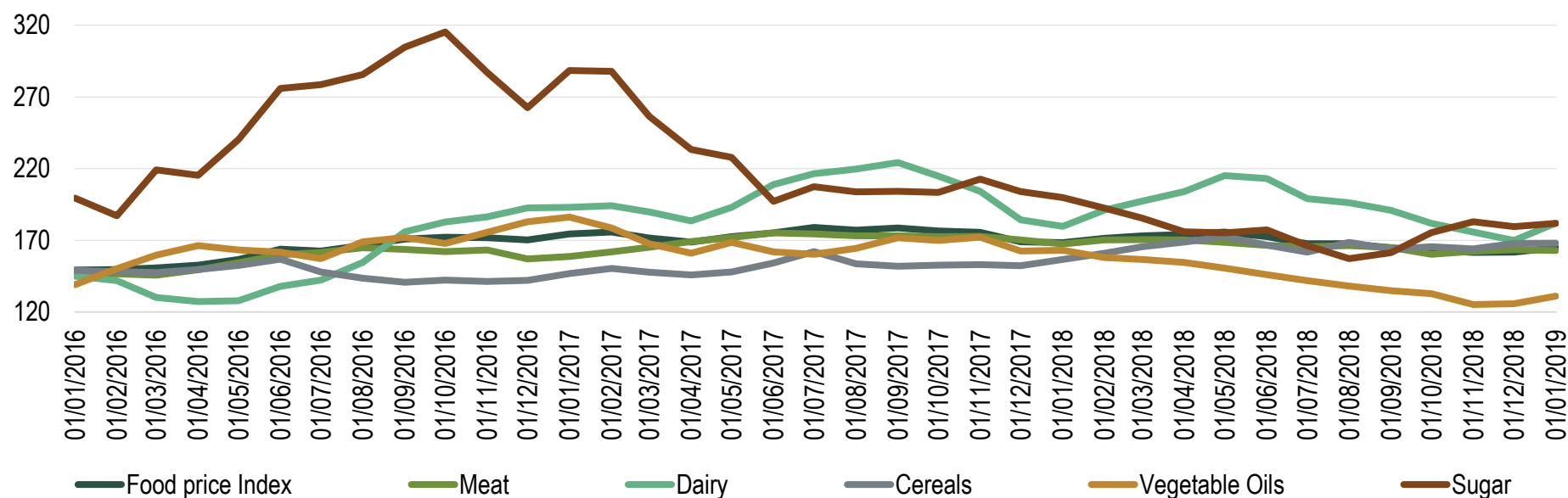


## 1-month performance



*Intrepid Potash, FMC Corp, and Nutrien stocks were among top performers over the last month.*

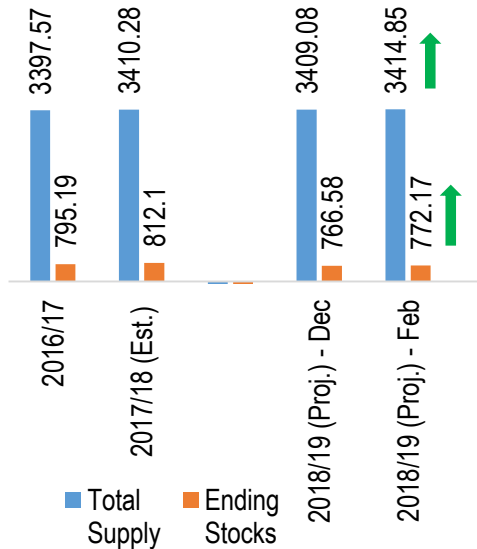
# FAO FOOD PRICE INDEX (FFPI)



