

The Mosaic Company

FY21: strong performance despite production cuts

- The Mosaic Company reports a record net income of \$1.6bn (+145% YoY), EPS of \$4.27 per share, and a record Adjusted EBITDA of \$3.6bn (+129% YoY) in FY21. The regular annual dividend raised from \$0.45 to \$0.60 per share starting from 2Q22.** The company's revenue was up 42% YoY to \$12.4bn in FY21 on the back of strong prices offsetting lower volumes. Phosphate finished products volume was down 10% YoY in FY21 and down 22% YoY in 4Q21, while average phosphate product price was up 86% YoY in FY21. Potash sales volume was 13% below last year's result in FY21, while potash selling price was up 49% YoY in FY21, and up 107% YoY in 4Q20. The gross profit grew three-fold to \$3.2bn, and the gross margin improved from 12% in 2020 to 28% in 2021. The potash segment delivered strong operating results due to successful investments in the new Esterhazy K3 potash mine. Potash operating earnings reached \$837mn in FY21, up 108% YoY, while Adjusted EBITDA was \$1.3bn or 78% higher compared to FY20. The company plans to complete the accelerated ramp-up of the K3 mine by the end of 1Q22 with a target production of 5mt in FY22. Colonsay capacity reached 1mt with an \$85/t production cost. The phosphate segment delivered \$1.2bn operating earnings, and \$1.7bn Adjusted EBITDA in FY21 compared to \$147mn operating loss and \$536mn Adjusted EBITDA in FY20. The company sold a record volume of MicroEssentials of 3.3mt. Mosaic Fertilizantes, the Brazilian subsidiary, reported \$745mn operating earnings, up 115% YoY, and Adjusted EBITDA of \$821mn, up 74% YoY in FY21. The segment achieved EBITDA target two years ahead of the plan. Mosaic's consolidated operating earnings were \$2.47bn in FY21, up from \$413mn in FY20. In 4Q21, Mosaic's net income was \$665mn (20% below last year's level mostly due to FX differences), and adjusted EBITDA totaled \$1.2bn (+142% YoY). The rally in gas prices supported the growth of feedstock costs. Ammonia Tampa's price reached \$1,135/t in February 2022, up 244% YoY and up 38% since October 2021. Sulphur price reached \$282/t, up 194% YoY in February 2022. Phosphate rock from Morocco added 79% YoY in February 2022. Mosaic intends to return most of the free cash flow to shareholders in 2022, including 75% of FCF to be distributed in the form of dividends and share purchases. Mosaic plans to complete a \$1bn program with a potential extension. The capex is expected to be at \$1.1bn in FY22 compared to \$1.3bn in FY21.
- Fertiliser demand remains strong, supported by higher soft commodities' prices and energy costs. Political risks created an opportunity for US fertilizer players but also carry a downside.** The strong cycle in chemicals will likely be longer than expected before, supported by the soaring energy and soft commodity prices pushing ammonia, DAP, and potash prices to their 14-year maximums. Mosaic has a strong market position in premium markets and benefits from upgraded potash production and large phosphate capacities. The restricted access of Russian fertilizer producers to the global markets contributes to soaring prices as well. Strong uplift in grain prices since the beginning of the Ukraine crisis improves the affordability of fertilisers. We expect strong average fertilizer prices in 2022, with potential correction in 2023-24. However, the rising inflation will remain supportive for the fertilizer prices above their 5-year historical levels. We update our valuation model. We set the 12-month target at \$69.9 per share up from \$41.6 per share. We rate the stock Hold. The high historical level of fertilizer prices represents a potential downside risk for the stock once political risks fade. The improving geopolitical situation will likely change the sentiment pushing down the energy and feedstock prices.

