

The Mosaic Company (MOS)

\$18.40 (As of 08/10/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Mosaic swung to profits in second-quarter 2020. Adjusted earnings and sales also surpassed the respective Zacks Consensus Estimate. The company is likely to gain from higher demand for fertilizers. Demand for phosphate and potash in North America is expected to be strong in the 2020 after three consecutive seasons of under-application of fertilizers. The acquisition of Brazil-based Vale Fertilizantes is also expected to deliver significant synergies. The company is also expected to benefit from cost-reduction initiatives. Its efforts to lower debt are also encouraging. Moreover, it has outperformed the industry in the past year. However, Mosaic faces challenges from lower phosphate demand in China. The coronavirus outbreak is impacting fertilizer demand in China. Further, lower prices are impacting sales across all three segments.

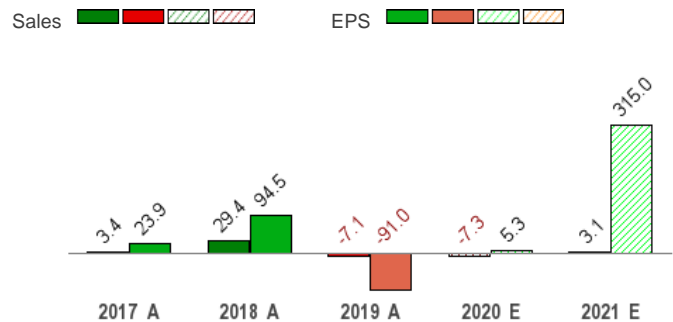
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.18 - \$6.50
20 Day Average Volume (sh)	4,802,157
Market Cap	\$7.0 B
YTD Price Change	-15.0%
Beta	1.73
Dividend / Div Yld	\$0.20 / 1.1%
Industry	<u>Fertilizers</u>
Zacks Industry Rank	Top 25% (64 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	375.0%
Last Sales Surprise	9.3%
EPS F1 Est- 4 week change	380.2%
Expected Report Date	11/02/2020
Earnings ESP	18.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,692 E	1,962 E	2,314 E	2,186 E	8,512 E
2020	1,798 A	2,045 A	2,329 E	1,947 E	8,253 E
2019	1,900 A	2,177 A	2,753 A	2,076 A	8,906 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.17 E	\$0.22 E	\$0.36 E	\$0.36 E	\$0.83 E
2020	-\$0.06 A	\$0.11 A	\$0.18 E	\$0.02 E	\$0.20 E
2019	\$0.25 A	\$0.12 A	\$0.08 A	-\$0.29 A	\$0.19 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	92.0
PEG F1	13.1
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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. It accounts for roughly 13% of global annual phosphate production and around 11% of global annual potash production.

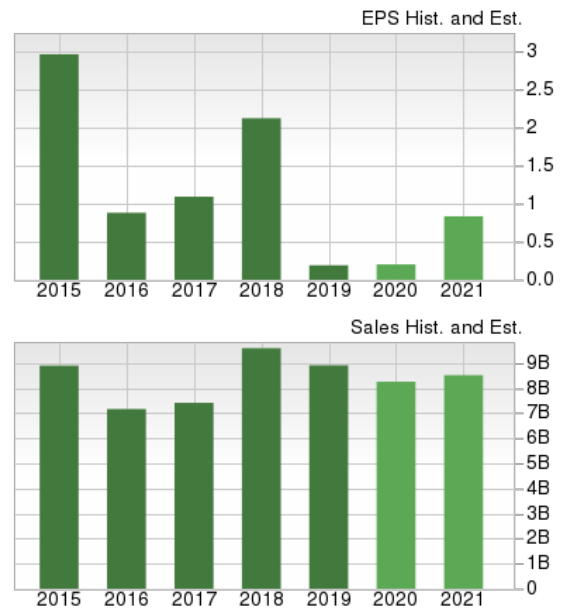
Mosaic also accounts for roughly 74% of North American annual phosphate crop nutrients production. Its North American potash business also represents around 11% of global annual output and roughly 34% of North American annual production.

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, in early 2018, completed the purchase of Brazil-based Vale S.A.'s Vale Fertilizantes business for \$2.5 billion. 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 \$8,906.3 million in 2019. Phosphates, Potash and Mosaic Fertilizantes segments accounted for around 36%, 24% and 40% of the company's total sales in 2019.



