

The Mosaic Company

3Q21: strong performance despite production cuts

- The Mosaic Company reports a 44% YoY and 22% QoQ net revenue increase and \$372mn net earnings for 3Q21 compared to a net loss of \$6mn in 3Q20 and net profit of \$437mn in 2Q21.** The company's adjusted EBITDA reached \$969mn in 3Q21, up 121% YoY and 17% QoQ. The strongest in a decade fertiliser price growth helped the company to achieve a strong performance during a quarter despite production cuts and extra repair costs. Phosphate margin grew essentially due to supply disruptions and broadly flat phosphate ore and sulphur prices. A hike in European gas prices resulted in production suspension by some nitrogen producers in the region in September/October and affected the overall ammonia price level. Ammonia Tampa's price was at \$825/MT for November, up by \$590/MT YoY and up by \$160/MT from October. DAP fob prices reached \$605/t in 3Q21, up 97% YoY and 11% QoQ, while MOP fob price was at \$290/t, up 71% YoY and 19% QoQ. Mosaic Fertilizantes average finished product price reached \$524/t in 3Q21, up 65% YoY and 18% QoQ. Strong fertilizer prices offset weaker volumes in 3Q21. Phosphate sales volumes declined 11% YoY and 7% QoQ, potash volumes were down 20% YoY and 22% QoQ and Mosaic Fertilizantes volumes were down 7% YoY while up 43% QoQ. Lower phosphate volumes were attributed to the impact of hurricane Ida and mechanical failure at the New Wales facility, now operational. Mosaic Fertilizantes was the biggest contributor to the company's net revenue with \$1,755mn sales, up 54% YoY and 69% QoQ in 3Q21. Potash net revenue was \$589mn, up 27% YoY on higher potash price despite volume decline. Phosphate net revenue reached \$1,281mn, up 72% YoY and 9% QoQ in 3Q21.
- Fertiliser demand remains strong, supporting price environment.** Mosaic sees the fertilizer affordability index climbing high to the 2008 level, however, demand for fertilizer remains robust. The phosphate demand is estimated at 75-76mt for 2021 and 75-78mt for 2022. The soft commodity environment was also supportive with corn price up 40% YTD, soybean +17%, wheat +32%, palm oil +34%. On the cost side, gas rigs are still relatively low despite high gas prices, and energy prices are expected to be elevated during the winter. Inventories of DAP and phosphate fertilisers in India and China remain at low levels, which are supportive of fertilizer prices. Fertiliser prices may remain above the cycle average in 2022. We adjust our DCF valuation for the company and set the 12-month target at \$41.6 per share. We rate the stock Hold. The high historical level of fertilizer prices represents a potential downside risk for the company. However, the production volumes growth may positively affect its cash flow.

Report date:	5 November 2021
Main exchange	NYSE
Rating	HOLD
12M Target Price, \$	41.6
Current Price, \$	38.8
MCap, \$ mn	14,703
Free float, %	99.6%

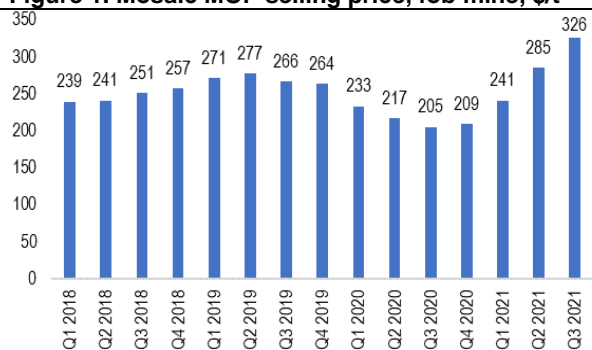
Description:

Mosaic is the world's largest publicly traded phosphate producer and top-3 global potash producer, with an asset base located in North and South America. The company has 25% in Ma'aden phosphate project (MWSPC Saudi Arabia).

