

The Mosaic Company (MOS)

\$19.96 (As of 02/03/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/05/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Earnings estimates for Mosaic for the fourth quarter and 2019 have been moving down over the past month. The company faced challenging market conditions in the third quarter. Mosaic has also cut its earnings guidance for 2019. Sizable costs associated with regulatory changes in Brazil are expected to exert pressure on the company's earnings. Margins in the company's Phosphates segment also remains under pressure. Lower phosphate prices are hurting margins in this business. A meaningful recovery in phosphate margins is not expected in the near term. Mosaic also faces challenges from lower-than-expected phosphate demand in China. Moreover, the overall business environment in agriculture still remain soft and there is a continuous negative sentiment among agriculture investors. Mosaic has also underperformed the industry in the past year.

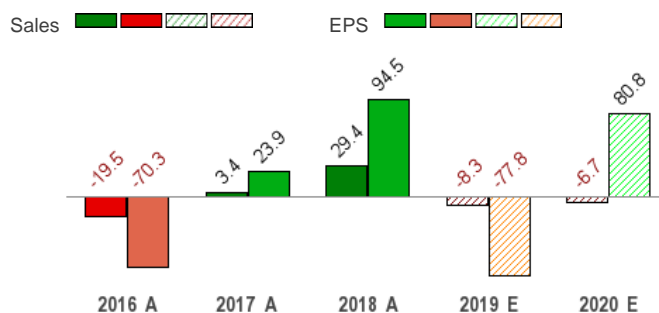
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.91 - \$17.36
20 Day Average Volume (sh)	4,385,152
Market Cap	\$7.6 B
YTD Price Change	-7.8%
Beta	1.74
Dividend / Div Yld	\$0.20 / 1.0%
Industry	Fertilizers
Zacks Industry Rank	Bottom 3% (246 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-70.4%
Last Sales Surprise	6.9%
EPS F1 Est- 4 week change	-20.7%
Expected Report Date	02/19/2020
Earnings ESP	-271.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,526 E	2,098 E	2,533 E	2,278 E	8,198 E
2019	1,900 A	2,177 A	2,753 A	1,941 E	8,789 E
2018	1,934 A	2,205 A	2,928 A	2,521 A	9,587 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.12 E	\$0.27 E	\$0.41 E	\$0.29 E	\$0.85 E
2019	\$0.25 A	\$0.12 A	\$0.08 A	\$0.02 E	\$0.47 E
2018	\$0.20 A	\$0.40 A	\$0.75 A	\$0.77 A	\$2.12 A

*Quarterly figures may not add up to annual.

P/E TTM	16.4
P/E F1	23.5
PEG F1	3.4
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/03/2020. The reports text is as of 02/04/2020.

Overview

Minnesota-based The Mosaic Company is a leading producer and marketer of concentrated phosphate and potash for the global agriculture industry. It was formed through the combination of the fertilizer businesses of agribusiness giant Cargill Incorporated and IMC Global Inc. Mosaic is the biggest integrated phosphate producer globally and is also among the four largest potash producers in the world.

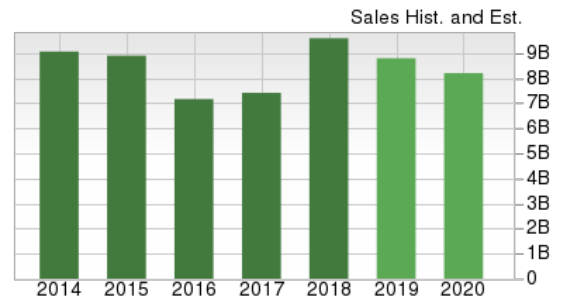
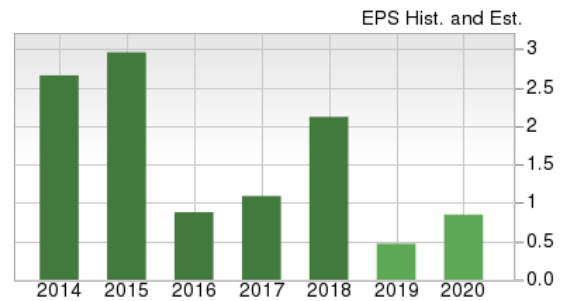
The company caters customers across roughly 40 countries and has 27.2 million tons of operational capacity for finished concentrated phosphate and potash production. It accounts for roughly 14% of global annual phosphate production and around 13% of global annual potash production.

