

Phosphates 2016 – The Capital Market Perspective

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C O N F I D E N T I A L



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Overview of Hannam & Partners

Overview

- We are a privately owned, relationship-led merchant bank
- 30+ corporate financiers in four countries around the world
- Our core business is a UK-regulated corporate finance advisory business based in London, including an official FCA sponsor licence
 - Mergers and acquisitions
 - Strategic and restructuring advisory
 - Capital introduction
 - Capital markets advisory
- Focused on natural resources – the team has raised and completed M&A deals in excess of \$300bn

Recent mining clients

Global presence



Phosphates is the preferred fertiliser among investors

Key macro observations

- 1 Mixed economic outlook, but global economy generally expected to edge up in 2016
- 2 Fertiliser prices to remain at depressed levels, but equity capital markets have bottomed out
- 3 Strong USD discourages US agricultural exports and creates potential to support agricultural prices
- 4 Continued low capital costs, but India and Brazil are capital constrained leading to uncertainty for companies with large re-financing and working capital needs
- 5 Lower fertiliser and energy prices and weak developing nation currencies support agricultural margins and drive fertiliser affordability
- 6 Weaker gas prices and strong dollar supports BRICS (type) phosphates producers
- 7 No capital structure concerns among phosphate producers and continued low capital costs mean capital expenditures cycle to continue
- 8 Market for phosphate rock juniors continues to be constrained, with the likelihood of buy-outs

Key equity risks

- 1 Emerging market foreign exchange trend reverses
- 2 Oil and gas price increases
- 3 Market discipline not maintained by largest phosphates producers
- 4 Global crop prices continue to fall
- 5 Brazil:
 - Macro weakness pulls country down
 - Funding becomes more constrained and/or expensive
- 6 India:
 - Elevated stock levels dampen buying in the near-term
 - Weather and pollution level deteriorate
- 7 China:
 - Macro-economic risks translate into a falling currency, leading to rising exports
 - High application rates are being curtailed, contributing to rising exports
- 8 Falling margins and possible over-investments translate into dividend cuts and balance sheet stress

2015 was not all about crop prices, it was a year of macro factors, i.e. lower energy prices, a strong USD, etc

Fertiliser companies have held up better than the wider commodity space but weak fertiliser prices had a material impact over the last year

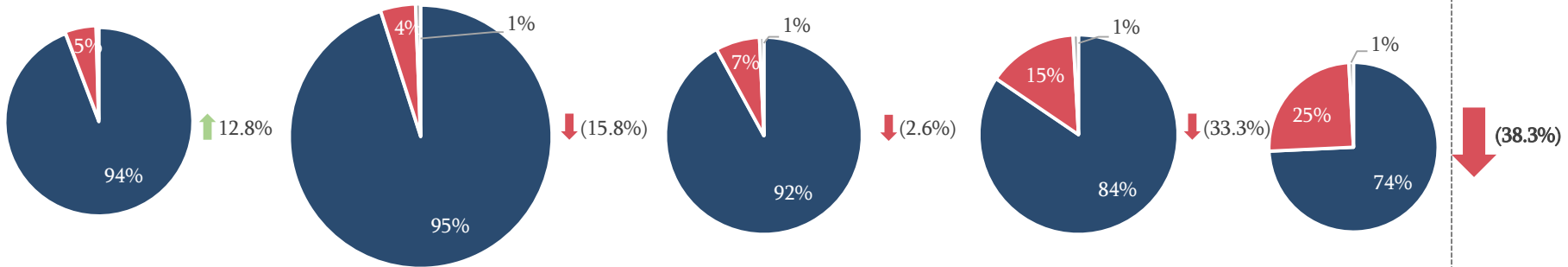


Source: S&P Capital IQ as of 7 March 2016
 Note: PhosAgro was listed in July 2011. All prices rebased to 100

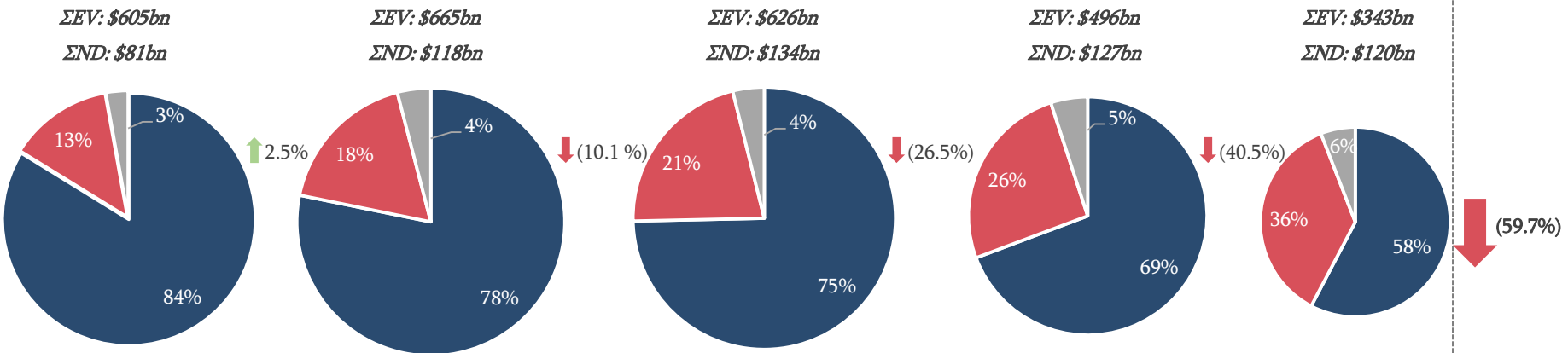
The big realisation: equity is the flexible number – capital structure developments of major diversified mining companies and the largest listed fertiliser peers