*as of 04/11/2021

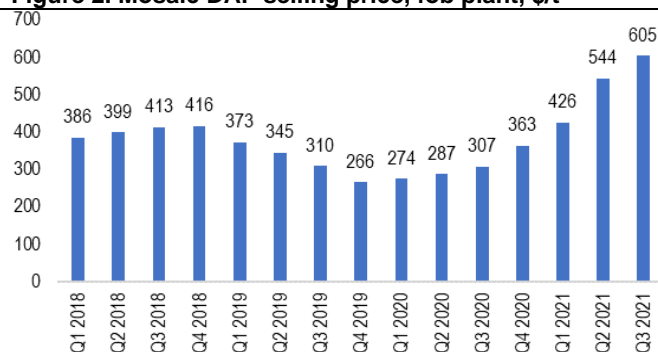
Marina Alekseenkova
Research analyst
+44 (0) 78527 00371
ma@hypothesisresearch.co.uk

Figure 1. Mosaic MOP selling price, fob mine, \$/t



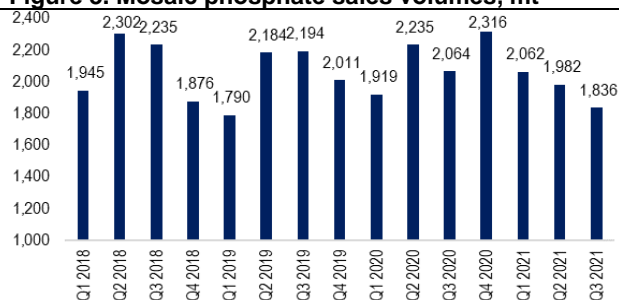
Source: company data

Figure 2. Mosaic DAP selling price, fob plant, \$/t



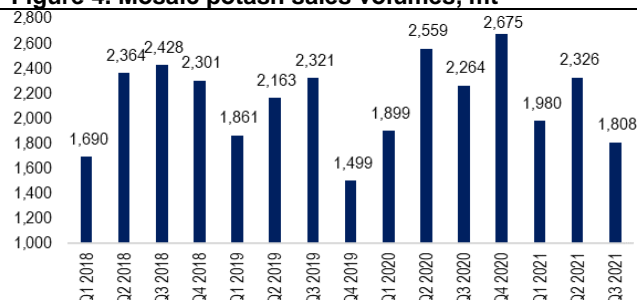
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Figure 3. Mosaic phosphate sales volumes, mt



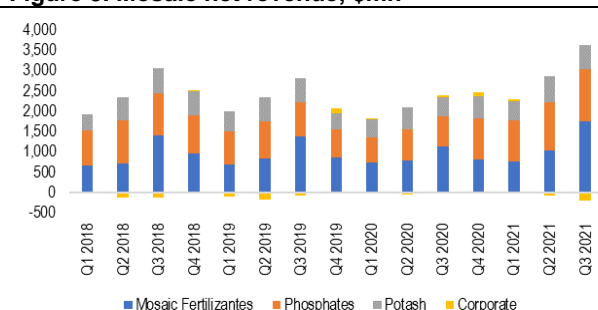
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Figure 4. Mosaic potash sales volumes, mt



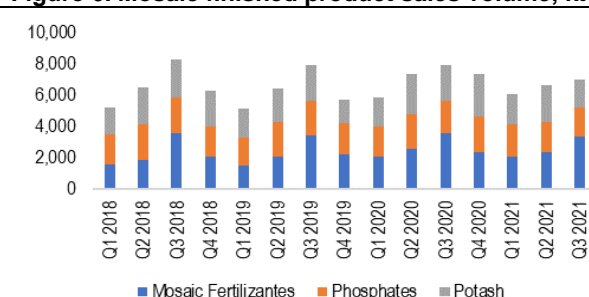
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Figure 5. Mosaic net revenue, \$mn