Mosaic mines phosphate rock from around 200,000 acres of company-owned land in Central Florida. It also mines potash from five mines in North America, mainly in Saskatchewan. It processes rock into finished phosphate products at facilities in Florida, Louisiana and Brazil. Its products are processed into crop nutrients, and then shipped thorough rail, barge and ocean-going vessel to customers in major agricultural centers globally.

Mosaic completed the takeover of Archer Daniels Midland Company's fertilizer distribution business in 2014. Mosaic, in late 2016, agreed to buy Brazil-based Vale S.A.'s Vale Fertilizantes business for \$2.5 billion. The transaction was closed on Jan 8, 2018. Following the acquisition, Mosaic is now the leading fertilizer production and distribution company in Brazil. As part of the buyout, the company purchased an additional 40% interest in the Miski Mayo phosphate mine in Peru, results of which are now included in the Phosphates segment.

Following the Vale Fertilizantes acquisition, the company realigned its business segments, effective first-quarter 2018. The company has combined Vale Fertilizantes operations with its legacy distribution business in Brazil to create a new segment called Mosaic Fertilizantes. Moreover, the results of the existing distribution businesses in India and China has now been reflected with "Corporate and Other".

Mosaic generated net sales of \$9,587.3 million in 2018. Phosphates, Potash and Mosaic Fertilizantes segments accounted for 37%, 23% and 38% of the company's total sales in 2018 with other businesses accounting for the balance.



Reasons To Sell:

- ▼ Mosaic's shares have lost 38.1% in the past year, underperforming the 18.5% decline recorded by the industry. The company has reduced its adjusted earnings guidance for 2019, partly due to higher costs related to the impact of new tailings dam regulations in Brazil. The company has curtailed three mines at Mosaic Fertilizantes as it executes its plan to meet new regulatory requirements for tailings dams. The company expects as much as \$80 million in incremental costs for full-year 2019 related to the tailings dam regulatory changes. Cost associated with regulatory changes in Brazil are expected to weigh on its earnings in 2019.
- ▼ The company's phosphate market is relatively tight and margins are under pressure owing to pricing pressure. Mosaic saw margin pressure in the third quarter of 2019 amid lower phosphate prices. Lower prices hurt sales and margins in its Phosphates segment in the quarter. A meaningful recovery in phosphate margin is not expected in the fourth quarter given continued pressure on pricing due to the oversupply in the market.
- ▼ Mosaic is seeing lower phosphate demand in China. Chinese phosphate shipments declined year over year in 2018 to around 16.5 million tons and is expected to further fall in 2019. Factoring in the lower overall phosphate use in China, the company has lowered its Chinese shipment forecast for 2019 to 15.4 million tons. The company also sees lower year-over-year potash shipments in India for 2019 due to delayed monsoon as well as channel destocking that has led to a decline in import requirements.
- ▼ The company's high debt level is still a concern despite its recent de-leveraging actions. Its total long-term debt was roughly \$4.5 billion at the end of the last reported quarter, more than 7-times of its cash and cash equivalents of around \$641 million. This is leading to higher interest expenses. Mosaic saw its interest expenses rise nearly 20% year over year in 2018.
- ▼ The overall business environment in agriculture still remain soft and there is a continuous negative sentiment among agriculture investors that can create uncertainty in the near term. Continued downturn in crop prices is weighing on U.S. farm income. Lower farm income unfavorably impacts grower's input purchasing decisions.

Costs associated with regulatory changes in Brazil will weigh on Mosaic's earnings. It also faces challenges from lower phosphate demand in China. Margins in the company's Phosphates unit also remains under pressure.