Report date:	8 March 2022
Main exchange	NYSE
Rating	BUY
12M Target Price, \$	69.9
Current Price, \$	61.1
MCap, \$ mn	23,331
Free float, %	99.6%

Description:

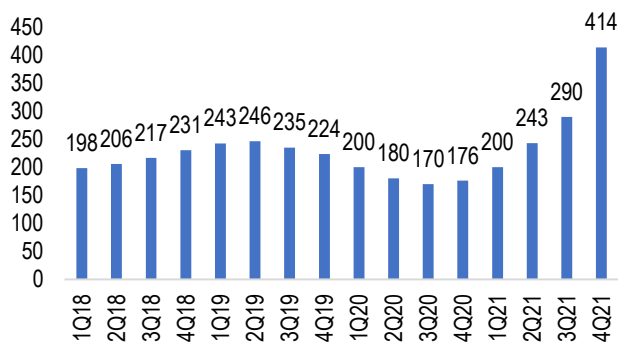
Mosaic is the world's largest publicly traded phosphate producer and top-3 global potash producer, with an asset base located in North and South America.

*as of 08/03/2022

Marina Alekseenkova
Research analyst

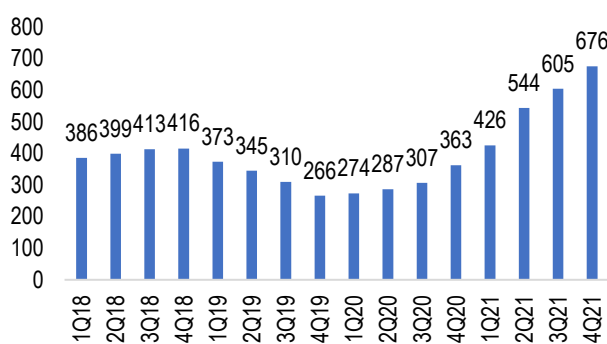
ma@hypothesisresearch.co.uk

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



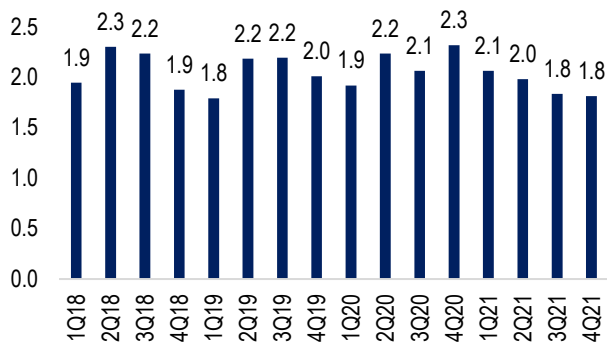
Source: company data