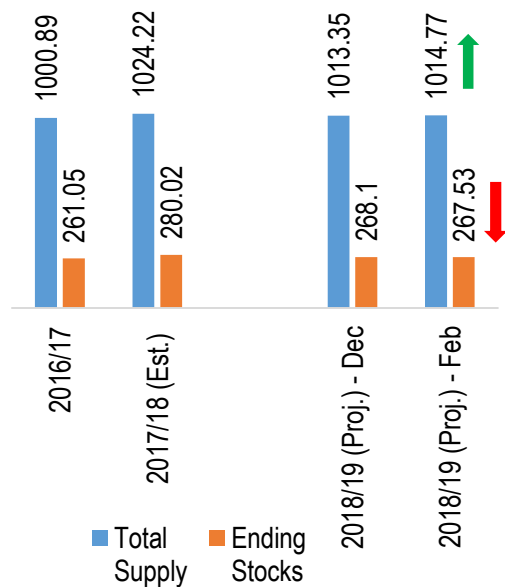
The FAO Food Price Index was 164.8 point in January 2019, that is 2.2% down YoY and up from 161.7 in December 2018. Firmer prices of vegetable oils and sugar, as well as high dairy quotes, resulted in overall food price index growth. Dairy price index rose 7.1% MoM and vegetable oils quotations were up 4.3% MoM in January 2019. Meat prices were down 2.75% YoY, dairy up 1.22% YoY, vegetable oils down 19.6% and sugar down 9% YoY in January 2019. Cereals prices up 7.3% YoY in January 2019.

