In light of recent news shaping the fertilizer industry, CVA Fertilizer Practice provides a commentary on their impacts and related opportunities & challenges for the fertilizer industry.

CVA comments on fertilizer industry news worth noting:

- OCP considering acquiring a stake in ETG fertilizer distribution network in East Africa for $300m
- LDC Fertilizer & Inputs internal distribution network being divested by the Louis-Dreyfus Commodities group
- Mosaic 400kt DAP/MAP production curtailment in Q1 2016 amid low prices and deferred demand
- AngloAmerican selling its Brazil phosphate & niobium business for $1bn
The turn of year is generally said to be the quiet season for fertilizers. But this time around, it would be unfair to say that the first weeks of 2016 have been dull.

On top of the typical seasonality weakness, the latest development in prices seem to herald a new phase of oversupplied market. The short-term perspectives are not rosy either, with Chinese exporters gaining competitiveness and strengthening their position on key markets, while other players continue on the aggressive expansion path triggered by the tight markets seen since 2008. The high inventories and general softness of agri-commodities prices are also putting a lid of any jump in fertilizer demand.

This could mean 2 to 3 difficult years for fertilizer producers, and leads to a question being on top of most fertilizer executives’ mind today: “How to make sure that my fertilizer product finds a market, especially for new volumes coming on stream?”

Therefore, it is not a surprising to see increased interest for distribution businesses, from fertilizer producers around the globe. Fertilizer producers have historically shunned distribution businesses (with the notable exception of Mosaic and Yara). They were a lower-margin business with limited bargaining power over a consolidated supply base. But now that market shares are at risk, the rationale for further downstream integration warrants a deeper look and novel ideas.

Securing access to markets is the main motivation behind several moves in Latin America in 2014 and 2015: a tie-in between OCP, PCS and the distributor Heringer, the acquisition of Bunge Fertilizer and OFD by Yara and of ADM Fertilizer by Mosaic.

We could now be looking at the second wave of integration, with a broader scope as the oversupply widens. There are currently two major areas of focus.

Firstly, Louis-Dreyfus Commodities is considering divesting its fertilizer distribution unit. This is in following with its peers ADM, Bunge and Cargill, who similarly divested their fertilizer business during the past few years. LDC Fertilizer & Inputs is one of the very few global distribution network, which makes it both a special opportunity and a particular challenge.

An opportunity as it can provide all at once a foothold in Brazil, Argentina, West Africa and Australia to prospective buyers. With a leading market share in West Africa, the acquirer could directly challenge OCP in a backyard market, where netbacks are high for the Moroccan producer.

The challenge lies therefore in finding a fitting acquirer that is interested in all regions. Several players are said to be interested, including SABIC of Saudi Arabia, OCP of Morocco. In the end, a divesture “by compartment” might create the most value for LDC and its prospective buyers.

Secondly, the East African markets, albeit small, are attracting a lot of attention due to their high potential and generally less competitive environment. Yara moved first, establishing strong distribution positions over the past few years, notably in Ethiopia, Tanzania and Kenya, and currently pushing for development in Mozambique. It is now OCP’s turn, as part of a broader ambition to increase its presence on the African continent. With the rumours of OCP acquiring a stake in ETG Fertilizer, the leader in East Africa, it is Ma’aden and SABIC turn to be concerned about protecting their own backyard.
Fertilizer producers have historically shunned distribution businesses but now that market shares are at risk, the rationale for further downstream integration warrants a deeper look and novel ideas.

The last option for fertilizer producers struggling to compete for the low current demand is simply to reduce their output. Mosaic announced recently a 400kt reduction in its Q1 2016 production forecast to this effect, while waiting for demand to pick-up, hopefully in Q2.

Mosaic might be the first mover of a worldwide supply-side discipline that could tighten up the market and shore up prices. But this scenario remains unlikely, with Chinese exporter rarely seen playing the game, and OCP and Ma’aden new capacities coming on stream and incentivized to maximize outputs to pay back their large investments.

In addition to these fertilizer-centered consideration, the faster-than-expected slowdown in Chinese economy oversupply has been taking its toll on almost all commodities (oil, iron ore, base metals etc.). Some miners are feeling the pain from the debt binge that has accompanied the boom of the Chinese-fuelled “supercycle”, and are now refocusing their activities and divesting assets in order to survive the rout.

This asset divestment is a priority at AngloAmerican, where up to $6bn worth of assets are being put on the market for prospective buyers, including Copebras, the Brazilian phosphate mining and fertilizer production complex (MAP and SSP), together with a Niobium mining and refining unit. With MAP production costs estimated to be above $300/t, Copebras is far from being the most cost competitive asset, but its location in the heart of Brazil agricultural region, in an import dependent country, secures its outlets both in the short and long-term.