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



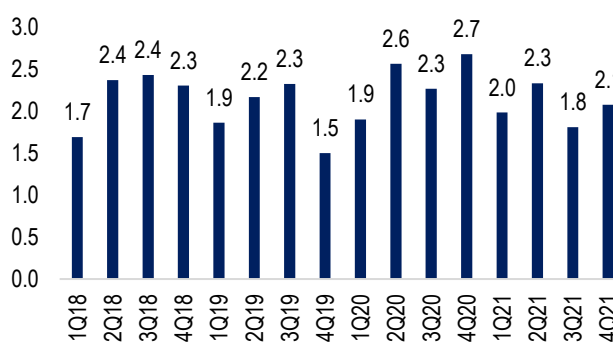
Source: company data

Figure 3. Mosaic phosphate sales volumes, mt



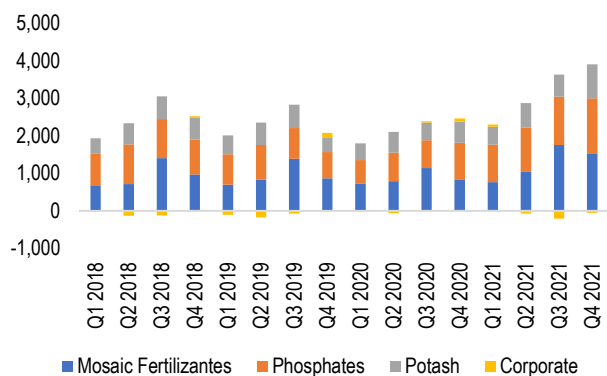
Source: company data

Figure 4. Mosaic potash sales volumes, mt



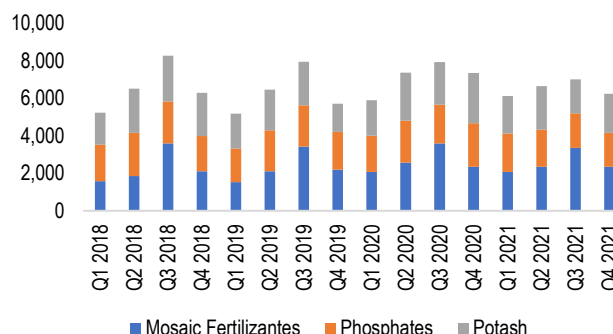
Source: company data

Figure 5. Mosaic net revenue, \$mn



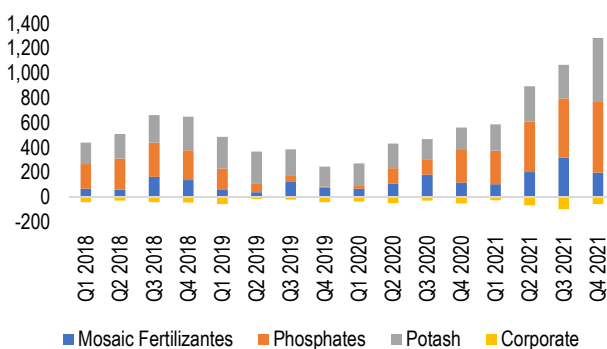
Source: company data

Figure 6. Mosaic finished product sales volume, kt



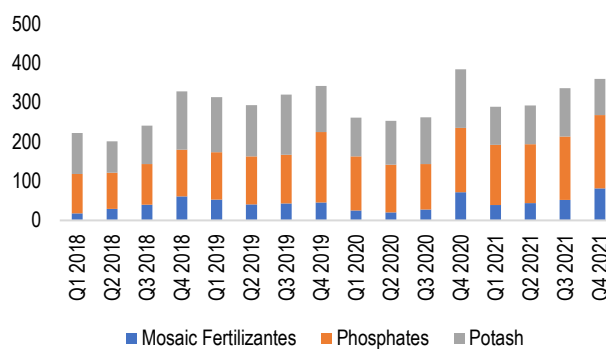
Source: company data

Figure 7. Mosaic EBITDA, \$mn



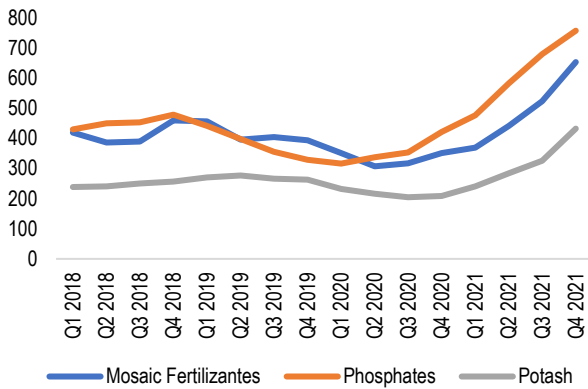
