

The Mosaic Company (MOS)

\$12.15 (As of 05/26/20)

Price Target (6-12 Months): **\$13.00**

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:D

Value: D

Growth: C

Momentum: F

Summary

Mosaic's adjusted loss per share for the first quarter of 2020 was wider than the Zacks Consensus Estimate while sales beat. 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 Brazil-based Vale Fertilizantes acquisition is also expected to deliver significant synergies. The company should also benefit from cost-reduction initiatives and capacity expansion. However, the company faces challenges from lower phosphate demand in China. The coronavirus outbreak is impacting fertilizer demand in China. Margins in the Phosphates segment are also under pressure amid lower prices. Moreover, the company has underperformed the industry it belongs to in the past year.

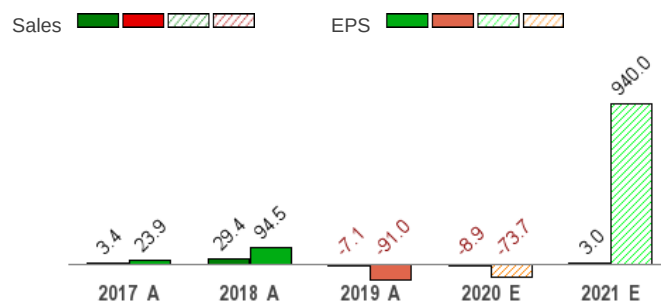
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.71 - \$6.50
20 Day Average Volume (sh)	4,879,746
Market Cap	\$4.6 B
YTD Price Change	-43.9%
Beta	1.69
Dividend / Div Yld	\$0.20 / 1.6%
Industry	Fertilizers
Zacks Industry Rank	Bottom 43% (144 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	9.6%
EPS F1 Est- 4 week change	-85.9%
Expected Report Date	08/04/2020
Earnings ESP	68.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,721 E	1,950 E	2,302 E	2,186 E	8,355 E
2020	1,798 A	1,842 E	2,312 E	1,951 E	8,114 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	\$0.06 E	\$0.03 E	\$0.20 E	\$0.29 E	\$0.52 E
2020	-\$0.06 A	-\$0.06 E	\$0.09 E	-\$0.07 E	\$0.05 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	243.0
PEG F1	34.7
P/S TTM	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/26/2020. The reports text is as of 05/27/2020.

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.

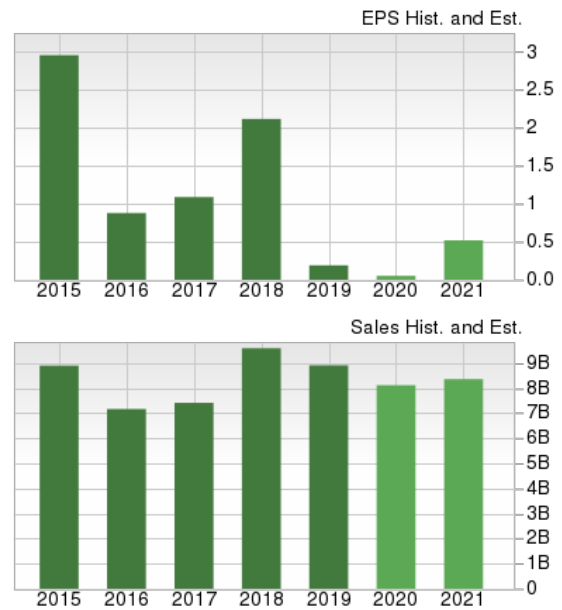
Mosaic also accounts for roughly 74% of North American annual phosphate crop nutrients production. Its North American potash business also represents around 11% of global annual output and roughly 34% of North American annual production.

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. 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 during the first half of 2020. Mosaic is already seeing high demand in the spring application season 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. It expects to achieve \$50 million in Mosaic Fertilizantes' transformational savings in 2020.
- ▲ 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 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 43% in the past year, underperforming the 23.7% decline recorded by the industry. Mosaic's phosphate margins are under pressure owing to pricing weakness. Mosaic saw margin pressure in the first quarter of 2020 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 second 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 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.
- ▼ The company's high debt level is another concern. Its total debt was \$5,580 million at the end of the first quarter of 2020, up from \$4,614 million at the end of 2019. Moreover, its total debt to total capital stood at 39.5% as of Mar 31, 2020, higher than 33% as of Dec 31, 2019. As such, the company appears to have a higher default risk.

