

The Mosaic Company (MOS)

\$18.10 (As of 02/25/20)

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:C

Value: C

Growth: B

Momentum: F

Summary

Mosaic slipped to a loss in fourth-quarter 2019. Adjusted loss per share was wider than the Zacks Consensus Estimate, while sales beat the same. 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 spring application season after a weak fall application season. The Vale Fertilizantes acquisition is also expected to deliver significant synergies. The company should also benefit from cost-reduction initiatives and capacity expansion. However, Mosaic faces challenges from lower phosphate demand in China. The coronavirus outbreak is expected to impact fertilizer demand in China in the near term. Margins in the Phosphates segment are also under pressure. Moreover, the company has underperformed the industry in the past year.

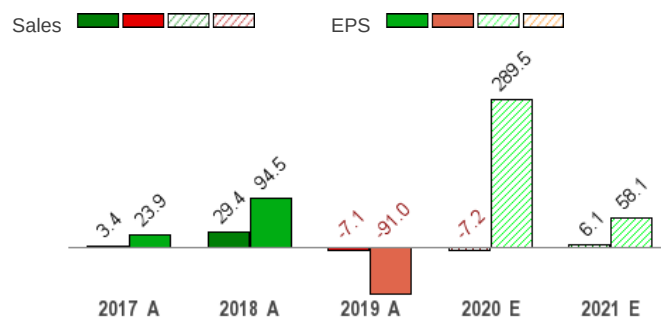
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.91 - \$17.36
20 Day Average Volume (sh)	5,671,963
Market Cap	\$6.9 B
YTD Price Change	-16.4%
Beta	1.74
Dividend / Div Yld	\$0.20 / 1.1%
Industry	Fertilizers
Zacks Industry Rank	Bottom 13% (221 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2,800.0%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	-13.0%
Expected Report Date	05/04/2020
Earnings ESP	-100.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,770 E
2020	1,511 E	2,033 E	2,522 E	2,173 E	8,262 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					\$1.17 E
2020	\$0.01 E	\$0.09 E	\$0.34 E	\$0.17 E	\$0.74 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	113.1
P/E F1	24.5
PEG F1	3.5
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/25/2020. The reports text is as of 02/26/2020.

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.

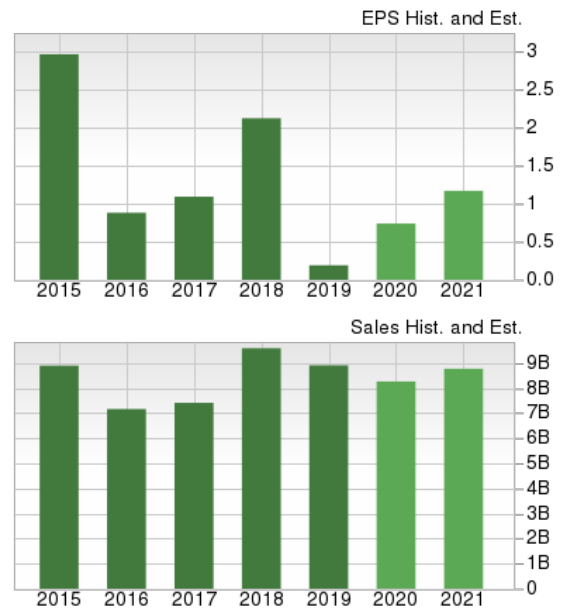
Mosaic also accounts for roughly 74% of North American annual phosphate crop nutrients production. Its North American potash business also represents around 11% of global annual output and roughly 34% of North American annual production.

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 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 spring application season after a weak fall application season. Unfavorable weather led to under-application of fertilizers in the region for three consecutive seasons. This is likely to drive 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.
- ▲ 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 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. It plans to drive an additional \$200 million in annual operating earnings at Mosaic Fertilizantes through business transformation actions by the end of 2022.
- ▲ Mosaic remains committed to expand its annual potash production capacity. 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. Production from the K3 project is likely to approach 1-million tons 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 curtailment at the Colonsay mine lowered overall production costs in the most recent quarter on a sequential comparison basis. The transition of production from Colonsay to lower cost K3 will reduce the company's cash cost of production.