# USDA WASDE FORECAST: LOWER WHEAT ENDING STOCKS

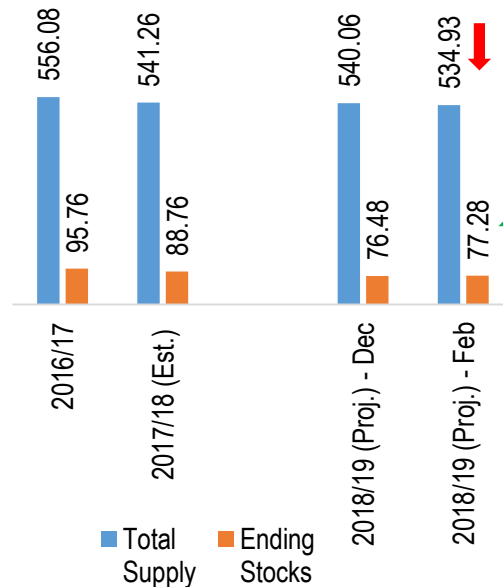
World total grain forecast, mt



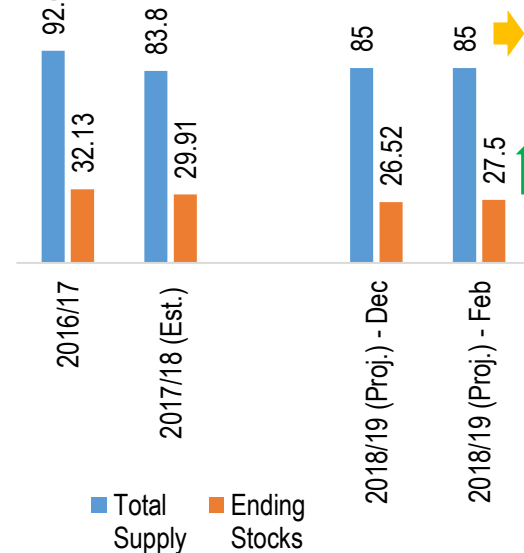
World total wheat forecast, mt



US total grain forecast, mt



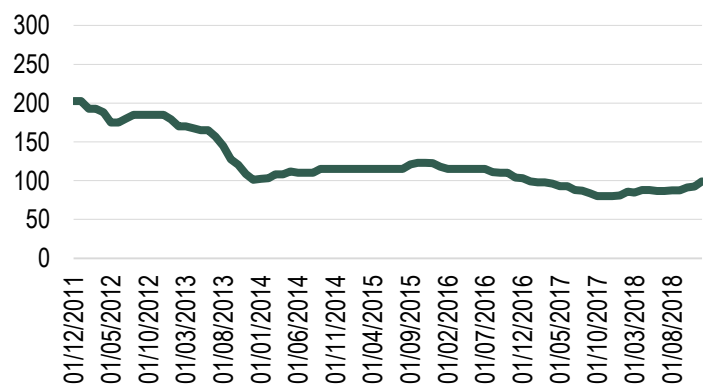
US total wheat forecast, mt



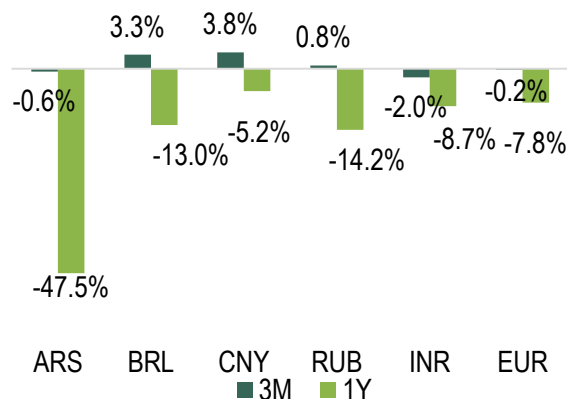
World 2018/19 total grains output is higher in February 19 projections, while lower for the US total grain forecast. The total wheat output forecast reduced in February 2019 while remaining flat for the US. World ending wheat stocks are forecast lower in February, as well as lower oilseed stocks, providing support for prices.