Source: company data

Figure 8. Mosaic capex, \$mn



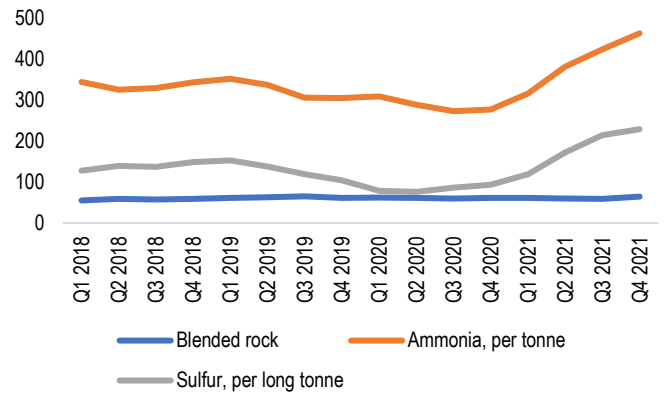
Source: company data

Figure 9. Mosaic average product prices, \$/t



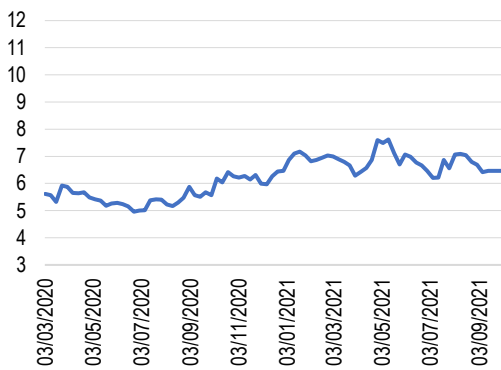
Source: company data

Figure 10. Mosaic feedstock prices for phosphates, \$/t



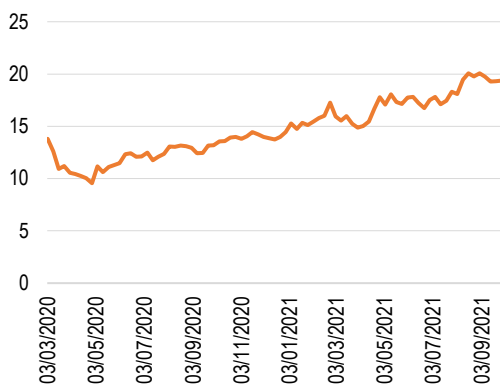
Source: company data

Figure 11. Wheat No.2,Soft Red U\$/Bu



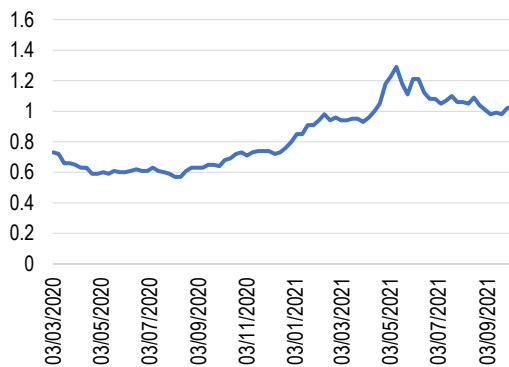
Source: Refinitiv

Figure 12. Raw Sugar-ISA Daily Price c/lb



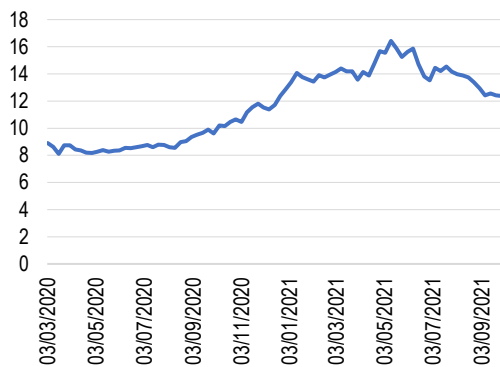
Source: Refinitiv

Figure 13. Corn price index (WISDOMTREE COMMODITY SECURITIES ETC)