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

Reasons To Sell:

- ▼ Mosaic's shares have lost 42.4% in the past year, underperforming the 21.8% decline recorded by the industry. Mosaic's phosphate margins are under pressure owing to pricing weakness. Mosaic saw margin pressure in the fourth quarter of 2019 amid lower phosphate prices. Lower prices hurt sales and margins in its Phosphates segment in the quarter. A third consecutive soft fertilizer application season in North America has affected phosphate prices. A meaningful recovery in phosphate margin is not expected in the first quarter of 2020 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 2019 to around 17.6 million tons and is expected to further fall in 2020. Supply and logistics disruptions due to the deadly coronavirus outbreak is expected to impact consumption in China over the near term. Due to the uncertainties surrounding the impact of the epidemic, the company expects a modest decline in phosphate demand in China this year.
- ▼ The company's high debt level is still a concern despite its recent de-leveraging actions. Its total long-term debt was roughly \$4.6 billion at the end of 2019, nearly nine-times of its cash and cash equivalents of around \$519 million. This is leading to higher interest expenses. Mosaic saw its interest expenses rise around 10% year over year in 2019.
- ▼ 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. The company's high debt level is also a concern.

Last Earnings Report

Mosaic's Q4 Earnings Miss on Hefty Charges, Sales Beat

Mosaic slipped to a loss of \$921 million or \$2.43 per share in fourth-quarter 2019 from a profit of \$112.3 million or 29 cents in the year-ago quarter.

The bottom line in the reported quarter was hit by \$1.1 billion in non-cash charges. The company took a pre-tax charge of \$530 million related to the idling of the Colonsay potash mine in Saskatchewan, Canada. It also recorded a charge of \$589 million associated with goodwill impairment in the Phosphates segment in the quarter.

Barring one-time items, adjusted loss per share was 29 cents, much wider than the Zacks Consensus Estimate of a loss of a penny.

Net sales fell roughly 18% year over year to \$2,076.3 million in the quarter, hurt by reduced sales volumes and phosphate prices. The figure, however, beat the Zacks Consensus Estimate of \$1,941.5 million. The company saw continued weakness in key global fertilizer markets in the quarter.

Segment Highlights

Net sales in the Phosphates segment were \$698 million in the quarter, down around 25% year over year due to lower sales prices that more than offset modestly higher volumes. The segment's gross margin per ton was at a loss of \$52. Margin was partly impacted by lower realized prices.

Potash division's sales dropped roughly 33% year over year to \$395 million as lower sales volumes more than offset higher prices. Gross margin per ton in the quarter was \$61, down around 31% year over year, due to higher costs per ton resulting from reduced operating rate.

Net sales in the Mosaic Fertilizantes segment came in at \$864 million, down around 11% year over year, hurt by lower prices. Gross margin per ton fell to \$32 from \$56 in the year-ago quarter as lower prices more than offset synergies.

Full-Year Results

Net loss for 2019 was \$2.78 per share, compared with earnings of \$1.22 per share a year ago. The results were hurt by charges associated with asset portfolio optimization and goodwill impairment in the Phosphates segment.

Net sales were \$8,906.3 million for the full year, down around 7% year over year.

Financials

Mosaic ended 2019 with cash and cash equivalents of \$519.1 million, down around 39% year over year. Long-term debt was essentially flat year over year at around \$4,525.5 million.

Cash flow provided by operating activities was \$277.6 million in the reported quarter, up 85% year over year. The same for 2019 was \$1.1 billion, down 22% year over year. Mosaic's capital expenditures were \$341.1 million in the fourth quarter and \$1.3 billion for 2019.

Mosaic also bought back 7.1 million shares for \$150 million and paid dividends worth \$67 million in 2019.

Outlook

Moving ahead, Mosaic sees strong global demand for fertilizers in 2020 based on solid worldwide demand for grains and oilseeds and strong farm economics.

The company expects China to be a major factor for phosphate market fundamentals this year in the wake of the coronavirus outbreak. Per Mosaic, much of the phosphate production in Hubei province has been idled or curtailed due to coronavirus. The company envisions this decline in supply coupled with limited new capacity in other parts of the world to contribute to a sustained tightening of phosphate market fundamentals.

The company also noted that production curtailments that started in second-half 2019 are bringing the potash market into balance this year. It sees strong demand in the Northern Hemisphere for spring. Mosaic also expects a typical surge in activity in the Southern Hemisphere in the third quarter of 2020.

Quarter Ending 12/2019

Report Date	Feb 19, 2020
Sales Surprise	6.95%
EPS Surprise	-2,800.00%
Quarterly EPS	-0.29
Annual EPS (TTM)	0.16

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.

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

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.

Valuation

Mosaic's shares are down 42.4% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 21.8% and 11.5% over the past year, respectively. The S&P 500 index is up 14.7% in the past year.