# FERTILISER PRICE TREND: LOW SEASON SIDEWIND

Phosphate rock 70% BPL Morocco, \$/t



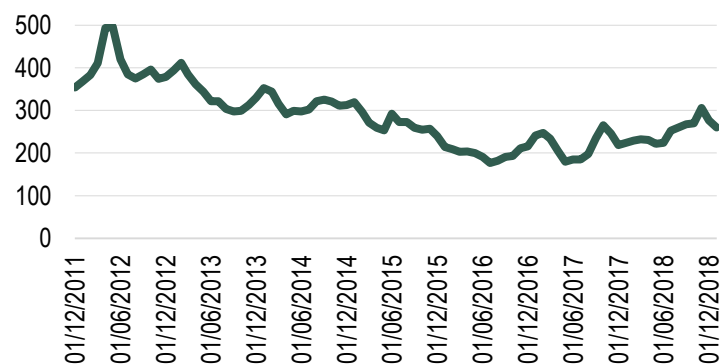
Exchange rates changes vs USD



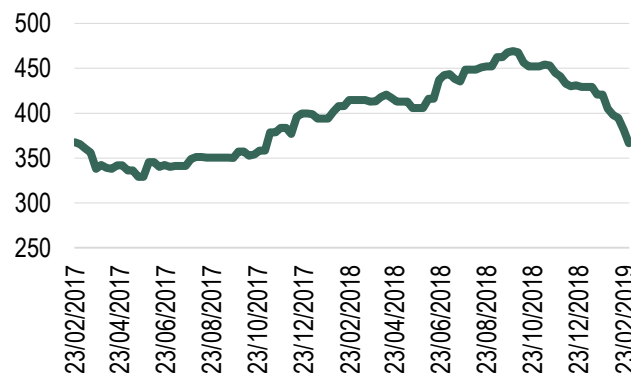
London Brent Crude Oil Index U\$/bbl



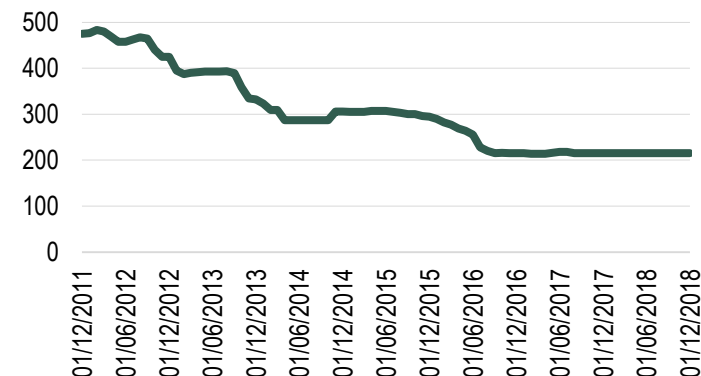
Urea Yuzhny price, \$/t



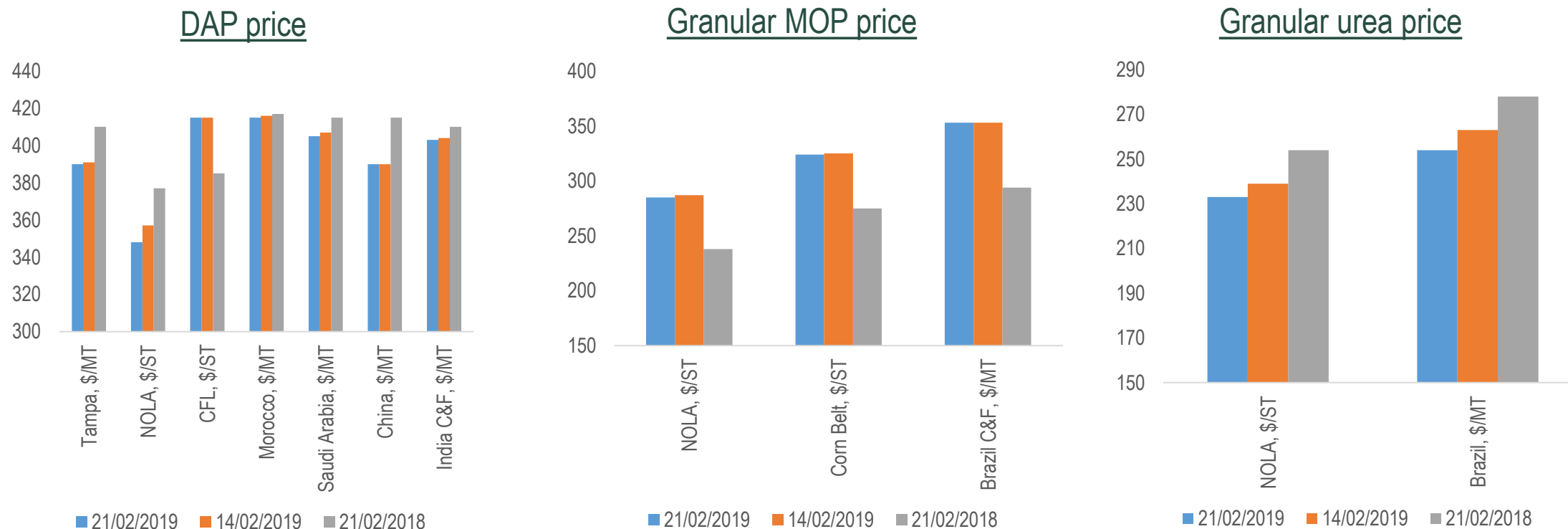
DAP, fob US Gulf, \$/t



Potash (MOP), fob Vancouver, \$/t



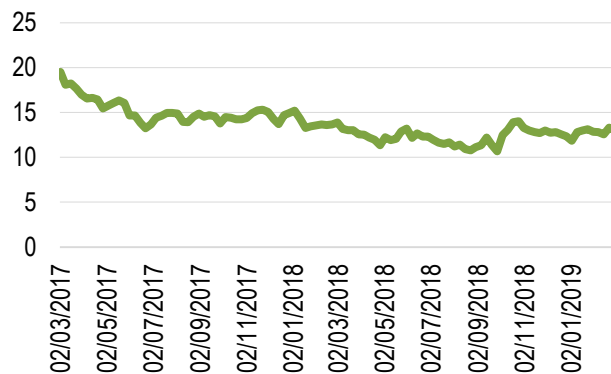
# FERTILISER PRICES: LATEST CHANGES



*There were weaker urea and phosphate prices in most of the geographies in February 2019. Potash prices stay still 15-20% above last year levels, while phosphate prices corrected 2-6% YoY in February 2019 after rather flat dynamics in January 2019. That may indicate weaker YoY financial performance of fertiliser producers, if no changes in March 2019.*