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 Earnings Miss, Sales Surpass Estimates in Q1

Mosaic slipped to a loss of \$203 million or 54 cents per share in first-quarter 2020 from a profit of \$130.8 million or 34 cents in the year-ago quarter. The bottom line in the reported quarter was affected by \$295 million in non-cash foreign currency losses.

Barring one-time items, adjusted loss per share was 6 cents, wider than the Zacks Consensus Estimate of a loss of 5 cents.

Net sales fell 5.3% year over year to \$1,798.1 million in the quarter, hurt by reduced sales prices. The figure, however, beat the Zacks Consensus Estimate of \$1,641.3 million.

Segment Highlights

Net sales in the Phosphates segment were \$619 million in the quarter, down 23.2% year over year due to lower sales prices. The segment's gross margin slipped to a loss of \$83 from profit of \$55 million in the year-ago quarter as lower prices and the cost impacts of reduced operating rate were partly offset by improved raw material costs.

Potash division's sales dropped 12.3% year over year to \$442 million mainly due to lower prices. Gross margin in the quarter was \$109 million, down 41% year over year, as lower prices more than offset lower costs.

Net sales in the Mosaic Fertilizantes segment were \$731 million, up 4.7% year over year, despite a weaker pricing environment. Gross margin increased to \$66 million from \$52 million in the year-ago quarter due to enhanced volumes and margins in the distribution business as well as substantial currency tailwind.

Financials

Mosaic ended the quarter with cash and cash equivalents of \$1,069.2 million, up 178% year over year. Long-term debt was essentially flat year over year at \$4,525.2 million.

Net cash provided by operating activities was \$189.9 million in the reported quarter. The company's capital expenditure was \$263.5 million in the first quarter.

Outlook

Mosaic expects depreciation, depletion and amortization of \$910-\$920 million for 2020. Moreover, it anticipates net interest expenses of \$180-\$190 million for 2020.

Also, the company anticipates capital expenditure of roughly \$1.2 billion for 2020.

Mosaic also expects to receive cash proceeds of up to \$170 million from tax refunds and unwinding of an interest rate swap in 2020. The company also noted that it expects to achieve \$50 million in Mosaic Fertilizantes' transformational savings for 2020.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	9.56%
EPS Surprise	-20.00%
Quarterly EPS	-0.06
Annual EPS (TTM)	-0.15

Recent News

Mosaic Declares February Sales Volumes, Revenues of Its Units – Mar 13, 2020

Mosaic has released sales volume and revenue figures for its units for February 2020. In the Potash unit, the company recorded sales volume of 489,000 tons in February, down 22.7% year over year. Revenues in the segment declined 26.7% year over year to \$118 million in the month. Reportedly, the timing of product pricing and the mix of products shipped in North America impacted the net pricing of potash.

In the Mosaic Fertilizantes unit, sales volumes rallied 43.9% year over year to 737,000 tons and revenues rose 4% to \$255 million. Notably, average revenue per ton of product in the Mosaic Fertilizantes unit was affected by the weakening of BRL.

In Phosphates, the company reported 16.2% year-over-year growth in sales volume to 532,000 tons. However, revenues in the segment fell 22.2% year over year to \$172 million in February. Reportedly, average revenue per ton of product sold decreased on lower freight and revenues associated with Miski Mayo.

Valuation

Mosaic's shares are down 43.8% in the year-to-date period and 43% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and Zacks Basic Materials sector are down 25.6% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.7% and 5.2%, respectively.

The S&P 500 index is down 7% in the year-to-date period and up 6.6% in the past year.

