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MOSAIC COMPANY *Plymouth, Minnesota*

Rising Food Prices Feed Demand For Potash And Phosphates

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Ah, the sweet smell of success.

It's a fragrance that fertilizer giant **Mosaic Co.**^{MOS} has been savoring the past few quarters as demand and selling prices for its crop nutrients have surged.

"It's a great time to be in the fertilizer business," said Chief Financial Officer Larry Stranghoener. "The supply-demand factors are quite tight in our favor. We're scrambling to produce all we can to meet demand."

Mosaic is the world's largest combined producer of phosphate and potash. It's one of the world's three largest players in potash in terms of capacity and production and No. 1 in finished phosphate.

The company's business and production have come roaring back after a falloff in demand last year amid weak market conditions.

For three straight quarters, Mosaic's profits have soared by at least 170% and sales by at least 17%.

Most recently, in the first quarter of fiscal 2011, earnings popped 191% vs. a year earlier to 67 cents a share. Sales climbed 50% to \$2.18 billion.

Phosphate sales rose 32% to \$1.6 billion. The average selling price rose 55% to \$431 per metric ton as agricultural market conditions strengthened and demand rose.

Potash sales jumped 87% to \$621.9 million from last



Mosaic's potash mine in Saskatchewan. A Russian drought and U.S. yields are driving up prices.

year's low levels as prices for its potash products stabilized and U.S. customers' purchasing behavior improved.

Stranghoener pegs Mosaic's annual capacity at 10 million tons for phosphate and much the same for potash.

But it's ramping up production rapidly to near-capacity levels because of strong market conditions and very robust demand, he says.

Several forces drive demand for Mosaic's products. A Russian drought has crimped the wheat supply. In the U.S., yields from this year's corn crop are lower than expected.

"All this has created a significant run-up in grain and oilseed prices," Stranghoener said.

At the same time, the price of corn has shot up to \$6 a bushel.

"Because of those very attractive grain and oilseed prices, the farmer's econom-

ics are positive," Stranghoener said.

"They're making a lot of money selling crops for high prices, and their input prices are manageable."

As a result, he says, farmers are inclined to plant and ensure that they get the best yields possible by applying more fertilizer.

At the same time, farmers have spent the past two seasons underapplying fertilizer, says analyst Charles Neivert of Dahlman Rose.

If they continued to under-apply fertilizer, they would risk getting a lower crop yield, Neivert says. And given the prices they're getting for crops, it would be in their best interest not to scrimp on fertilizer so they can get the best yields.

Stranghoener says that on a near-term basis there's more demand for potash and phosphate than supply.

He says the price of diammonium phosphate, or

DAP, fertilizer has climbed to \$550 to \$600 a ton from below \$300 six or seven months ago. Over the same period, the price of muriate of potash, or MOP, has surged to more than \$500 a ton from below \$300 a ton.

Mosaic is also reaping benefits from the global need to up food production. The long-term demand for food continues to grow every year, Stranghoener says. It's being fueled by factors such as population growth and the demand for ethanol, which is made from corn as its main ingredient.

As a result, there's ongoing pressure on farmers to produce all they can, Stranghoener says. Mosaic is working toward having plenty of fertilizer to meet growing demand.

"In both potash and phosphate, we're increasing production rates and producing as much as capacity allows," Stranghoener said.

(Continued)

In potash, the company has embarked on a multi-billion-dollar expansion project to take capacity from 10 million tons a year to 15 million tons by 2020.

Potash Growth

At the moment, capacity and production in potash and phosphate are about equal. But Mosaic's Stranghoener expects potash to become a bigger business over time. That would be good for the company's future profitability, since the potash business is generally more profitable than phosphate's.

Meanwhile, watchers ex-

pect the company's business to remain strong. Analysts polled by Thomson Reuters expect fiscal 2011 earnings to rise 97% to \$3.82 a share. They see a 25% rise in fiscal 2012.

"The fundamentals for the industry from now into spring is very good," Neivert said. "Then, we wait to see what grows."

Mosaic CEO Jim Prokopanko was upbeat on the company's prospects in a press release reporting the latest results.

"We expect the market momentum of the past several quarters to continue as distributors replenish depleted inventories and farm-

ers invest in crop nutrients to rebuild phosphate and potash levels in their soils," Prokopanko said. "Global shipments of finished phosphate products are projected to surge to a record-shattering level this year and increase further in 2011."

Meanwhile, Mosaic is making progress dealing with legal issues.

In October, it reached an agreement that would allow limited mining of the Hardee County Extension of its South Fort Meade phosphate rock mine in central Florida. The agreement is with environmental groups that brought a lawsuit in federal court contest-

ing the U.S. Army Corps of Engineers issuance of a federal wetlands permit for the Hardee County Extension.

The court on July 30 issued a preliminary injunction temporarily preventing the company from relying on the permit. Following the preliminary injunction, Mosaic had indefinitely idled the South Fort Meade mine.

"While we are encouraged by this latest development, litigation is ongoing, and we will need a favorable resolution of our larger appeal in order to permanently resume mining activities at South Fort Meade," said Bo Davis, Mosaic's vice president for phosphate operations.