2011	2012	2013	2014	Current	2011-Now Δ Market Cap.
ΣEV: \$109bn ΣND: \$6bn	ΣEV: \$122bn ΣND: \$5bn	ΣEV: \$106bn ΣND: \$8bn	ΣEV: \$113bn ΣND: \$16bn	ΣEV: \$86bn ΣND: \$21bn	

Fertilisers Majors



Diversified Miners



■ Market Cap ■ Net Debt ■ Minority Interest

Chart size relative to Total EV

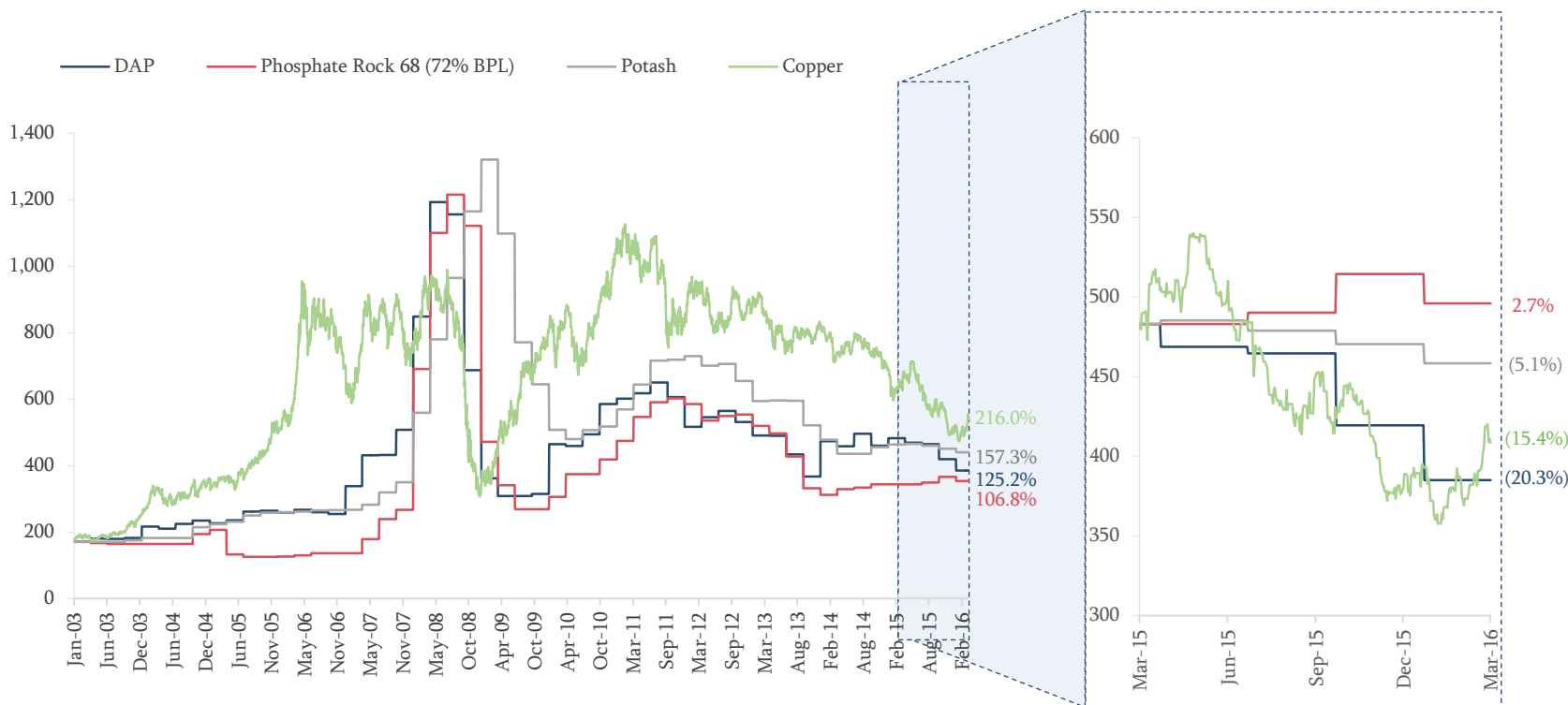
A similar price trajectory emerged across the commodity space

Price performance

Period	DAP	Phosphate Rock 68 (72% BPL)	Potash	Copper
6 months	(17.1%)	1.2%	(4.3%)	(9.5%)
1 year	(20.3%)	2.7%	(5.1%)	(15.4%)
2 years	(18.6%)	13.3%	(8.0%)	(26.8%)
3 years	(21.6%)	(31.9%)	(26.0%)	(36.7%)
Since 2003	125.2%	106.8%	157.3%	216.0%