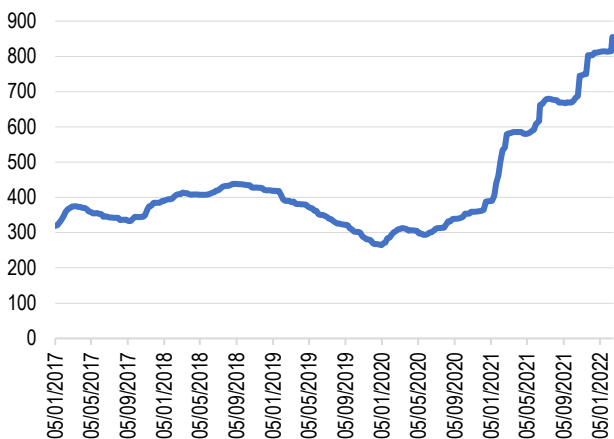
Source: Refinitiv

Figure 14. Soyabeans, No.1 Yellow \$/Bu



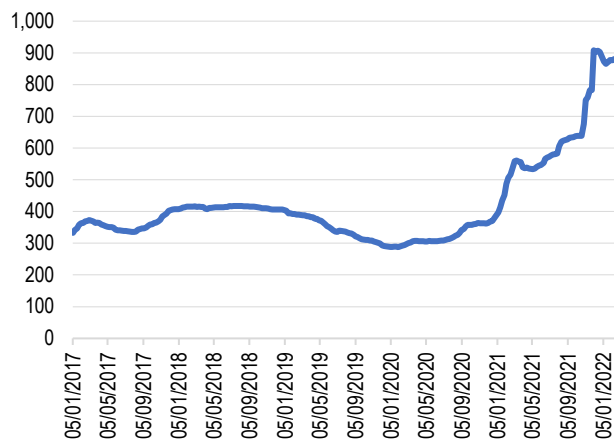
Source: Refinitiv

Figure 15. DAP TAMPA price, \$/t



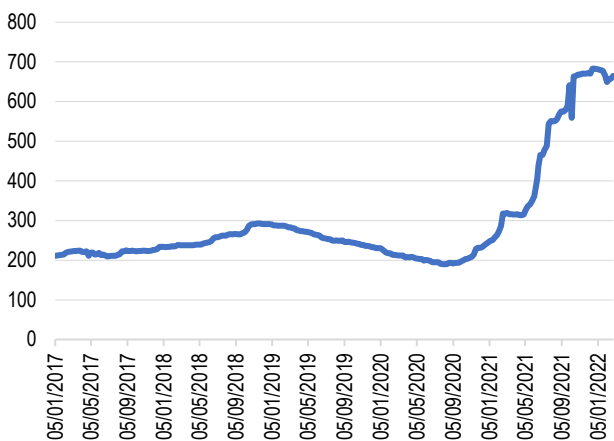
Source: Mosaic

Figure 16. DAP China price, \$/t



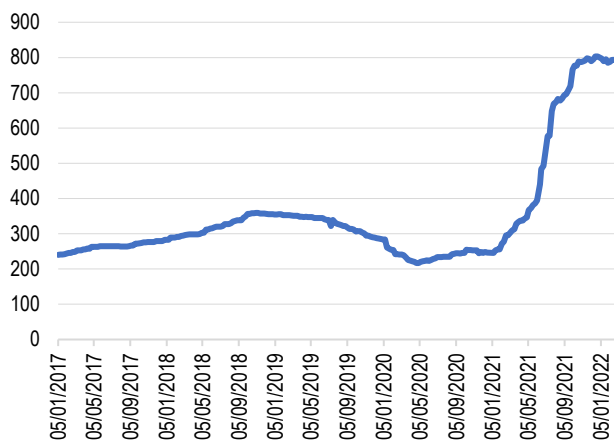
Source: Mosaic

Figure 17. Granular MOP NOLA price, \$/t



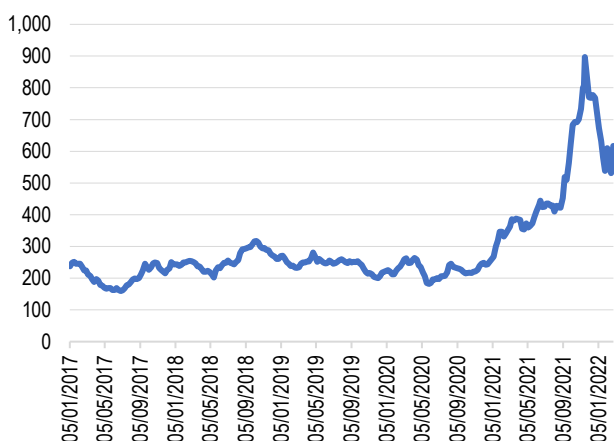
Source: Mosaic

Figure 18. Granular MOP Brazil C&F price, \$/t



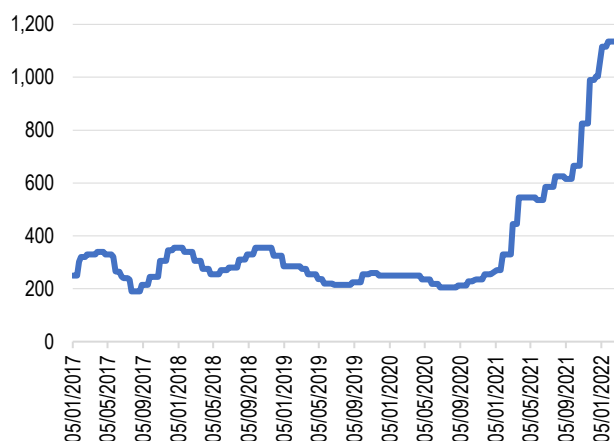
Source: Mosaic

Figure 19. Granular Urea NOLA price, \$/t



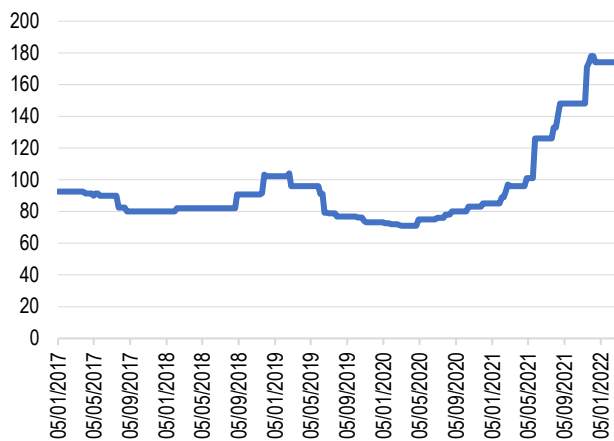
Source: Mosaic

Figure 20. Ammonia-Contract Tampa C&F price, \$/t



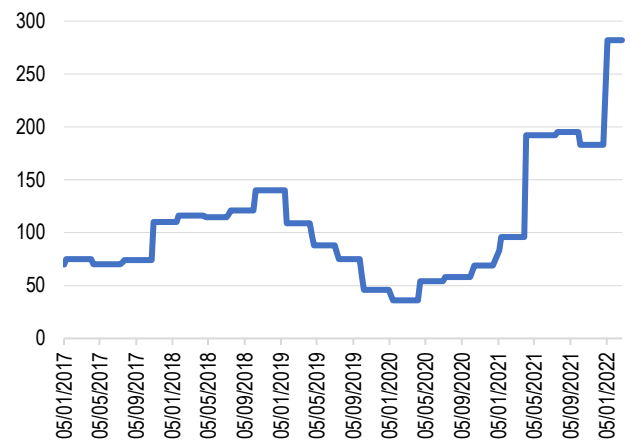
Source: Mosaic

Figure 21. Phosphate rock Morocco price, \$/t



Source: Mosaic

Figure 22. Sulphur – Contract Tampa C&F price, \$/t



Source: Mosaic

Figure 23. Mosaic consolidated profit and loss statement, \$mn

\$mn	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Net Sales	9587	8906	8682	12357	16695	13520	12301	12575	12853
Cost of goods sold	8089	8009	7617	9157	11292	10043	9446	9673	9880
Gross Margin	1498	897	1065	3200	5403	3477	2855	2902	2973
SG&A	341	354	372	431	465	450	451	456	463
Other operating (income) expense	230	1637	280	300	325	321	334	340	344
Operating earnings	927	-1093	413	2470	4613	2706	2070	2107	2166
Interest expense, net	-166	-183	-180	-169	-142	-116	-120	-125	-130