The stock is currently trading at 7.42X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.71X for the Zacks sub-industry, 9.39X for the Zacks sector and 12X 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 7.71X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 22.4X 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	7.42	6.71	9.39	12
	5-Year High	14.45	20.9	18.15	12.87
	5-Year Low	5.09	6.04	7.41	8.48
	5-Year Median	7.71	9.11	10.59	10.77
P/E F12M	Current	20.27	17.88	13.25	18.44
	5-Year High	43.98	41.13	21.15	19.34
	5-Year Low	8.46	10.16	9.82	15.18
	5-Year Median	16	17.88	13.63	17.47
P/B TTM	Current	0.73	0.85	2.19	4.66
	5-Year High	1.84	2.46	3.54	4.9
	5-Year Low	0.64	0.83	1.34	2.85
	5-Year Median	0.98	1.37	2.19	3.62

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 255)



Top Peers

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

Industry Comparison Industry: Fertilizers				Industry Peers		
	MOS Neutral	X Industry	S&P 500	CF Neutral	IPI Underperform	NTR Underperform
VGM Score	C	-	-	D	B	B
Market Cap	6.86 B	6.32 B	22.56 B	8.14 B	252.06 M	23.24 B
# of Analysts	5	4	13	5	2	7
Dividend Yield	1.11%	1.25%	1.88%	3.19%	0.00%	4.44%
Value Score	C	-	-	C	A	C
Cash/Price	0.07	0.05	0.04	0.03	0.05	0.03
EV/EBITDA	23.87	8.19	13.36	6.27	5.59	8.73
PEG Ratio	3.49	2.40	1.94	3.03	NA	2.33
Price/Book (P/B)	0.73	0.88	3.09	1.45	0.58	1.02
Price/Cash Flow (P/CF)	4.28	5.91	12.57	6.28	5.54	7.58
P/E (F1)	24.46	18.17	17.93	18.17	14.15	16.33
Price/Sales (P/S)	0.77	1.12	2.51	1.77	1.12	1.17
Earnings Yield	4.09%	5.50%	5.55%	5.50%	7.33%	6.14%
Debt/Equity	0.48	0.41	0.70	0.70	0.08	0.41
Cash Flow (\$/share)	4.23	3.48	7.02	5.99	0.34	5.35
Growth Score	B	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	-20.47%	-16.25%	10.85%	-16.25%	NA	NA
Proj. EPS Growth (F1/F0)	288.42%	13.45%	6.86%	-7.09%	3.85%	14.55%
Curr. Cash Flow Growth	-5.87%	3.99%	6.53%	10.61%	234.57%	-6.24%
Hist. Cash Flow Growth (3-5 yrs)	-2.99%	-2.99%	8.38%	-0.27%	-11.72%	15.09%
Current Ratio	1.43	1.62	1.22	1.46	1.62	1.17
Debt/Capital	32.57%	30.87%	42.37%	41.24%	7.12%	29.16%
Net Margin	-11.99%	4.98%	11.57%	10.74%	8.50%	4.98%
Return on Equity	0.65%	5.39%	16.80%	8.10%	4.61%	5.39%
Sales/Assets	0.44	0.44	0.54	0.36	0.41	0.43
Proj. Sales Growth (F1/F0)	-7.23%	0.00%	4.03%	-3.37%	-1.41%	0.83%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	-6.75%	-3.25%	-3.36%	-3.06%	-7.73%	-3.43%
1 Week Price Chg	2.35%	0.00%	-0.94%	2.74%	-0.47%	3.10%
4 Week Price Chg	-6.46%	-6.12%	-5.65%	-5.78%	-15.49%	-7.48%
12 Week Price Chg	-1.79%	3.85%	-1.04%	-16.26%	-11.98%	-12.24%
52 Week Price Chg	-42.43%	-18.94%	8.00%	-12.85%	-50.77%	-26.25%
20 Day Average Volume	5,671,963	94,876	2,073,853	2,818,164	635,585	1,961,244
(F1) EPS Est 1 week change	-12.97%	0.00%	0.00%	-5.47%	0.00%	-8.66%
(F1) EPS Est 4 week change	-12.97%	-12.52%	-0.06%	-13.01%	-12.90%	-12.52%
(F1) EPS Est 12 week change	-45.50%	-21.71%	-0.19%	-21.71%	-45.27%	-19.07%
(Q1) EPS Est Mthly Chg	-50.00%	0.00%	-0.61%	15.22%	0.00%	-460.00%

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	B
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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