Risks

- Mosaic is strongly positioned to leverage the rising global demand for fertilizers. Demand remains strong as farmers are looking to replace nutrients from the soil in most of the major regions globally. The company expects a strong North American fall application season for phosphates in 2019. Unfavorable weather during the first half of the year led to under-application of fertilizers in the region. This is likely to drive higher demand in North America through the fourth quarter. The company also expects strong fertilizer demand in Brazil.
 - The \$2.5 billion buyout of Brazil-based Vale S.A.'s Vale Fertilizantes business has made Mosaic the leading fertilizer manufacturing and distribution company in Brazil. The acquisition helps the company to capitalize on the rapidly growing Brazilian agricultural market and the improving business conditions. The buyout is now on track to generate up to \$50 million in excess of the targeted \$275 million of annualized net synergies by the end of 2019. It will also provide considerable leverage to improvements in the crop nutrient business cycle to the company. The company has completed that integration of the acquired business and realized net synergies of \$158 million in 2018.
 - Mosaic is taking actions to cut costs amid a still challenging operating environment through its cost-cutting program, leading to an improvement in its operating cost structure. It is making progress in controlling its per ton SG&A expenses. The company also expects \$1 billion of cumulative cash flow improvement by end-2020. It generated \$1.45 billion of operating cash flow in 2018. Also, Mosaic continues to drive down cash costs of production in the Potash business. The company expects the curtailment at the Colonsay mine to lower overall production costs in 2019.
 - Mosaic remains committed to expand its annual potash production capacity by roughly 5 million tons from the current levels. The company has made significant progress in its \$5 billion potash capacity expansion projects. It is making a good progress with capacity expansion at Esterhazy (the K3 project) which, once complete, is expected to be the biggest underground potash mine in the world. Ramp up of the project is on schedule and budget. The K3 project is expected to produce 400,000 tons of potash in 2019 and is likely to approach 1-million tons in 2020.
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Last Earnings Report

Mosaic Misses Earnings Estimates in Q3, Cuts FY19 View

Mosaic slipped to a net loss of \$44.1 million or 11 cents per share in third-quarter 2019 from a profit of \$247.5 million or 64 cents in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 8 cents, falling well short of the Zacks Consensus Estimate of 27 cents.

Mosaic faced challenging market conditions in the third quarter. The company noted that its results were hurt by weaker-than-expected gross margins in its Phosphates segment.

Net sales fell roughly 6% year over year to \$2,753.4 million in the quarter. The figure, however, beat the Zacks Consensus Estimate of \$2,575.8 million.

Segment Highlights

Net sales in the Phosphates segment were \$820 million in the quarter, down around 18% year over year mainly due to lower sales prices stemming from weather-related decline in demand in North America. The segment's gross margin per ton was at a loss of \$10 million. Margin was impacted by lower selling prices that more than offset benefits of lower raw material costs.

Potash division's sales rose roughly 1% year over year to \$616 million on the back of higher average sales prices, partly offset by lower sales volumes. Gross margin per ton in the quarter was \$68 million, up 3% year over year.

Net sales in the Mosaic Fertilizantes segment came in at \$1.4 billion, flat year over year. Gross margin per ton fell to \$39 million from \$42 million in the year-ago quarter.

Financials

Mosaic ended the quarter with cash and cash equivalents of \$641.1 million, down around 38% year over year. Long-term debt was essentially flat year over year at around \$4,533.2 million.

Cash flow provided by operating activities was \$486 million in the reported quarter, down 7% year over year. Mosaic's capital expenditures were \$322.3 million in the quarter.

Mosaic has also bought back 7.1 million shares for \$150 million year to date. It repurchased 5.8 million shares for \$125 million in the reported quarter.

Outlook

Mosaic lowered its outlook for 2019. The company now expects adjusted EBITDA for 2019 in the band of \$1.4-\$1.5 billion, down from its earlier view of \$1.8-\$2 billion. It also projects adjusted earnings in the range of 50-60 cents per share, down from its prior guidance of \$1.10-\$1.50.

While the company sees a strong North American 2019 fall application season, it believes that this may not lead to strong near-term revenue recognition given distributors' high inventories.

For the fourth quarter, Mosaic expects phosphates sales volumes in the band of 2.1-2.3 million tons. Potash sales volumes have been forecast in the range of 1.7-1.9 million tons for the quarter. The company also expects sales volumes in the Mosaic Fertilizantes segment in the band of 2.2-2.4 million tons for the fourth quarter.

