

Fertilisers

Sector outlook – May 2018

- ▶ **The fertiliser majors reported weak 1Q18.** The earnings season revealed the weak operating performance of largest fertilizer producers due to the late spring and other weather issues. The results were already priced in. Fertiliser companies made more favorable projections for the second quarter. The last month performance reflected better prospects of Nutrien (+10.8%), CF Industries (+4.7%), and Mosaic (+3%). PhosAgro and Uralkali lost the most over the last month, that was partially caused by investors' escape from the Russian securities following the new US sanctions announcement in April. Nutrien announced the sale of a part of its stake in SQM and \$0.40 dividend payout. K+S improved its financial position due to deliveries from a new Canadian mine, and lower capex.
- ▶ **The food producers benefit from a steady price environment.** The soft commodity prices moved higher over the past month. Wheat price added 5.5%, sugar 8.7%, coffee 1.7%, cotton 8.2%, and soybean 1.5% over a month ended 4 Jun, while corn lost 3.2%. The new USDA WASDE forecast for 2018/19 came with lower total grain output forecast as well as lower US grain production forecast, being supportive for agro prices as well.
- ▶ **The fertilizer prices stay flat during the low season.** The fertiliser price environment remained stable in May. The potash price in Brazil was at \$314/MT in May up from at \$265/MT a year ago. DAP prices were at \$409/t in Tampa, at \$430/t in India and at \$413/t in China at the end of May. Urea price was at \$234/t at the end of May, 44% higher than a year ago and 4.5% higher compared to the previous month. Raw materials prices, including phosphate feedstock and sulphur, stay flat.

Report date: 5 June 2018
S&P 500
Chemicals* YTD -2.13%
P/E 28.51

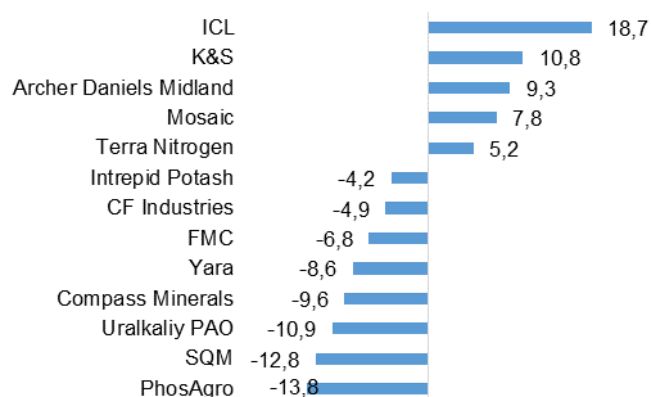
Nutrien TP US\$58 , HOLD
Mosaic TP UR, HOLD
PhosAgro TP US\$14.7, HOLD

*as of 05/06/2018

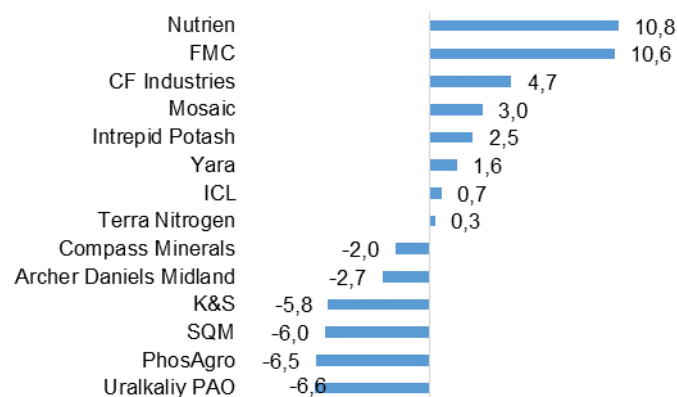
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Figure 1: Price performance – YTD, %