# SOFT COMMODITIES PRICES

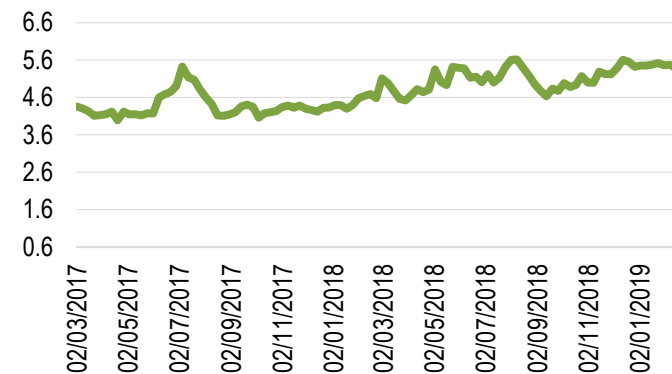
Raw sugar - ISA daily price \$c/lb



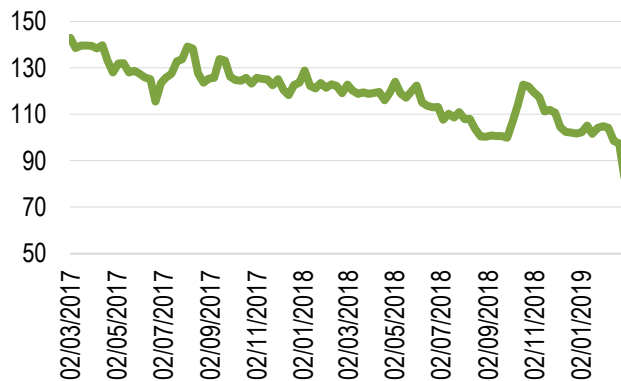
Corn No.2 yellow U\$/bu



Wheat No.2, soft red U\$/bu



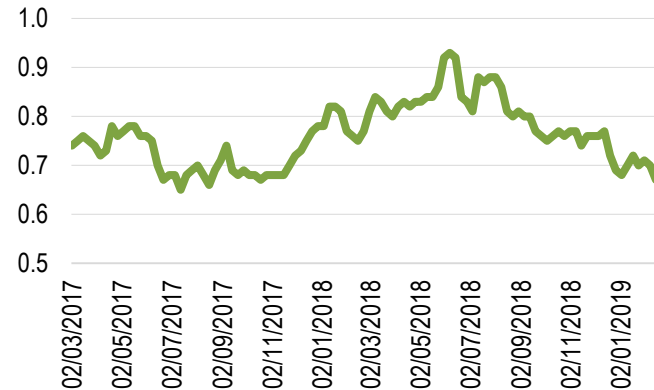
Coffee-Brazilian (NY) \$c/lb



Soybeans, No.1 Yellow \$/bu



Cotton, 1 1/16 str low - Midl, Memph \$/Lb





## FERTILISER COMPANIES NEWS

- **Nutrien** announced that it completed the acquisition of Van Horn, a leading US retailer and agricultural services provider located. Van Horn operates eleven retail facilities, which serve 5,000 customers in 18 counties. The acquisition is in line with Nutrien's strategy of retail business development, being fully integrated producer and supplier of fertilizers and microelements for growers.
- **Mosaic** share price lost 3% on the news about the form 10K filing delay.
- **PhosAgro** increased its total sales of mineral fertilisers to the Russian market by 7% YoY to 2.93mt in 2018, including 2.43mt of own fertilisers and 0.5mt of third-party products. The investment in network operations reached RUB800mn, and the number of distribution centres increased from 22 to 25 in 2018. The total production of phosphate-based and MCP fertilisers reached 6,852kt in FY2018, up 3.8% YoY. Production of nitrogen fertilisers increased 22.4% YoY to 2.123mt in FY2018. In total, PhosAgro produced 8.975mt of mineral fertilisers and 11.053mt of phosrock and nepheline in FY2018. Sales of fertilizers increased 9% YoY to 8.83mt, sales of phosrock and nepheline were up 5.7% YoY to 3.947mt. The company increased NPK production by 9.1% YoY to 2.799mt, and urea output by 28.4% YoY to 1.59mt in FY2018. The main reason for the production growth is the launch of the nitrogen facilities which added a new capacity.
- **CF Industries** reported \$49mn net profit in 4Q18, up 63.3% QoQ and down 89.5% YoY. The company's revenue reached \$1132mn in 2018 compared to \$1,099mn in 2017. Gross profit was up 69% YoY to \$242mn in 2018. The main reason for net income falling before last year level is the tax benefit reported by the company in FY2017 of \$520mn.