Reasons To Buy:

- ▲ Mosaic's shares have lost 11.2% in the past year, outperforming the 16.6% decline recorded by the industry. Mosaic is positioned to leverage higher global demand for fertilizers. Demand for phosphate and potash in North America is expected to be strong in the 2020. Unfavorable weather led to under-application of fertilizers in the region for three consecutive seasons. This is driving higher demand in North America. The company expects U.S. farmers to plant 10-15 million more acres in 2020 compared with 2019. Mosaic also expects strong global demand for fertilizers in 2020 based on solid worldwide demand for grains and oilseeds. The company also expects higher demand for phosphate and potash in Brazil this year on healthy farm economics. Globally, fertilizer inventories have been utilized over the first half of 2020 and key fertilizer markets such as India and Brazil are experiencing strong year-over-year growth heading into their peak application seasons. Further, tightening Chinese corn market is driving domestic demand and consumption of all fertilizers.
- ▲ 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 generated around \$330 million in annual net synergies in 2019, in excess of the company's target of \$275 million. It also provides considerable leverage to improvements in the crop nutrient business cycle to the company. The company has completed that integration of the acquired business. It plans to drive an additional \$200 million in annual operating earnings at Mosaic Fertilizantes through business transformation actions by the end of 2022. It expects to achieve \$50 million in Mosaic Fertilizantes' transformational savings in 2020.
- ▲ 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. Also, Mosaic continues to drive down cash costs of production in the Potash business. The transition of production from Colonsay to lower cost K3 will reduce the company's cash cost of production. The company's efforts to streamline processes, centralize mining operations and automation is also helping to reduce costs.
- ▲ The company's effort to lower debt is encouraging. Its total debt was \$5,197 million at the end of the second quarter of 2020, sequentially down from \$5,580 million at the end of the first quarter. Moreover, its cash and cash equivalents surged 167% year over year to \$1.1 billion as of Jun 30, 2020. It also has a strong liquidity position of more than \$3 billion, which appears to be adequate to meet its short-term debt obligations.

Mosaic should gain higher demand for fertilizers. The Vale Fertilizantes acquisition will also deliver significant synergies. Mosaic should also benefit from cost reduction actions.

Reasons To Sell:

- ▼ Declining prices of fertilizers is a concern. Lower prices affected sales in all three segments segment in the last reported quarter. Further, margins in the Potash segment declined 27% year over year due to lower prices. Persistent pressure on pricing due to an oversupplied market may exert on the company's margins.
- ▼ Mosaic is seeing lower phosphate demand in China. Chinese phosphate shipments declined year over year in 2019 to around 17.6 million tons and is expected to further fall in 2020. Supply and logistics disruptions due to the coronavirus outbreak is expected to impact consumption in China over the near term. The company expects phosphate demand in China to be flat this year. It also expects potash shipments in China to fall year over year in 2020.
- ▼ The overall business environment in agriculture still remain soft. The coronavirus outbreak has exerted pressure on agricultural commodity prices, particularly for corn and soybean. Moreover, disruptions associated with the outbreak are likely to hurt demand in China, a top consumer of agricultural commodities. Weaker expected demand in China due to the impact of coronavirus is likely to put pressure on crop commodity prices in the near term, which will affect demand for fertilizers.

Mosaic faces challenges from lower phosphate demand in China. Margins in the company's Phosphates unit also remains under pressure due to weak pricing.

Last Earnings Report

Mosaic's Earnings and Sales Surpass Estimates in Q2

Mosaic logged net income of \$47.4 million or 12 cents per share in second-quarter 2020 against a net loss of \$233.1 million or 60 cents in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 11 cents that beat the Zacks Consensus Estimate of a loss of 4 cents.

Net sales fell 6.1% year over year to \$2,044.7 million in the quarter. However, the figure beat the Zacks Consensus Estimate of \$1,871.5 million.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	9.25%
EPS Surprise	375.00%
Quarterly EPS	0.11
Annual EPS (TTM)	-0.16

Segment Highlights

Net sales in the Phosphates segment were \$763 million in the quarter, down 16.8% year over year due to lower sales prices. The segment's gross margin improved to \$7 from a loss of \$7 million in the year-ago quarter as lower raw material costs, strong volumes and production cost improvement overcame price declines.