Price

Price	DAP	Phosphate Rock 68 (72% BPL)	Potash
Spot price (US\$/mt)	385.0	118.0	290.0
Long term consensus price (US\$/mt)	463.0	131.0	317.9 ¹



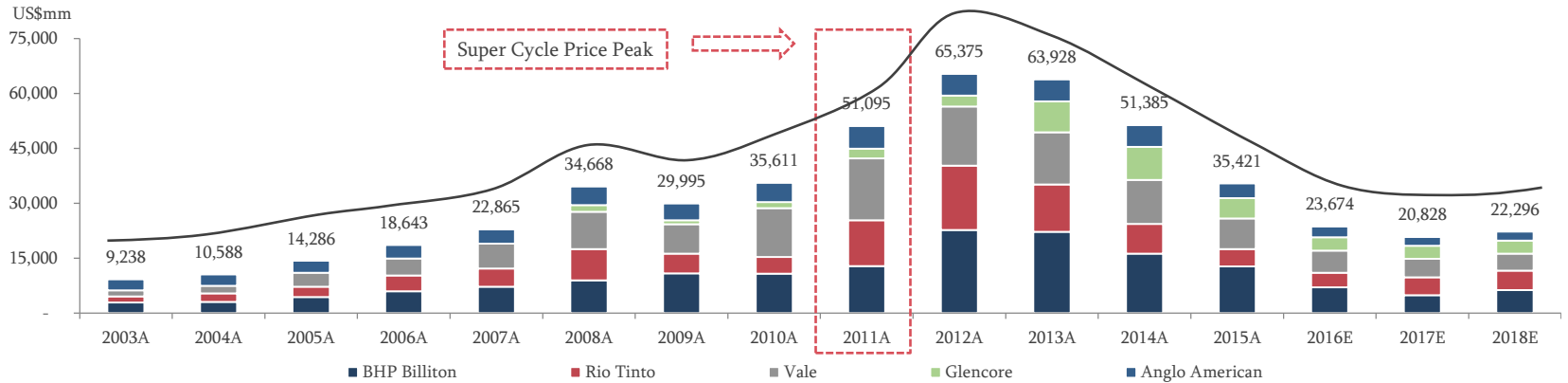
Source: Bloomberg, CRU, S&P Capital IQ as of March 7, 2016