Figure 2: Price performance – 1 Month, %



Source: Thomson Reuters as of 04-June-2018



Source: Thomson Reuters, as of 04-June-2018

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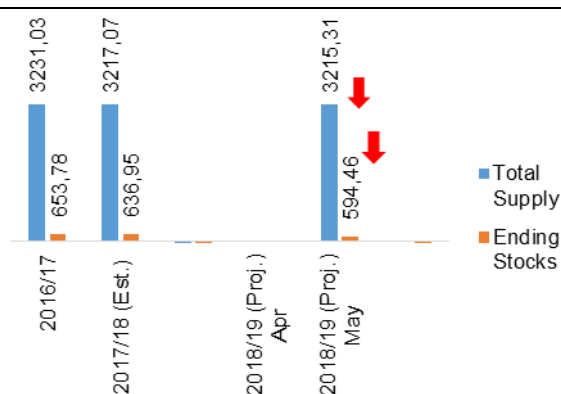
Food producers news

May 2018 WASDE report

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

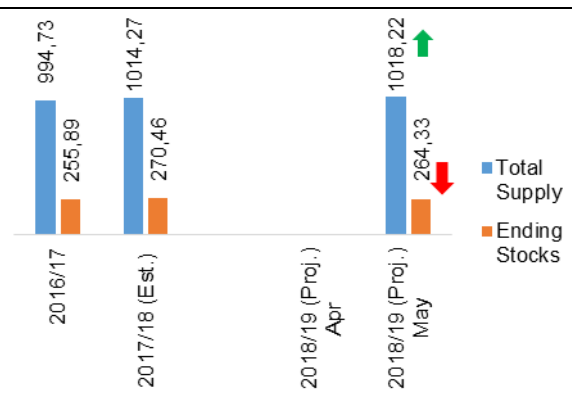
- ▶ The world 2018/19 total grains production forecast is 2,578.4mt and ending stocks are 594.46mt in May. The global wheat output forecast is 747.76mt for 2018/19 in May. The global wheat ending stocks estimated at 264.3t for 2018/19 compared to 270.46mt for 2017/18.
- ▶ The global coarse grain outlook for 2018/19 includes higher YoY production and lower ending stocks. Corn production is forecast at 1,056.07mt in 2018/19. Global corn ending stocks are expected at 159.15mt for 2018/19.
- ▶ Global 2018/19 rice production is projected at 489.5mt, up from 488.23 in for 2017/18. Global 2018/19 ending stocks are projected at 144.68mt, up from 2017/18 estimated level of 143.81.
- ▶ The global 2018/19 oilseed forecast includes lower production, and higher trade compared to last year level. Global oilseed production is projected at 593.72mt, up from 572.79mt in 2017/18.
- ▶ The U.S. sugar output for 2018/19 is projected at 8.981mn STRV, including 5.036mn of beet sugar production and 3.945mn cane sugar production. Ending stocks for 2018/19 are projected at 1.542mn, and stocks-to-use ratio is estimated at 12.1 in May.