Three categories of players could be interested by the asset, for different strategic rationale:
- International phosphate producer, such as Mosaic or Agrium
- Brazilian fertilizer distributor, such as Yara or Fertipar
- Diversified mining company with strong balance sheet, such as X2 or South32

International phosphate players can spin off the Niobium unit, while playing a consolidation game of phosphate mining with Vale’s neighbouring assets – which are rumoured to be on sale as well. This would be possible provided the readiness to perform large overseas investment – in the tune of $500m to $1bn – and the conviction that this would not be cannibalizing their own production.

Brazilian fertilizer distributors can leverage the phosphate asset to improve their competitive position significantly on the local market. However, the investment price seems high either for producer-backed Yara who has already performed significant investment over the last 3 years, and independent distributors (Heringer, Fertipar) who dot no have such financial capabilities.

Therefore, the best owners might be smaller diversified miners, with strong balance sheet, looking for opportunities at the right price. Both Niobium and Phosphates would then be of interest: Niobium is one of the most disciplined commodity market, with only three producers worldwide and strong fundamentals linked to aerospace, while phosphate would reduce exposure to Chinese industrial demand, therefore providing a risk mitigation of sorts. The challenge in this case resides in being able to manage two new commodities, including specificities of the chemistry and marketing dimensions of a phosphate business.

In summary, we believe that the fast changing context and ongoing re-shaping of the fertilizer industry value chain creates significant value potential for executive who manage to drive the change and agile enough to seize new opportunities. CVA has been advising leaders of the fertilizer industry for more than 15 years, and is the right partner to achieve tangible strategic in a compressed timeframe.

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Like other commodities, prices of the leading plant nutrient products dropped sharply in 2015. At this writing, the price of urea fob New Orleans (NOLA) barge had breached $200 per ton, down almost 40% or more than $120 from a year ago.

The price of diammonium phosphate (DAP) fob NOLA barge was trading in the $330 per ton range, off more than 20% or about $95 from a year earlier, and the NOLA barge price of blend-grade muriate of potash (MOP) had dropped to the mid-$220s per ton, off about 40% or $145 from a year ago.

So where do phosphorous (P) and potash (K) prices go from here? The answer is no one knows for sure because of the unpredictable events such as extreme weather, macroeconomic shocks, unexpected government policies, and rapid swings in sentiment that move prices.

(Continued on website…)
Louis Dreyfus seeks buyers for juice, fertiliser units
- Reuters

Louis Dreyfus Commodities is seeking buyers for its orange juice and fertiliser units as the global merchant focuses on higher-margin activities, sources said, the latest firm to take steps to weather weak commodity markets. The company had been actively marketing the orange juice and fertiliser businesses for some months, having appointed banks to lead the sales processes, sources said. Another source said the trading group was also looking to spin off its metals and dairy businesses. A company spokeswoman declined to comment.

“They are recalibrating their portfolio... They are going back to the core and looking at where the margins are,” said one source. The vast juice operations - one of the world’s biggest - include seven processing factories in Brazil, the United States and China, as well as orange groves in top grower Brazil and a global trading network. In the competitive fertilizer market, the firm is one of the largest distributors in West Africa, works extensively in South America and has begun expanding in Australia, according to its website.

The search for suitors comes as the 164-year-old firm overhauls its top management just months after installing a new chief and seeks to cut costs after reporting a sharp drop profits in the first six months of the year. Like its peers, Louis Dreyfus has been buffeted by falling prices and volatility that have eroded margins for trading commodities from copper to grains to seeds.

For the broader market, the potential retreat from juice and fertilizers reflects torrid conditions in those industries as demand and prices shrink. Randy Freeman, senior orange juice trader based in the United States, left the company this week after more than three decades at the firm, a fourth source said. Last year, the company’s juice division implemented a cost-cutting program and lowered inventories to deal with shrinking demand and crops hit by greening disease that attacked trees in Florida, the top U.S. growing state, according to its annual report. Orange processors have also struggled as consumers drink less juice from concentrate.

Louis Dreyfus, one of the “ABCD” quartet of traders which dominate global agricultural trading along with Archer Daniels Midland Co, Bunge Ltd and Cargill Inc, is in the midst of a management shake-up. The group has streamlined its management structure by reducing the number of senior executive committees from three to two, information on its website showed, less than three months after promoting Gonzalo Ramirez Martiarena to become chief executive of the family-owned firm.