# MOSAIC: FY2018 RESULTS REVIEW

- Mosaic reported strong operating and financial figures for 4Q18 and FY2018.
- Net earnings reached \$112mn, and adjusted EBITDA reached \$590mn in 4Q18. The adjusted EBITDA was \$2.0bn in FY2018, up 68% YoY. Adjusted diluted EPS was \$2.12 per share, up 92% YoY.
- Potash production reached a record in 2018, while the phosphate segment reported record production and sales of MicroEssentials production in 2018.
- Mosaic Fertilizantes accounted for \$158mn in net synergies year-to-date and additional \$21mn in benefits from B2B marketing strategy. Mosaic expects to achieve a \$275mn target synergies in 2019, a year ahead of schedule.
- Mosaic provided guidance for 2019, including 0.0-9.4mt potash production, 8.6-9.0mt of phosphate production, and 9.4-9.8mt sold be Mosaic Fertilizantes. The EBITDA guidance for FY2019 is \$2.2-2.4bn.
- The company expects sales volumes in 1Q19 slightly below the 4Q18 level (see table), however, the gross margin shall be higher.
- We will adjust our target price and recommendation due to a rather weak fertiliser price environment.

\$mn	2017	2018	YoY	2018 Forecast	Actual vs forecast
Net sales	7409	9587	29.4%	9345	2.6%
Cost of goods sold	6567	8089	23.2%	7885	2.6%
Gross margin	843	1498	77.8%	1460	2.7%
Gross margin	11%	16%		16%	
Operating earnings	466	928	99.3%	985	-5.7%
Operating margin	6%	10%		11%	
Earnings from consolidated companies before income tax	374	552	47.5%	698	-20.9%
Provision for income taxes	495	77	-84.4%	118	-34.9%
Earnings from consolidated companies	-121	474	-492.4%	579	-18.1%

	Sales volumes, mt 1Q19	Gross margin, \$/t 1Q19	Sales volumes, mt 4Q18	Gross margin, \$/t 4Q18
Potash	1.7-2.0	90-100	2.3	88
Phosphates	1.6-1.9	40-50	1.9	81
Mosaic Fertilizantes	1.3-1.6	40-50	2.1	56

# NUTRIEN: FY2018 RESULTS REVIEW

- Nutrien reported 4Q18 and FY2018 results.
- The company reported net earnings from continuing operations of \$296mn and adjusted EBITDA of \$932mn in 4Q18. Adjusted EBITDA reached \$3.94mn in FY2018.
- Retail EBITDA was up 5% YOY in FY18, despite correction YoY in 4Q18. Potash EBITDA was up 59% YoY in 4Q due to higher prices and volumes, while nitrogen EBITDA was up 63% YoY in 4Q18 due to higher prices.
- Nutrien reported \$521mn in annual run-rate synergies as of end 2018 and expects \$600mn of synergies as of end 2019.
- In 2018 , the company sold its stakes in SQM, ICL, APC, and Conda Phosphate Operations for the total proceeds of \$6,410mn. Net proceeds amounted \$5.2bn. Net earnings and retained earnings associated with the Stake in SQM was \$3,366mn and the total net earnings and retained earnings were estimated at \$3,492mn as of end 2018.
- Nutrien provided guidance for FY2019, including \$4.4-4.9bn EBITDA, 13.0-13.4mt of potash sales, 10.6-11.0mt of nitrogen sales, \$1.0-1.1bn capex.
- We will update our forecasts based on reported figures.