Note: All prices rebased to DAP

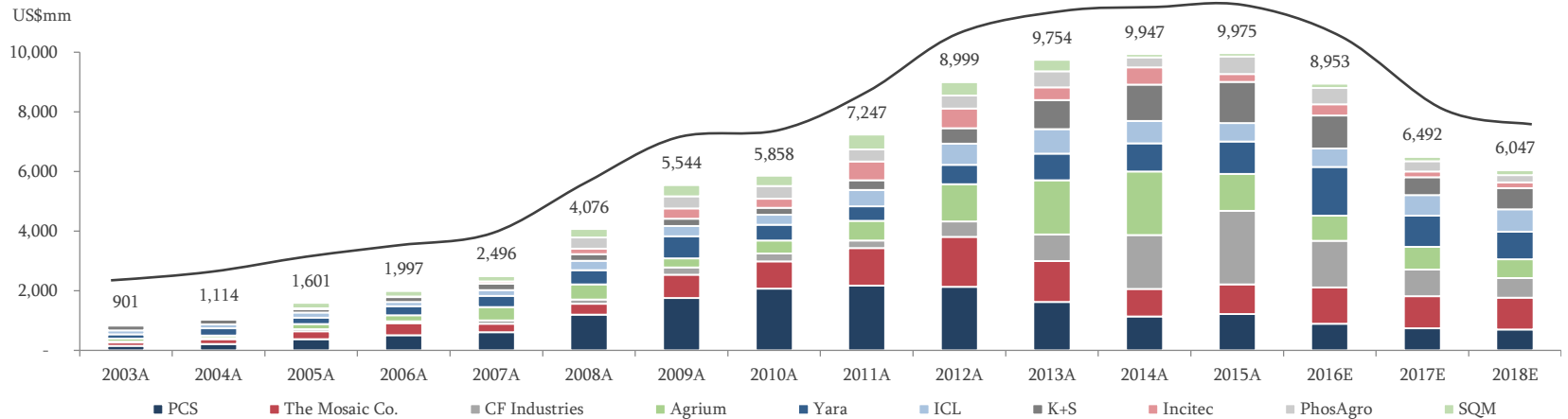
¹FOB US Midwest

The investment cycle has still steam in fertilisers

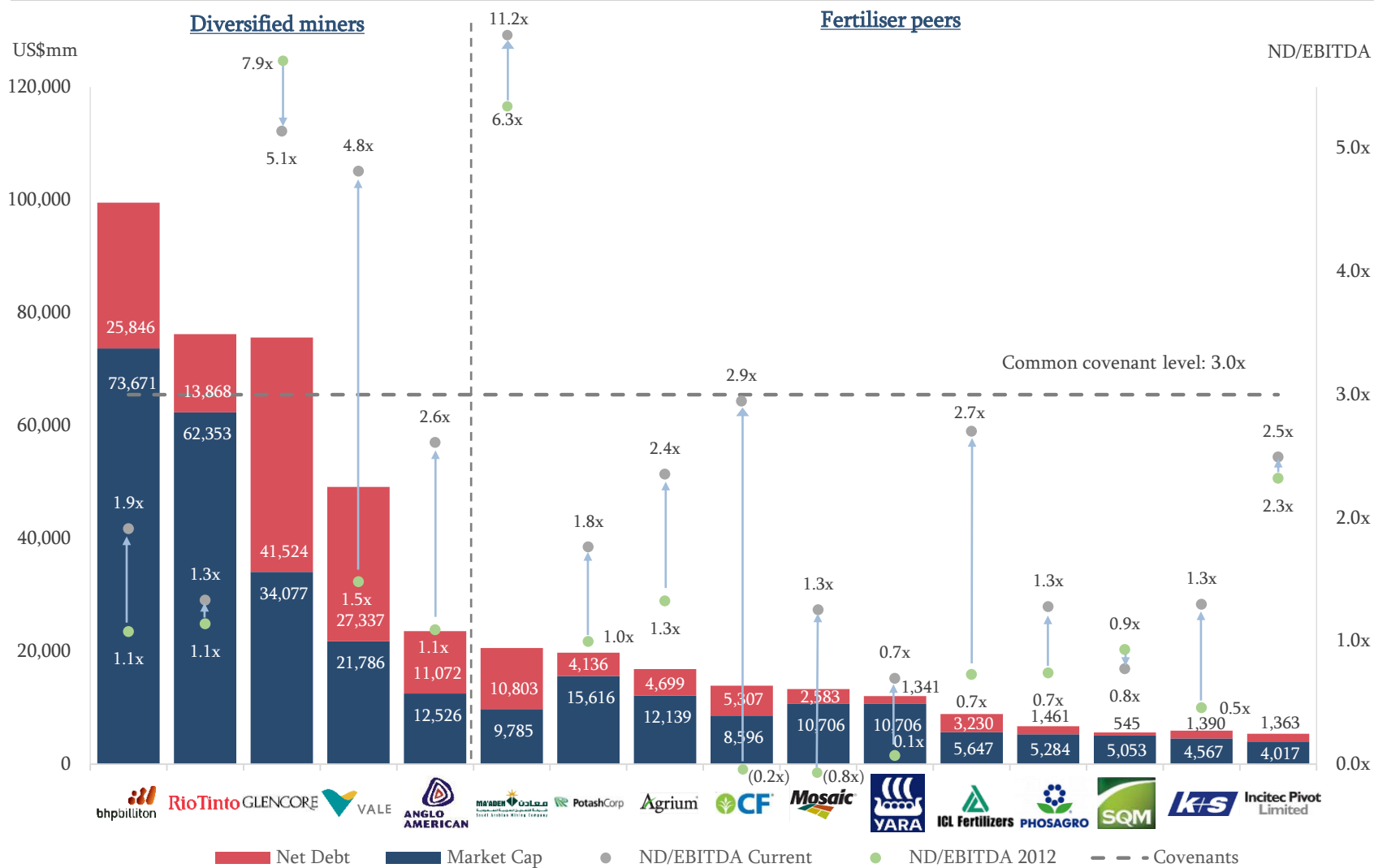
Capital expenditure by global diversified miners from the start of the “Super Cycle”



Fertiliser companies

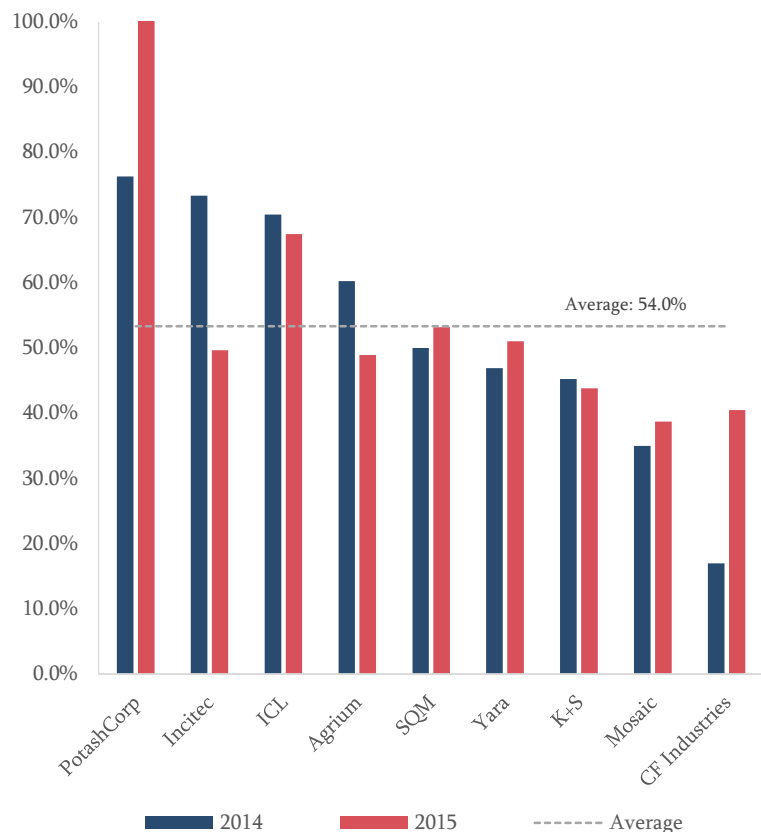


The industry is more conservatively funded in comparison to peers in the wider commodity space