Figure 3. World total grains forecast, mt



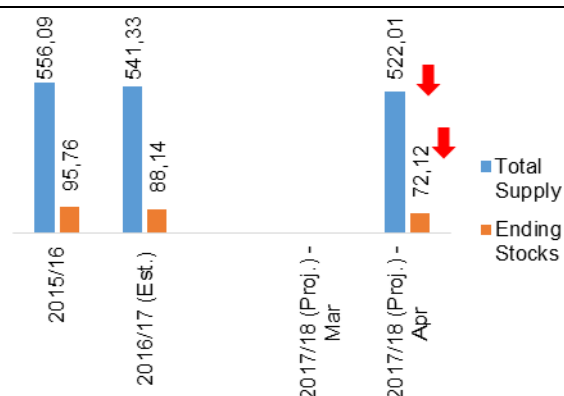
Source: USDA WASDE

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



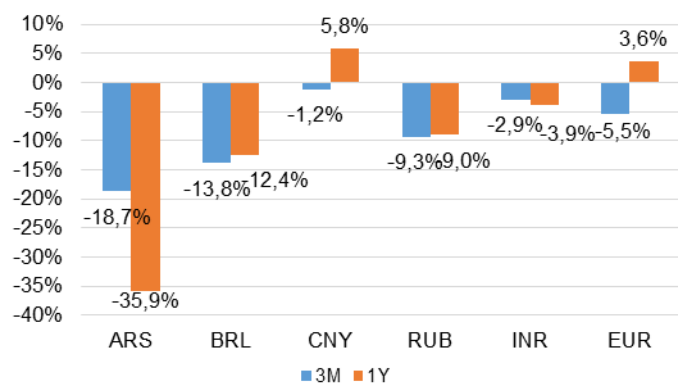
Source: USDA WASDE

Fertiliser prices' drivers

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

- The nitrogen prices stayed higher compared to the previous month and previous year. The granular urea was at \$234/t at NOLA, up 4.5% compared to the last month and 44% higher than a year ago.
- Phosphate prices stay flat MoM, and some 16% higher YoY. DAP Tampa was \$409/t, up 16% YoY and up 0.2% MoM, DAP NOLA was \$380/t, up 21% YoY and 1.6% below last month price. Phosphate raw material and sulphur prices stay flat at \$85/t.
- Potash price was \$243/t in NOLA, up 13% YoY, and \$314/t in Brazil, up 18% YoY. Prices stayed rather flat compared to the previous month.

Figure 7. Currencies performance versus USD



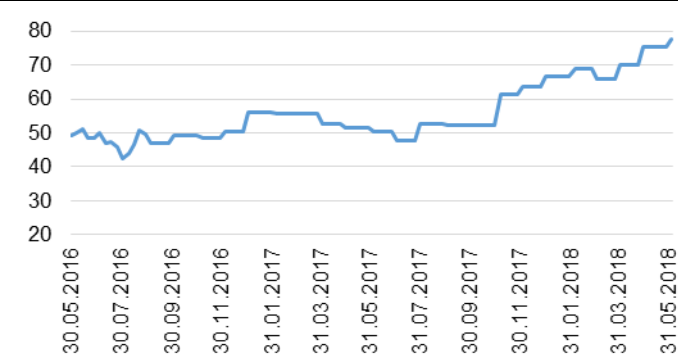
Source: Thomson Reuters

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



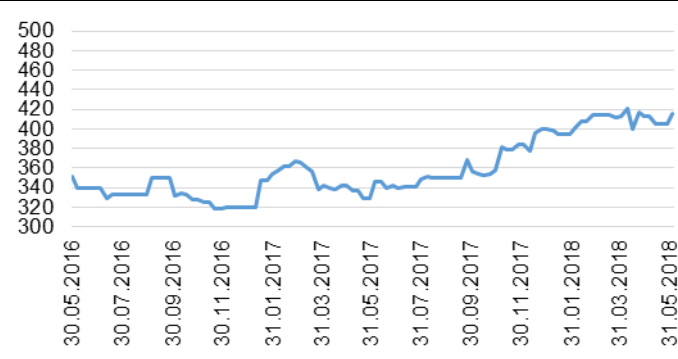
Source: Thomson Reuters

Figure 9. London Brent crude oil price index, \$/bbl



Source: Thomson Reuters

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



Source: Thomson Reuters

Companies' news

Mosaic reported 1Q18 results

Mosaic reported \$42mn net earnings in 1Q2018 compared to \$1mn net loss a year ago. The EPS was \$0.11 per share, negatively affected by non-cash currency translation charges and costs related to the Vale Fertilizantes acquisition. Adjusted EPS was \$0.20 per share for 1Q18. The earnings were negatively affected by the late spring and other weather-related issues that resulted in higher working capital and higher unit costs of phosphate and potash. Mosaic reported net sales of \$1.9bn in 1Q18 compared to \$1.6bn in 1Q17, driven by the acquisition of Vale Fertilizantes. The operating income reached \$81mn in 1Q18 from \$30mn a year ago. Capex was \$223mn in 1Q18, while long-term debt was \$5.1bn at the end of 1Q18. The company targeted to pay down \$500mn of long-term debt this year and already paid \$300mn YTD. The provision for the income tax created in 4Q17 allowed the company to turn a pre-tax loss into the profit for the period in 1Q18.

Net sales in the phosphate segment were \$866mn in 1Q18 up from \$839mn a year ago. Gross margin of the company reached \$49 per ton in 1Q18, and the adjusted gross margin reached \$57/t in the phosphate segment. The average phosphate segment's selling price was \$431/t in 1Q18 compared to \$369/t a year ago. In the potash segment, the company's sales reached 1.7mt in 1Q18 with the gross margin of \$61/t and adjusted gross margin of \$64/t. Net sales in the potash segment reached \$404mn for 1Q18, down from \$414/t a year ago. MOP cash cost was \$86/t, including brine management cost. The average price was \$239/t in 1Q18 compared to \$210/t a year ago. Mosaic Fertilizantes reported 1.6mt of sales volumes versus 1.1mt sold last year with the gross margin of \$37/t. Net sales reached \$665mn in 1Q18, up from \$427/t last year. Gross margin was \$59/t compared to \$18/t a year ago. The average selling price of Mosaic Fertilizantes was \$420/t compared to \$375/t a year ago.