Potash division's net sales dropped 7.3% year over year to \$555 million mainly due to lower prices, which was partly offset by higher sales volumes during the North America spring planting season. Gross margin in the quarter was \$132 million, down 27.1% year over year, as lower prices more than offset lower production costs and higher sales volumes.

Net sales in the Mosaic Fertilizantes segment were \$787 million, down 5.5% year over year. Results were affected from lower prices that more than offset stronger sales volumes. Gross margin increased to \$101 million from \$35 million in the year-ago quarter due to lower turnaround and idle costs as well as considerable currency tailwinds.

Financials

At the end of first six months, Mosaic had cash and cash equivalents of \$1,073.3 million, up 167.1% year over year. Long-term debt fell 0.3% year over year to \$4,527.9 million.

Net cash provided by operating activities rose 62% year over year to \$813.7 million in the reported quarter. The company's capital expenditures were \$257 million in the quarter.

Outlook

For 2020, Mosaic now expects depreciation, depletion and amortization of \$860-\$910 million compared with \$910-\$920 million expected earlier. The company continues to anticipate net interest expenses of \$180-\$190 million for 2020. Capital expenditure is expected to be around \$1.2 billion for 2020.

The company also stated that phosphate fertilizer products prices have strengthened globally. This reflects tightening supply and demand balance. Further, it expects potash prices to be stable. The risk of coronavirus is also expected to persist throughout the remainder of 2020.

Recent News

Mosaic Declares May Sales Volumes & Revenues of Units

Mosaic, on **Jun 11, 2020**, released May 2020 sales volume and revenue figures for its segments.

In the Potash unit, the company recorded sales volume of 810,000 tons in May, up 8.7% year over year. Revenues in the segment fell 13.7% year over year to \$176 million in the month.

In the Mosaic Fertilizantes unit, sales volume rallied 39.6% year over year to 870,000 tons. Revenues in the segment fell 3.2% year over year to \$259 million in May.

In Phosphates, the company reported 19.1% year-over-year decline in sales volume to 608,000 tons. Revenues in the segment declined 34.2% year over year to \$214 million in May.

Mosaic Repays \$400M Drawn From Revolving Credit Facility

Mosaic, on **Jun 4, 2020**, announced that it has repaid \$400 million drawn from its revolving credit facility in March. After the repayment, Mosaic stated that it has roughly \$3 billion in liquidity, including around \$1 billion in cash and \$2 billion in unutilized committed revolving credit capacity.

The company also stated that it originally accessed its credit line to build its cash balance to nearly \$1 billion due to uncertainty stemming from the coronavirus outbreak.

Considering its business performance to date as well as the impact of some cash management activities, Mosaic noted that it is now able to fully repay the outstanding balance under its revolver while keeping a solid liquidity position.

Mosaic Declares April Sales Volumes & Revenues of Segments

Mosaic, on **May 11, 2020**, released April 2020 sales volume and revenue figures for its segments.

In the Potash unit, the company recorded sales volume of 914,000 tons in April, up 42.6% year over year. Revenues in the segment rose 11.7% year over year to \$200 million in the month.

In the Mosaic Fertilizantes unit, sales volume rallied 11.5% year over year to 592,000 tons. However, revenues in the segment fell 14.4% year over year to \$173 million in April.

In Phosphates, the company reported 22.5% year-over-year growth in sales volume to 751,000 tons. However, revenues in the segment fell 4.8% year over year to \$258 million in April.

Valuation

Mosaic's shares are down 16% in the year-to-date period and 11.2% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry

and Zacks Basic Materials sector are down 14.1% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.6% and up 10.8%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 7.45X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 9.8X for the Zacks sub-industry, 10.94X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.6X and as low as 4.41X, with a 5-year median of 7.35X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 34.03X 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	7.45	9.8	10.94	12.62
	5-Year High	14.6	20.98	18.08	12.84
	5-Year Low	4.41	5.72	6.56	8.25
	5-Year Median	7.35	9.31	10.77	10.9
P/E F12M	Current	31.31	20.93	15.2	22.75
	5-Year High	61.79	41.13	21.06	22.75
	5-Year Low	8.46	10.16	9.86	15.25
	5-Year Median	17.67	19.53	13.53	17.58
P/B TTM	Current	0.81	2.04	2.43	4.67
	5-Year High	1.54	2.04	3.07	4.67
	5-Year Low	0.28	0.59	1.23	2.85
	5-Year Median	0.93	1.33	2.2	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bunge Limited (BG)	Outperform	1
The Scotts MiracleGro Company (SMG)	Outperform	1
BASF SE (BASFY)	Neutral	3
CF Industries Holdings, Inc. (CF)	Neutral	3
Israel Chemicals Shs (ICL)	Neutral	2
Intrepid Potash, Inc (IPI)	Neutral	3
Nutrien Ltd. (NTR)	Neutral	3
Sociedad Quimica y Minera S.A. (SQM)	Neutral	3