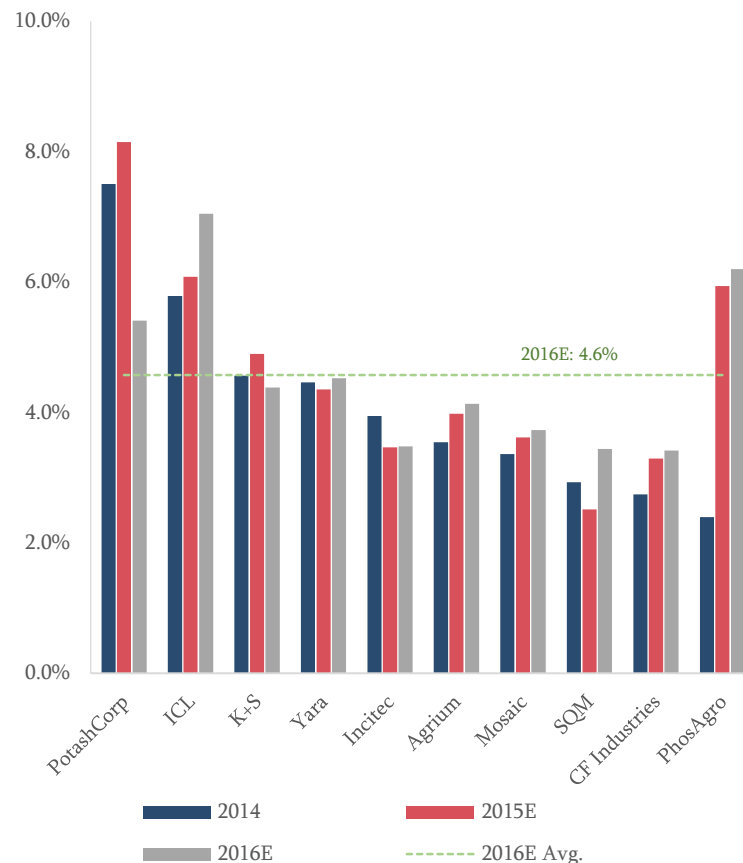


Dividends of global fertiliser producers provide attractive returns ahead of potential capital appreciation

Dividend pay-out ratio



Dividend yield













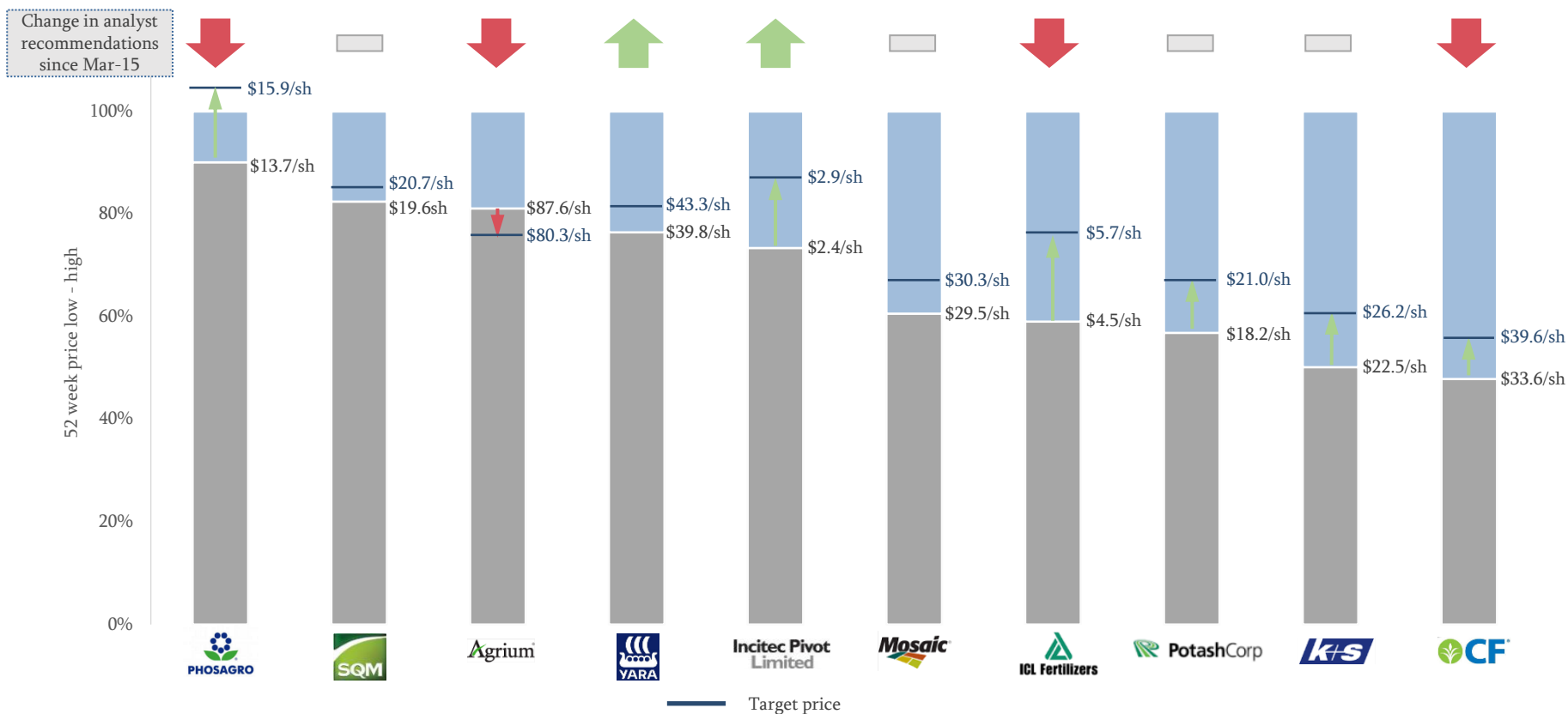
Source: S&P Capital IQ as of 7 March, 2016