Former cotton head Anthony Tancredi was named head of the company’s sugar business, which was said to be struggling as years of excess production punish prices. Tancredi has been replaced by Tim Bourgois, who was most recently the company’s global cash trading manager for cotton. Louis Dreyfus’ privately held status has shielded it from some of the turmoil caused by the commodity market downturn that has hit listed rivals such as Glencore Plc.

But media reports have said majority shareholder Margarita Louis-Dreyfus may consider bringing in outside investors to fund the purchase of more shares from minority family shareholders. Its rivals have also put assets on the block and slash costs and debts. Noble Group Ltd’s is in talks to sell its remaining 49-percent stake in its agribusiness to China’s food giant COFCO as it looks to shore up its balance sheet.
OCP hesitates between ETG Fertilizers or organic growth - AfricalIntelligence

http://www.africaintelligence.com/AMA/exploration-production/2016/02/16/ocp-hesitates-between-etg-fertilizers-or-organic-growth,108130282-EVE

Published on February 16th 2016

The new African division of OCP set up last summer under Tarik Choho appears to be of two minds concerning its strategy to conquer new markets and sell its fertilizer on the continent. Some OCP executives are in favour...

(Continued on website – requires payment or subscription)

As the article is not free to publish, please find below a report from LeDesk on the same news:

https://ledesk.ma/encontinu/la-nouvelle-equipe-africaine-de-locp-sur-tous-les-fronts/

Published on February 16nd, 2016

L’équipe d’experts installée par l’OCP à Paris, depuis l’été dernier, pour mener une stratégie de conquête des marchés africains travaille sur plusieurs dossiers. A en croire Africa Mining Intelligence, OCP passerait en revue plusieurs opportunités de croissance externe. La plus importante serait le rachat de l’activité engrais d’Export Trading Group en Afrique de l’Est. ETG Fertilizers de son nom est valorisée à quelque 600 millions d’euros. Sur un autre front OCP International songe à créer ex nihilo son propre réseau africain à travers des implantations dans différents pays d’Afrique subsaharienne.
Mosaic Announces Phosphate Production Curtailments - Mosaic Co.


Published on February 2nd 2016

In response to current crop nutrient market conditions, The Mosaic Company (NYSE:MOS) announced today the Company will reduce production in its Phosphates business. The Company intends to reduce production by up to 400,000 tonnes with rotating plant shutdowns in the first quarter of 2016.

“With the recent price volatility and decline in raw material costs, buyers appear to be delaying purchases. This is lengthening the seasonal period of weak demand,” said Rick McLellan, Senior Vice President, Commercial. “Today’s crop nutrient prices, including phosphates, are attractive to farmers globally and we expect a strong demand response after this seasonally slow period.”

“The long-term positive outlook for phosphates has not changed, but we are adjusting our production levels to match immediate demand and manage our margins,” said Joc O’Rourke, President and Chief Executive Officer.
Anglo CEO Sees $1 Billion Niobium Sale Within Months -Bloomberg


Published on February 16th, 2016

Anglo American Plc, which is shrinking its business by more than half to weather the rout in commodity prices, may sell its $1 billion niobium and phosphate business in Brazil in as little as two months.

“We have got bids coming in as we speak,” Chief Executive Officer Mark Cutifani said in a Bloomberg Television interview on Tuesday. “In the next two weeks, we will actually pin those down in terms of a short list of those we’d like to deal with. Over the next two to three months, I’d expect to be able to resolve something there.”

The London-based miner put the business up for sale last year as part of a wider plan to dramatically downsize. Anglo said Tuesday it was accelerating its asset sales to raise as much as $4 billion this year and is looking to exit iron ore and coal production. The company reported a full-year loss of $5.62 billion and net debt of $12.9 billion.

Cutifani said there are 16 bidders for the niobium and phosphate unit and a shortlist will be drawn up within two weeks. X2 Resources, the private-equity firm founded by former Xstrata Ltd. chief Mick Davis, and South32 Ltd. are among companies considering bidding for the niobium and phosphate business, people with knowledge of the process have said. The business may fetch about a $1 billion, according to people familiar with the matter.

Business Overhaul

Anglo is now focusing on three commodities; diamonds, copper and platinum. That means dozens of mines producing coal to iron ore and nickel are up for sale. Cutifani said that the company expects to make 10 asset sales by the end of the first half.

There has been “lots of interest” in the coal assets as well as the nickel business that was announced today as also up for sale, Cutifani said. He expects talks to progress quickly.

“We’ve already got advisers in the process,” Cutifani said. “In the next two to three months we’ll actually be actively talking to people who are putting numbers on the table to buy the assets.”