Industry Comparison Industry: Fertilizers				Industry Peers		
	MOS	X Industry	S&P 500	CF	IPI	NTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	B	F
Market Cap	6.97 B	6.97 B	23.56 B	7.46 B	146.25 M	20.90 B
# of Analysts	6	4	14	6	2	7
Dividend Yield	1.09%	0.00%	1.71%	3.44%	0.00%	4.91%
Value Score	B	-	-	A	A	C
Cash/Price	0.16	0.16	0.07	0.08	0.28	0.16
EV/EBITDA	22.92	6.34	13.39	5.76	2.53	7.41
PEG Ratio	12.96	3.63	2.92	4.06	NA	2.85
Price/Book (P/B)	0.80	0.88	3.18	1.34	0.35	0.95
Price/Cash Flow (P/CF)	4.35	6.13	12.69	5.82	3.01	6.85
P/E (F1)	90.70	24.24	22.16	24.36	NA	22.78
Price/Sales (P/S)	0.80	0.97	2.55	1.75	0.69	1.04
Earnings Yield	1.09%	4.10%	4.33%	4.10%	-3.64%	4.39%
Debt/Equity	0.52	0.43	0.77	0.71	0.04	0.43
Cash Flow (\$/share)	4.23	3.23	6.94	5.99	0.37	5.35
Growth Score	B	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	-17.18%	-2.52%	10.41%	-2.52%	NA	NA
Proj. EPS Growth (F1/F0)	6.14%	-25.69%	-6.51%	-35.80%	-135.00%	-25.81%
Curr. Cash Flow Growth	-5.87%	-5.87%	5.26%	10.61%	6.78%	-6.24%
Hist. Cash Flow Growth (3-5 yrs)	-2.99%	-0.94%	8.55%	-0.27%	-11.59%	15.09%
Current Ratio	1.30	1.85	1.34	1.85	1.86	1.07
Debt/Capital	34.32%	32.09%	44.59%	41.52%	4.11%	29.85%
Net Margin	-12.92%	3.10%	10.13%	8.87%	-6.84%	4.08%
Return on Equity	-0.64%	4.26%	14.59%	6.76%	-2.05%	4.26%
Sales/Assets	0.45	0.43	0.51	0.34	0.36	0.43
Proj. Sales Growth (F1/F0)	-7.33%	0.00%	-1.54%	-12.04%	-15.43%	1.08%
Momentum Score	A	-	-	A	B	F
Daily Price Chg	7.04%	0.64%	0.91%	5.28%	18.51%	3.38%
1 Week Price Chg	27.62%	2.50%	2.30%	5.75%	2.44%	8.87%
4 Week Price Chg	42.08%	11.18%	8.54%	17.24%	42.86%	10.35%
12 Week Price Chg	67.88%	5.62%	13.68%	32.17%	3.77%	11.63%
52 Week Price Chg	-11.35%	-15.96%	3.71%	-28.64%	-65.63%	-27.21%
20 Day Average Volume	4,802,157	99,769	2,015,804	2,964,703	740,247	1,684,401
(F1) EPS Est 1 week change	225.27%	0.00%	0.00%	7.51%	0.00%	0.00%
(F1) EPS Est 4 week change	380.16%	13.00%	1.67%	12.91%	22.22%	-1.66%
(F1) EPS Est 12 week change	287.82%	5.89%	2.27%	5.89%	-250.00%	-7.32%
(Q1) EPS Est Mthly Chg	92.86%	18.63%	0.67%	49.03%	0.00%	-4.26%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Growth Score	B
Momentum Score	A
VGM Score	A

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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