Note: PhosAgro excluded due to inconsistent dividend payments

Dividend policy a reflection of discipline by management

Analysts recommendations indicate upside even after recent rally

										
Δ buys	15	2	13	13	9	12	3	9	15	10
Δ holds	4	10	11	16	4	9	11	14	12	6
Δ sells	0	1	2	3	3	1	0	3	3	0
Total #	19	13	26	32	16	22	14	26	30	16
S&P rating	BBB-	BBB	BBB	BBB	BBB	BBB	BBB	A-	BBB	BBB-



11 Source: S&P Capital IQ and Bloomberg as of 7 March 2016
 1 Target price upside: % difference between current price and broker consensus target price

Currency weakness in the key markets played a key role in fertilisers industry last year – example Brazil

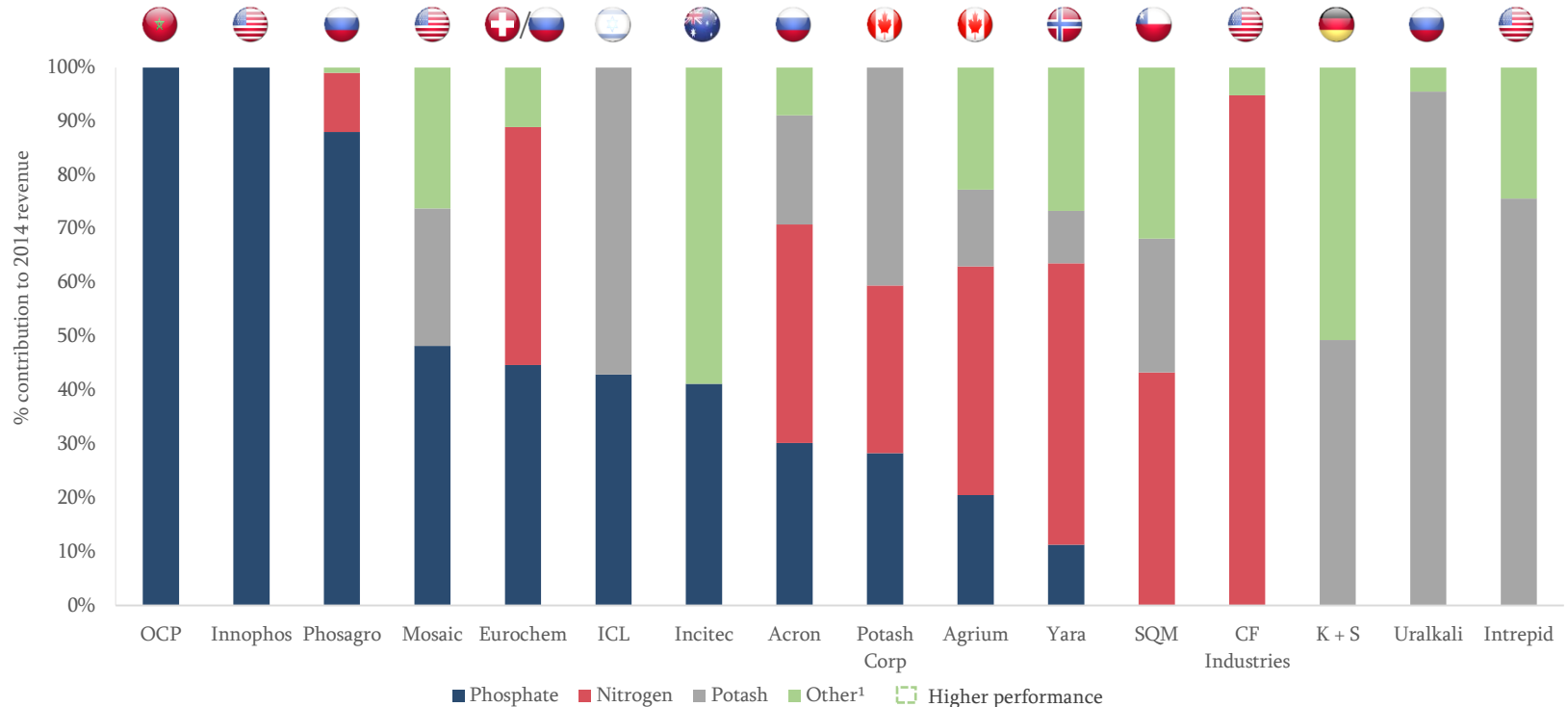


Source: CRU, S&P Capital IQ, Bloomberg as of 7 March, 2016
 Note: All prices and exchange rates rebased to 100