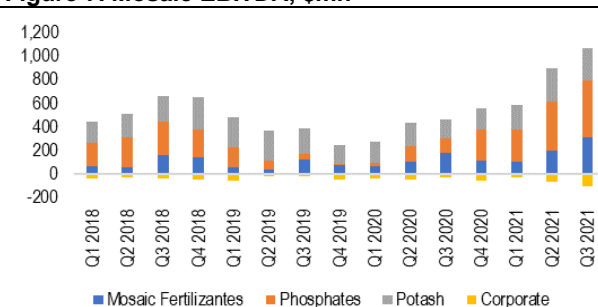
Source: company data

Figure 6. Mosaic finished product sales volume, kt



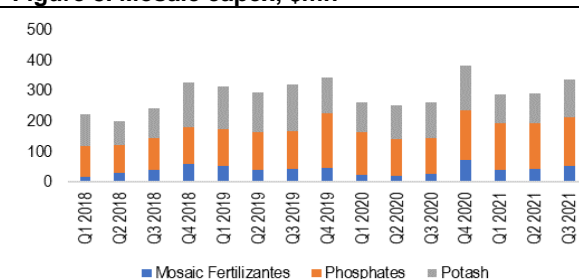
Source: company data

Figure 7. Mosaic EBITDA, \$mn

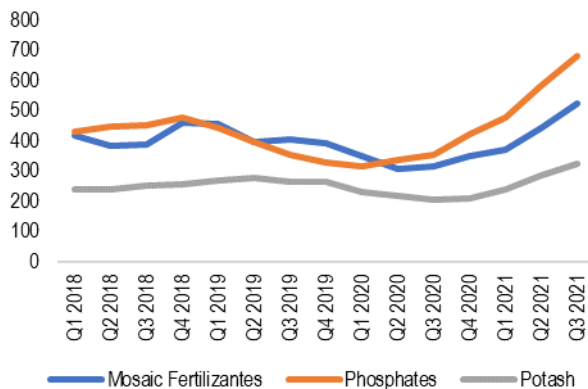


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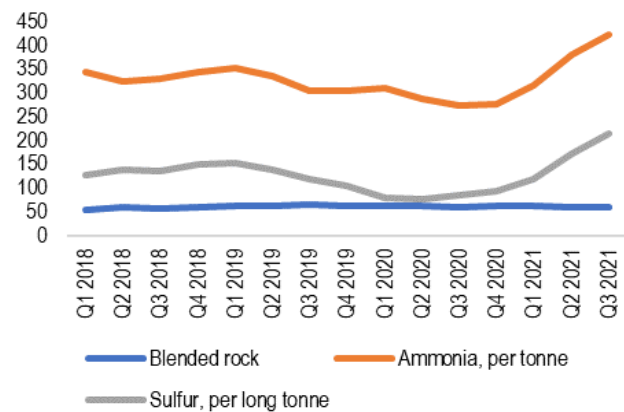
Figure 8. Mosaic capex, \$mn



Source: company data

Figure 9. Mosaic average product prices are above the cycle averages, \$/t

Source: company data

Figure 10. Mosaic feedstock prices for phosphates are at historical high levels, \$/t