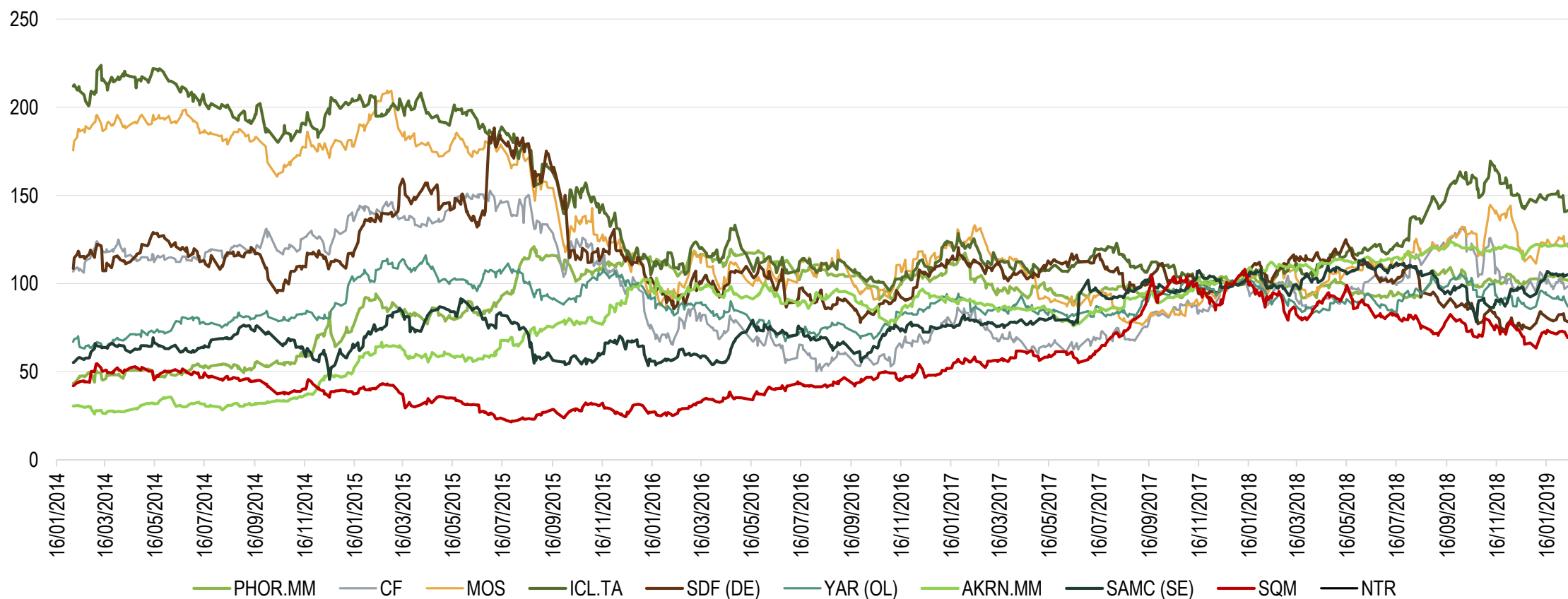
\$mn	2018	2017	2018 Forecast	Actual vs forecast
Sales	19636	4547	21501	-9%
Gross margin	5392	694	5102	6%
Gross margin	27%	15%	24%	
Earnings (loss) before income taxes	-124	-29	1698	
Net earnings	3573	327		
EBITDA	2006	901		

# FERTILISER SECTOR COMPARABLE MULTIPLES

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/Revenu es 1y fwd	EV/Revenu es 2y fwd	EV/Revenu es 3y fwd
Mosaic	12,401	16,289	13.6	12.3	10.5	7.1	6.8	6.5	1.6	1.6	1.5
Nutrien	33,535	44,999	18.4	16.5	15.2	9.6	9.2	8.9	2.2	2.1	2.1
CF Industries	9,662	16,451	18.5	14.7	12.1	9.4	8.7	8.3	3.4	3.3	3.3
Yara International ASA	11,512	15,534	14.0	10.7	10.6	7.5	6.3	6.4	1.1	1.1	1.0
ICL Israel Chemicals Ltd	7,192	9,538	15.3	13.7	13.3	8.4	8.0	7.5	1.7	1.6	1.6
PhosAgro PAO	5,033	6,848	9.8	7.2	6.7	5.8	5.7	5.4	1.9	1.8	1.7
K&S AG	3,660	6,915	60.8	12.0	10.0	10.2	7.1	6.2	1.5	1.4	1.4
Sociedad Quimica y Minera de Chile SA	11,746	12,284	21.4	19.2	19.9	11.1	9.7	9.2	4.6	4.0	3.6
FMC Corp	12,068	14,665	15.7	13.5	12.1	12.3	11.1	10.6	3.2	3.1	2.9
Intrepid Potash Inc	509	531	63.0	19.7	20.4	11.7	8.6	8.4	3.5	3.0	3.0
<b>Average</b>			<b>25.0</b>	<b>13.9</b>	<b>13.1</b>	<b>9.3</b>	<b>8.1</b>	<b>7.7</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>

*Russian phosphate fertiliser producer PhosAgro is undervalued based on P/E and EV/EBITDA multiples, which reflect the Russian risk.*

# FERTILISER STOCK PRICE PERFORMANCE (28 DEC 2017=100)



*ICL and Mosaic were the best performers over 2018 and the beginning 2019.*

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