Consolidated foreign currency gain/(loss)	-192	21	-64	-79	0	0	0	0	0
Earnings from consolidated companies before income taxes	550	-1257	181	2224	4471	2589	1949	1982	2036
Provision for (benefit from) income taxes	78	-226	-578	598	939	544	409	416	428
Earnings (loss) from consolidated companies	472	-1031	759	1626	3532	2045	1540	1566	1608
Net earnings (loss) attributable to Mosaic	469	-1067	666	1631	3556	2059	1551	1576	1619
After tax Notable items included in earnings	-347	-1126	341	-291	0	0	0	0	0
EPS	1.2	-2.8	1.7	4.3	9.3	5.4	4.1	4.1	4.2
Adjusted EBITDA	2104	1347	1563	3585	5499	3608	2980	3025	3092
EBITDA margin	22%	15%	18%	29%	33%	27%	24%	24%	24%

Source: company data, Hypothesis Research

Figure 24. Mosaic balance sheet, \$mn

\$mn	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total current assets	4237	3718	3521	5325	10446	11256	12845	14970	17155
Non-current assets	15882	15580	16269	16711	16845	16872	16900	16929	16958
Total assets	20119	19299	19790	22036	27291	28128	29745	31899	34113
Total current liabilities	2484	2592	3147	4787	6626	5548	5143	5240	5344
Long-term debt, less current maturities	4492	4526	4074	3382	2882	2382	2501	2626	2758
Deferred income taxes	1081	1041	1061	1016	1047	1078	1110	1144	1178
Other noncurrent liabilities	1459	1773	1754	2102	2165	2230	2297	2366	2437
Total Mosaic stockholders' equity	10397	9186	9581	10604	14375	16663	18442	20248	22096
Non-controlling interests	207	182	174	144	196	227	251	276	301