Mosaic is also temporarily lowering production in phosphates and potash to match demand in 2019. The company envisions that these actions will place it to capitalize on opportunities in 2020.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	6.89%
EPS Surprise	-70.37%
Quarterly EPS	0.08
Annual EPS (TTM)	1.22

Recent News

Mosaic Announces Idling of Colonsay Mine Indefinitely – Jan 28, 2020

Mosaic has announced plans to keep the Colonsay potash mine in Saskatchewan, Canada, idled for the foreseeable future.

The decision will likely impact the company's workers. However, it will allow Mosaic to optimize its production assets in Canada and strengthen its cost position in a competitive market.

Per management, the expansion of its Esterhazy K3 production coupled with sustained soft demand in North America has left the potash business of Mosaic with excess inventory and production capacity. The company continues to anticipate strong global demand for fertilizer as well as healthy business conditions in 2020.

The idling is expected to result in pretax charges of approximately \$530 million in the fourth quarter of 2019. The pretax charges comprise mostly non-cash charges for asset write-offs and \$15-\$20 million in cash severance charges.

Phosphates were also affected by the same market conditions (mainly a third consecutive soft fertilizer application season in North America) that affected potash.

The average realized price of phosphate continued to decline in the fourth quarter of 2019, affecting the annual goodwill impairment analysis and leading Mosaic to anticipate a write-off of up to \$590 million of the Phosphates segment's goodwill.

Mosaic Declares Quarterly Dividend – Dec 19, 2019

Mosaic's board declared a quarterly dividend of 5 cents per share on its common stock. The dividend will be paid on Mar 19, 2020 to stockholders of record as of the close of business on Mar 5, 2020.

Mosaic to Cut Phosphate Production Amid Market Weakness – Dec 19, 2019

Mosaic has announced plans to reduce the production of fertilizer until markets improve. In addition to the 500,000 ton-reduction that the company implemented in the second half of 2019 mainly in Louisiana, it plans to curtail the production of phosphate by 150,000 tons per month at its Central Florida facilities.

Mosaic will continue to operate at lower rates in its Canada potash business. Both phosphate and potash production are anticipated to return to full rates when required to meet the requirements of customers. Per management, the third consecutive disappointing fertilizer application season in North America resulted in continued price weakness and high inventories.

Mosaic will not produce at high rates if it is not able to realize reasonable prices. Moving into 2020, the company expects extended production curtailments to help balance the global supply-and-demand picture. With fertilizer-depleted soils and rising prices of agricultural commodities, it anticipates strong business conditions and healthy demand to continue in 2020.

Mosaic to Temporarily Curtail Production at Esterhazy Mine – Oct 10, 2019

Mosaic has announced that it will temporarily curb production at its Esterhazy potash mine. Previously, the company had stated that it will reduce production of potash, which along with the latest move, brings total curtailments to up to 600,000 tons.

Mosaic does not expect the curtailment to affect the pace of development at the Esterhazy mine K3 project. Growing inventories caused by temporary slowdown in global potash markets and higher risks of a delay in Chinese contract settlement was instrumental in the company's decision to increase the curtailment.

Notably, the company's performance may be impacted by nearly \$150 million in adjusted EBITDA, in case the full amount of the curtailment is realized in lower fourth-quarter 2019 sales. However, Mosaic continues to expect a strong application season in North America and Brazil along with better demand-supply balance in 2020. The company however noted that challenges in fertilizer markets will persist in the near term.

Valuation

Mosaic's shares are down 38.1% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 18.5% and 8.6% over the past year, respectively. The S&P 500 index is up 16.8% in the past year.

The stock is currently trading at 6.56X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.04X for the Zacks sub-industry, 9.7X for the Zacks sector and 12.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.45X and as low as 5.09X, with a 5-year median of 7.76X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 19.33X forward 12-month earnings per share.