Fertiliser majors increasingly striving for diversified portfolios

Margin uplift even during times of falling prices

2015 revenue (US\$m)	5,716 ²	789	2,770 ²	8,895	4,540	5,405	2,584	1,691 ²	6,279	14,795	12,203	1,728	4,308	4,634 ²	3,064 ²	287
2015 EBITDA (US\$m)	2,142²	110	1,216²	2,062	1,473	1,195	546	611²	2,347	2,096	1,926	705	1,800	1,142²	1,782²	(46)
2014 EBITDA (% revenue)	24.4	17.0	30.8	25.5	26.7	22.7	20.2	27.0	43.3	10.1	15.7	34.9	42.0	22.8	50.9	27.7
2015 EBITDA (% revenue)	37.5	14.0	43.9	23.2	32.5	22.1	21.1	36.1	37.4	14.2	15.8	40.8	41.8	24.7	58.2	NM



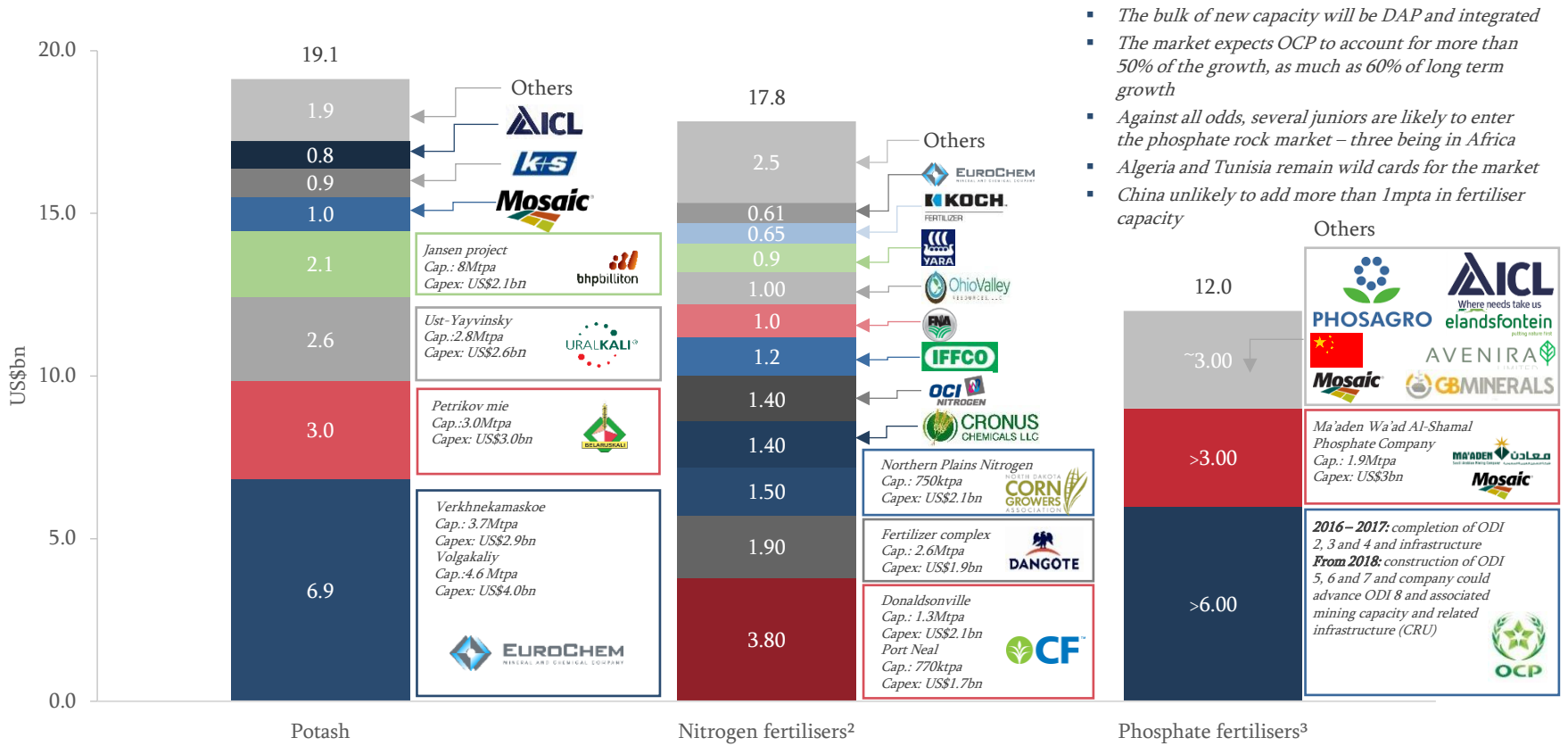
¹ 'Other' indicates Yara (industrial products), ICL (industrial products and agri performance products), K+S (salt business unit, potash includes magnesium products), Agrium (revenues from wholesale only, includes other crop-related products), SQM (iodine, lithium and potassium derivatives), Innophos (includes GTSP and unspecified other products), Intrepid (includes Trio langbeinite)