Mosaic provided a guidance for 2Q18, including 2.1-2.4mt sales volumes of potash with \$50-60/t gross margin, 2.1-2.4mt of phosphates sales volumes with the gross margin of \$65-75/t, and 2.0-2.3mt of sales volumes projected for Mosaic Fertilizantes with \$20-30/t adjusted gross margin. The company expects to produce 8.2-9.0mt of potash. Sale volume of phosphates, and 9.2-10mt of Mosaic Fertilizantes sales.

Figure 11. Mosaic 1Q18 results

	1Q18	1Q17	Change, YoY
Net sales	1933,7	1578,1	23%
Cost of goods sold	1691,6	1448,5	17%
Gross margin	242,1	129,6	87%
SG&A	93,6	80,9	16%
Other operating expenses	67,8	18,6	265%
Operating earnings	80,7	30,1	168%
Interest (expense) income, net	-49,4	-25,8	
Foreign currency transaction gain (loss)	-32,2	8,9	
Other (expense) income	-5,6	-4,5	24%
Earnings from consolidated companies before income tax	-6,5	8,7	
Provision for income taxes	-49,9	9,7	
Earnings from consolidated companies	43,4	-1	
Equity in net earnings (loss) of nonconsolidated companies	-3,3	-0,1	
Net earnings including non-controlling interests	40,1	-1,1	
Less Net attributable to non-controlling interests	-2,2	-0,2	
Net earnings (loss) attributable to Mosaic	42,3	-0,9	

Source: Company data

Nutrien reported 1Q18 results

Nutrien reported a net loss from continuing operations of \$1mn and EBITDA of \$487mn in 1Q18. The results were impacted by delayed spring season, according to Nutrien. The earnings from continuing operations adjusted for purchase price allocation (\$74mn) and merger-related costs (\$66mn) were \$0.16 per share. Nutrien reported sales of \$3,695mn in 1Q18 compared with the combined PotashCorp/Agrium result of \$3,737mn in 1Q17. The company's expenses increased 25% YoY to \$771mn in 1Q18. Depreciation and amortization increased by \$112mn in 1Q18 due to the purchase price allocation (PPA). The delayed spring in North America resulted in lower sales of crop nutrients, crop protection products and seed. As a result, gross margin reduced for those three categories of products. Potash net sales reached \$575mn in 1Q18 compared to \$469mn a year ago, and EBITDA increased to \$237mn in 1Q18 up from \$240mn. Sales in the nitrogen segment reduced to \$672mn in 1Q18 from \$706mn in 1Q17, however, EBITDA increased to \$261mn from \$250mn a year ago. The company reported \$150mn total synergies achieved to March 31, 2018.

Nutrien announced about the selling of its stake of 62,556,568 "A shares" at \$65/share in SQM to Tianqi Lithium for the consideration of \$4.07bn. Nutrien remains ownership of 20,166,319 SQM "B shares" and expects to divest them. Nutrien declared \$0.40 dividend per share to be paid to shareholders of record on June 29, 2018.

Figure 12. Nutrien 1Q18 results

\$mn	1Q18	1Q17 combined	YoY
Sales	3695	3737	-1%
Freight, transportation and distribution	-208	-215	-3%
Cost of goods sold	-2640	-2684	-2%
Gross margin	847	838	1%
Expenses	-771	-616	25%
Net earnings from continuing operations	-1	97	