Source: company data

Figure 11. Mosaic consolidated profit and loss statement, \$mn

\$mn	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net sales	7409	9587	8906	8682	11030	10318	9994	10544	10959
Cost of goods sold	6567	8089	8009	7617	8616	8446	8649	8952	9266
Gross margin	843	1498	897	1065	2414	1872	1346	1592	1693
SG&A	301	341	354	372	419	442	428	451	469
(Gain) loss on assets sold and to be sold	0	0	0	0	0	0	0	0	0
Restructuring expense, impairment and other	0	0	1462	0	0	0	0	0	0
Plant City closure costs	0	0	0	0	158	0	0	0	0
Other operating expenses	76	229	176	281	20	19	18	19	20
Operating earnings	466	928	-1095	413	1817	1412	900	1121	1204
(Loss) gain in value of share repurchase agreement	0	0	0	0	0	0	0	0	0
Interest (expense) income, net	-138	-166	-183	-181	-193	-193	-193	-193	-193
Foreign currency transaction gain (loss)	50	-192	20	-64	0	0	0	0	0
Other (expense) income	-4	-19	2	13	0	0	0	0	0
Earnings from consolidated companies before income tax	374	552	-1256	181	1624	1219	707	928	1011
Provision for income taxes	495	77	-225	-579	325	244	141	186	202
Earnings from consolidated companies	-121	474	-1031	759	1299	975	566	743	809
Equity in net earnings (loss) of nonconsolidated companies	17	-5	-59	-94	-160	-120	-70	-92	-100
Net earnings including noncontrolling interests	-104	470	-1091	666	1139	854	496	651	709
Less Net attributable to noncontrolling interests	3	0	-23	-1	-1	-1	0	0	-1
Net earnings attributable to Mosaic	-107	470	-1067	666	1138	854	495	651	708
Diluted weighted average number of shares outstanding, mn	351	386	384	381	383	383	383	383	383
EPS	-0.3	1.2	-2.8	1.7	3.0	2.2	1.3	1.7	1.8

Source: company data, Hypothesis Research

Figure 12. Mosaic balance sheet, \$mn

\$mn	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total current assets	4617	4237	3718	3521	4702	5652	6283	6964	7704	8495
Non-current assets	14017	15882	15580	16269	16745	16593	16520	16591	16666	16768
Total assets	18633	20119	19299	19790	21447	22245	22803	23555	24370	25263
Total current liabilities	2031	2484	2592	3147	2935	2902	2995	3123	3257	3395
Long-term debt, less current maturities	4878	4492	4526	4074	4824	4824	4824	4824	4824	4824
Deferred income taxes	1117	1081	1041	1061	1061	1061	1061	1061	1061	1061
Other noncurrent liabilities	968	1459	1773	1754	1754	1754	1754	1754	1754	1754
Total equity	9639	10605	9368	9755	10875	11705	12170	12793	13476	14229
Total liabilities and equity	18633	20119	19299	19790	21447	22245	22803	23555	24370	25263

Source: company data, Hypothesis Research

Figure 13. Fertiliser stocks 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/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Mosaic	14,703	18,016	7.5	6.4	9.2	5.0	4.2	5.7	1.5	1.3	1.5
Nutrien	38,356	50,528	11.3	9.1	13.0	7.2	6.3	8.0	1.9	1.8	1.9
CF Industries	12,583	17,967	12.7	8.6	14.0	7.7	5.5	7.7	3.0	2.4	3.1
Yara International ASA	13,692	17,223	11.3	11.6	11.3	6.2	6.4	6.3	1.1	1.0	1.1
ICL Israel Chemicals Ltd	11,422	14,032	16.4	12.0	18.6	9.0	7.1	9.4	2.1	1.8	2.0
PhosAgro PAO	10,043	11,803	6.2	5.8	11.4	4.9	4.9	6.9	2.2	2.1	2.5
K&S AG	3,411	4,030	3.9	8.5	12.2	4.7	4.3	4.5	1.1	1.0	1.1
Sociedad Quimica y Minera de Chile SA	17,648	17,692	40.2	21.5	22.6	18.1	10.9	11.2	7.1	4.7	4.6
FMC Corp	13,430	16,508	15.3	13.6	11.6	12.4	11.5	10.5	3.3	3.1	2.9
Intrepid Potash Inc	632	607	21.5	10.8	38.4	9.3	5.8	10.2	2.4	2.0	2.9
Average			14.6	10.8	16.2	8.5	6.7	8.1	2.6	2.1	2.4
Mosaic premium / (discount)			-49%	-41%	-43%	-41%	-37%	-30%	-43%	-39%	-35%

Source: Refinitiv

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