Total equity	10605	9368	9755	10749	14570	16890	18694	20523	22397
Total liabilities and equity	20119	19299	19790	22036	27291	28128	29745	31899	34113

Source: company data, Hypothesis Research

Figure 25. Mosaic DCF sensitivity for 12-month fair Market Capitalisation, \$mn

Growth rate, %	WACC, %				
	6.5%	7.5%	8.46%	9.5%	10.5%
0.4%	27,961	33,309	33,309	27,961	21,210
1.4%	24,690	28,639	28,639	24,690	19,378
2.4%	24,690	28,639	28,639	24,690	19,378
3.4%	27,961	33,309	33,309	27,961	21,210
4.4%	39,309	51,763	51,763	39,309	26,673

Figure 26. 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	22,518	26,175	6.1	9.4	12.1	4.5	6.3	7.6	1.5	1.9	2.1
Nutrien	54,764	65,158	8.6	9.5	15.7	5.9	8.2	9.4	1.9	2.0	2.3
CF Industries	19,837	24,504	6.2	13.9	19.7	4.8	7.8	11.1	2.4	3.3	3.9
Yara International ASA	11,661	15,607	7.7	8.0	11.2	4.8	5.3	6.2	0.8	0.9	0.9
ICL	15,258	17,916	12.0	18.8	NaN	7.2	10.3	NaN	2.0	2.3	NaN
PhosAgro PAO	6,147	6,774	0.0	0.0	0.0	3.2	5.3	7.0	1.6	2.1	2.2
K&S AG	4,960	5,654	1.7	6.2	13.4	6.7	3.4	5.6	1.6	1.2	1.4
SQM	21,225	21,448	12.7	14.2	16.5	7.9	8.3	9.5	3.9	3.8	4.0
FMC Corp	14,947	17,622	15.4	13.6	12.2	12.4	11.3	10.5	3.3	3.1	3.0
Intrepid Potash Inc	910	884	13.6	33.0	NaN	6.9	9.6	10.9	2.9	3.5	3.6
Average			8.4	12.7	12.6	6.4	7.6	8.6	2.2	2.4	2.6
Mosaic premium / (discount)			-27%	-26%	-4%	-30%	-16%	-12%	-31%	-22%	-21%

Source: Refinitiv

Important disclosures

Analysts

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