The table below shows summary valuation data for MOS:

Valuation Multiples - MOS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.56	6.04	9.7	12.01
	5-Year High	14.45	20.89	18.17	12.86
	5-Year Low	5.09	6.04	7.34	8.49
	5-Year Median	7.76	9.11	10.53	10.66
P/E F12M	Current	22.69	16.58	13.85	19.07
	5-Year High	43.98	41.13	21.12	19.34
	5-Year Low	8.46	10.16	9.76	15.17
	5-Year Median	15.9	17.51	13.85	17.44
P/B TTM	Current	0.73	1.05	2.37	4.41
	5-Year High	1.84	2.48	3.54	4.42
	5-Year Low	0.64	1.02	1.34	2.85
	5-Year Median	0.99	1.37	2.17	3.6

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Bottom 3% (246 out of 254)



Top Peers

Bunge Limited (BG)	Outperform
BASF SE (BASFY)	Neutral
CF Industries Holdings, Inc. (CF)	Neutral
Israel Chemicals Shs (ICL)	Neutral
The Scotts Miracle-Gro Company (SMG)	Neutral
Intrepid Potash, Inc (IPI)	Underperform
Nutrien Ltd. (NTR)	Underperform
Sociedad Quimica y Minera S.A. (SQM)	Underperform

Industry Comparison Industry: Fertilizers				Industry Peers		
	MOS Underperform	X Industry	S&P 500	CF Neutral	IPI Underperform	NTR Underperform
VGM Score	C	-	-	B	C	D
Market Cap	7.56 B	6.91 B	23.66 B	8.64 B	300.89 M	24.48 B
# of Analysts	5	4	13	1	2	7
Dividend Yield	1.00%	1.27%	1.82%	3.02%	0.00%	4.21%
Value Score	C	-	-	B	B	F
Cash/Price	0.09	0.09	0.04	0.12	0.04	0.02
EV/EBITDA	7.16	8.43	13.87	7.06	6.59	16.58
PEG Ratio	3.47	2.48	1.97	2.78	NA	1.88
Price/Book (P/B)	0.74	0.90	3.24	1.52	0.70	1.06
Price/Cash Flow (P/CF)	4.52	7.79	13.40	7.79	6.61	8.00
P/E (F1)	24.31	16.69	18.48	16.69	14.71	15.04
Price/Sales (P/S)	0.81	1.21	2.60	1.85	1.33	1.21
Earnings Yield	4.26%	5.99%	5.40%	5.99%	7.02%	6.65%
Debt/Equity	0.44	0.41	0.72	0.74	0.08	0.41
Cash Flow (\$/share)	4.41	3.48	6.92	5.10	0.34	5.34
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	-12.13%	-12.13%	10.80%	-22.34%	NA	NA
Proj. EPS Growth (F1/F0)	80.43%	12.12%	7.46%	10.28%	10.71%	22.25%
Curr. Cash Flow Growth	58.14%	42.96%	10.59%	42.96%	234.57%	286.64%
Hist. Cash Flow Growth (3-5 yrs)	1.34%	-4.30%	8.55%	-7.18%	-11.72%	5.58%
Current Ratio	1.51	1.62	1.21	1.34	1.62	1.28
Debt/Capital	30.54%	29.68%	42.91%	42.53%	7.12%	28.83%
Net Margin	-0.36%	8.50%	11.76%	10.42%	8.50%	20.95%
Return on Equity	4.48%	6.49%	17.24%	7.98%	4.61%	6.49%
Sales/Assets	0.46	0.45	0.55	0.36	0.41	0.44
Proj. Sales Growth (F1/F0)	-6.73%	1.70%	4.22%	-1.03%	-1.41%	6.87%
Momentum Score	F	-	-	D	D	C
Daily Price Chg	0.60%	0.00%	0.67%	-1.32%	-4.20%	0.09%
1 Week Price Chg	3.66%	0.00%	-2.60%	-1.59%	7.69%	-3.59%
4 Week Price Chg	-3.85%	-1.93%	-0.76%	-13.59%	-11.97%	-9.64%
12 Week Price Chg	-4.63%	-2.32%	2.84%	-14.42%	-6.17%	-11.88%
52 Week Price Chg	-37.53%	-16.73%	13.93%	-6.82%	-26.92%	-17.94%
20 Day Average Volume	4,385,152	114,387	1,915,782	2,153,637	769,869	1,587,255
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-20.75%	-7.45%	0.00%	-7.79%	-20.51%	-7.45%
(F1) EPS Est 12 week change	-46.93%	-13.63%	-0.13%	-11.34%	-38.82%	-13.63%
(Q1) EPS Est Mthly Chg	-30.30%	-16.13%	0.00%	-6.12%	NA	-103.85%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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