Source: Company data

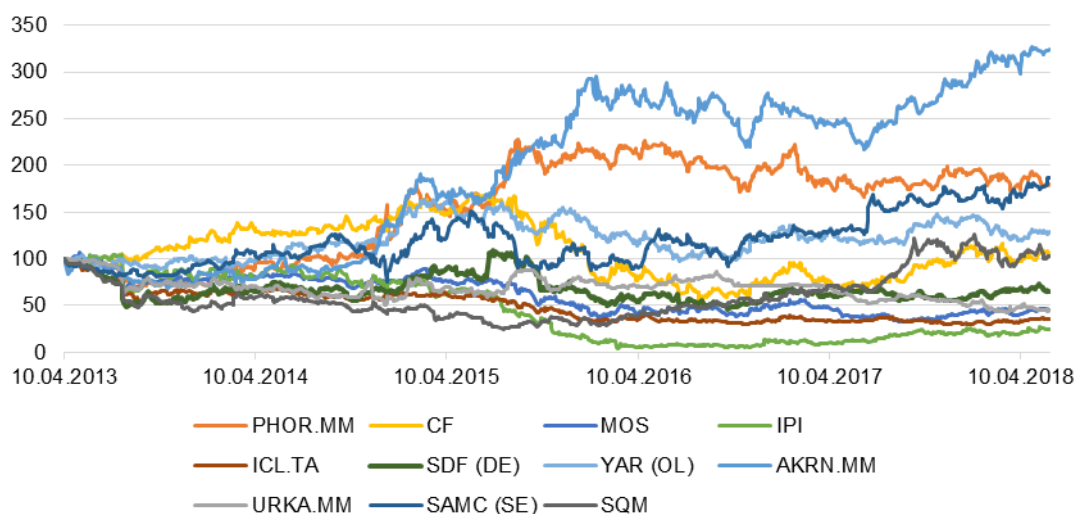
K+S increased revenues in 1Q18

The German potash and salt producer K+S reported increase in revenues by 4% YoY to EUR1.17bn. EBITDA increased by 12% to EUR237mn due to higher deliveries from the new potash mine in Bethune, Canada and higher market prices for potash. Despite the late spring in Europe, the company reported higher deliveries from its Canadian mine. As a result, EBITDA for the Potash and Magnesium products business unit improved by 50% YoY to EUR121mn. Higher freight costs for the Salt business unit and some weather issues resulted in EBITDA decline to EUR121mn in 1Q18 from EUR135mn a year ago. Lower capex expenditures contributed to a higher free cash flow, which reached EUR143mn in 1Q18 up from EUR55mn in 1Q17. The net debt/EBITDA ratio decreased from 8.1x to 6.7x by the end of March 2018. The company reiterated its higher YoY EBITDA expectations for FY2018.

Sector performance

The fertilizer stocks were mostly on a positive territory, following the earnings announcements. Most of the companies re-iterated positive outlook for the second quarter of the year after rather disappointing first quarter results impacted by weather conditions. Nutrien added 10.8% over a month on the news about the sale of its SQM stake for \$4bn and a dividend payment, as well as better prospects for 2Q18. PhosAgro was among worst performers in the sector on the back of concerns about Russian stock market prospects following US sanctions announcement in April.

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	10 661	15 372	18,9	14,2	11,8	8,5	7,6	7,1	1,7	1,6	1,5
CF Industries	9 600	16 272	42,1	24,0	18,2	12,1	10,3	9,7	3,8	3,5	3,4
Intrepid Potash Inc	587	653	40,0	31,3	51,1	12,6	12,0	12,4	3,7	3,7	3,7
Archer Daniels Midland	24 448	32 770	14,2	13,6	12,5	10,2	9,7	9,5	0,5	0,5	0,5
Compass Minerals	2 214	3 418	22,6	16,7	15,9	10,6	9,0	8,9	2,2	2,1	2,1
K&S AG	5 146	8 133	17,3	13,1	11,9	8,4	7,5	7,0	1,7	1,7	1,6
Yara Internationa	11 504	14 663	18,6	12,6	10,5	8,6	6,7	5,9	1,2	1,1	1,0
ICL	5 962	8 294	13,5	11,8	10,7	7,4	6,9	6,7	1,5	1,5	1,4
SQM	13 509	13 731	26,7	22,7	18,9	14,0	11,9	10,1	5,9	5,0	4,5
PhosAgro	4 853	6 752	8,8	8,9	7,8	6,1	6,2	5,6	2,0	1,9	1,8
Nutrien	32 118	42 452	21,2	17,0	13,7	11,6	10,0	9,1	2,3	2,1	2,0

Source: Thomson Reuters, as of 4 Jun 2018

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