The stock is currently trading at 6.24X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.49X for the Zacks sub-industry, 8.69X for the Zacks sector and 10.93X 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 7.48X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 54.05X 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	6.24	7.49	8.69	10.93
	5-Year High	14.6	20.98	18.31	12.86
	5-Year Low	4.41	5.72	6.48	8.26
	5-Year Median	7.48	9.3	10.5	10.79
P/E F12M	Current	50.52	19.55	16.16	21.49
	5-Year High	50.63	41.13	21.06	21.49
	5-Year Low	8.46	10.16	9.79	15.23
	5-Year Median	16.69	17.91	13.49	17.49
P/B TTM	Current	0.54	0.89	2.61	4.04
	5-Year High	1.67	2.25	3.43	4.56
	5-Year Low	0.28	0.59	1.22	2.83
	5-Year Median	0.96	1.35	2.18	3.65

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 43% (144 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Scotts MiracleGro Company (SMG)	Outperform	2
BASF SE (BASFY)	Neutral	3
Bunge Limited (BG)	Neutral	5
Israel Chemicals Shs (ICL)	Neutral	3
Intrepid Potash, Inc (IPI)	Neutral	4
Nutrien Ltd. (NTR)	Neutral	5
Sociedad Quimica y Minera S.A. (SQM)	Neutral	3
CF Industries Holdings, Inc. (CF)	Underperform	4

Industry Comparison Industry: Fertilizers				Industry Peers		
	MOS	X Industry	S&P 500	CF	IPI	NTR
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	5
VGM Score	D	-	-	B	C	F
Market Cap	4.61 B	4.61 B	21.18 B	6.23 B	151.21 M	19.12 B
# of Analysts	5	3	14	5	2	7
Dividend Yield	1.65%	0.82%	2.03%	4.12%	0.00%	5.37%
Value Score	D	-	-	B	A	D
Cash/Price	0.24	0.15	0.06	0.13	0.31	0.17
EV/EBITDA	17.72	6.21	12.37	5.01	2.73	6.92
PEG Ratio	35.60	3.03	2.88	3.59	NA	2.41
Price/Book (P/B)	0.54	0.74	2.90	1.17	0.35	0.87
Price/Cash Flow (P/CF)	2.88	4.47	11.55	4.87	3.14	6.27
P/E (F1)	249.20	22.96	21.24	21.57	NA	19.31
Price/Sales (P/S)	0.52	0.72	2.24	1.37	0.67	0.94
Earnings Yield	0.41%	4.10%	4.57%	4.63%	-0.87%	5.19%
Debt/Equity	0.53	0.48	0.76	0.73	0.08	0.43
Cash Flow (\$/share)	4.23	3.48	6.96	5.99	0.37	5.35
Growth Score	C	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	-19.56%	-9.50%	10.87%	-9.50%	NA	NA
Proj. EPS Growth (F1/F0)	-72.63%	-19.83%	-10.31%	-39.37%	-110.00%	-19.95%
Curr. Cash Flow Growth	-5.87%	6.78%	5.46%	10.61%	6.78%	-6.24%
Hist. Cash Flow Growth (3-5 yrs)	-2.99%	-1.27%	8.55%	-0.27%	-11.59%	15.09%
Current Ratio	1.29	1.44	1.29	1.20	2.05	1.07
Debt/Capital	34.58%	34.58%	44.54%	42.28%	7.23%	29.85%
Net Margin	-15.91%	3.02%	10.59%	10.33%	0.03%	4.49%
Return on Equity	-0.53%	4.66%	16.29%	8.34%	1.27%	4.66%
Sales/Assets	0.44	0.43	0.55	0.36	0.39	0.43
Proj. Sales Growth (F1/F0)	-8.90%	0.00%	-2.34%	-10.49%	-16.57%	3.90%
Momentum Score	F	-	-	F	F	C
Daily Price Chg	5.10%	1.77%	2.82%	5.69%	6.48%	1.88%
1 Week Price Chg	14.68%	5.17%	4.99%	11.16%	13.79%	3.91%
4 Week Price Chg	5.38%	5.50%	3.55%	3.99%	25.00%	-5.89%
12 Week Price Chg	-28.57%	-14.53%	-4.95%	-23.55%	-35.75%	-17.47%
52 Week Price Chg	-43.01%	-23.58%	-3.04%	-27.55%	-63.72%	-29.90%
20 Day Average Volume	4,879,746	119,510	2,429,758	2,743,686	756,905	1,456,760
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-85.95%	-16.08%	-2.27%	-16.34%	-106.90%	-16.08%
(F1) EPS Est 12 week change	-88.39%	-27.06%	-16.39%	-29.95%	-107.41%	-27.06%
(Q1) EPS Est Mthly Chg	-1,800.00%	-16.36%	-4.03%	-15.17%	-166.67%	-6.79%

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	D
Growth Score	C
Momentum Score	F
VGM Score	D

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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