² Estimated figures from broker consensus, S&P Capital IQ

Source: S&P Capital IQ; Company filings

Expected 2016-2020 phosphate capital expenditure is a reflection of market size and capital intensity

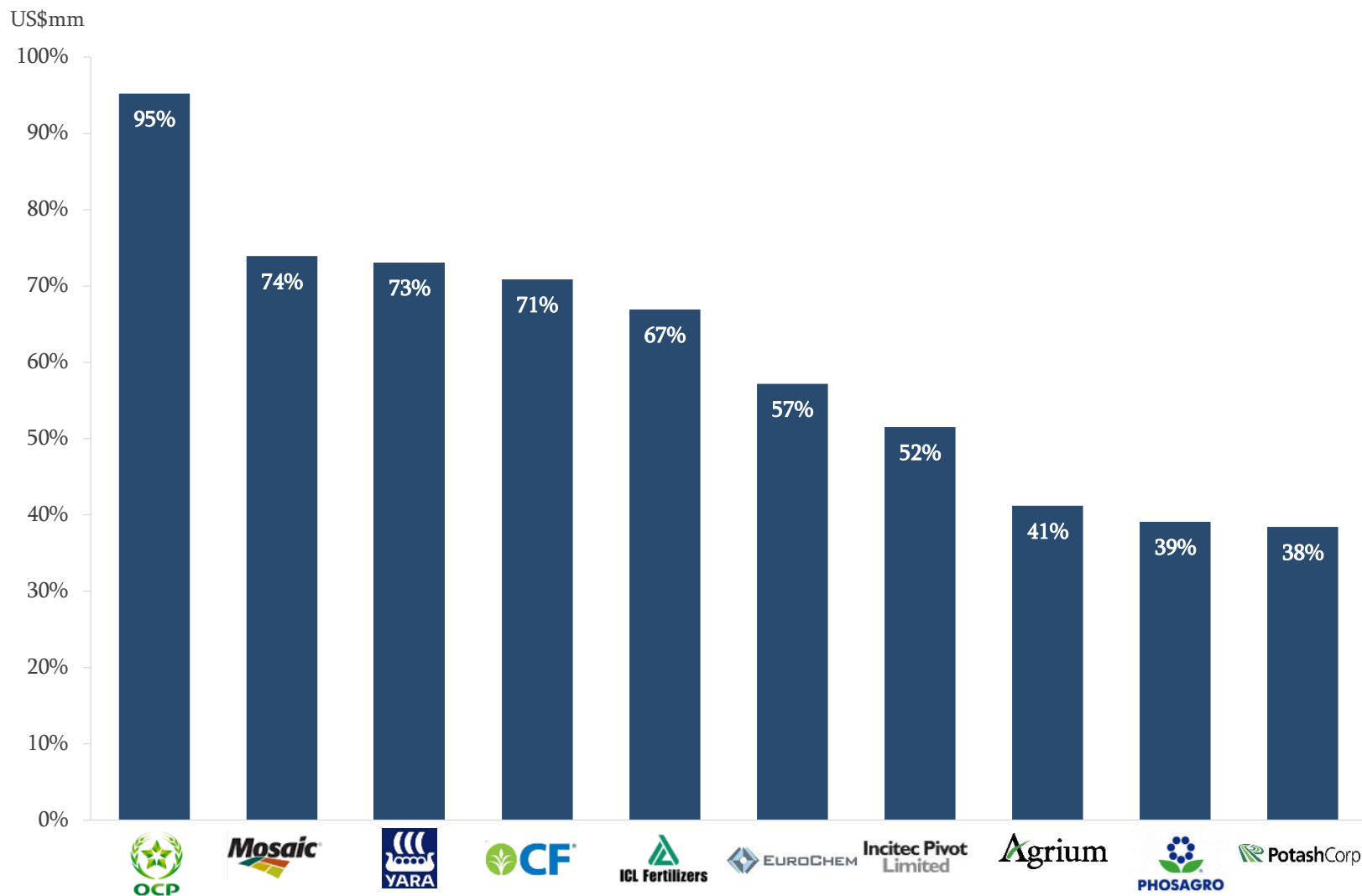
Capacity Expansion	12.4 Mtpa (KCI)	27.0 Mtpa ²	4.2 Mtpa (P ₂ O ₅ nutrients)
CAGR	1.2%	1.3%	>2.0%
LT capacity utilisation ¹	86%	80%	83%



- The bulk of new capacity will be DAP and integrated
- The market expects OCP to account for more than 50% of the growth, as much as 60% of long term growth
- Against all odds, several juniors are likely to enter the phosphate rock market – three being in Africa
- Algeria and Tunisia remain wild cards for the market
- China unlikely to add more than 1mtpa in fertiliser capacity

14
¹ Expected capacity in 2020
² Nitrogen fertilisers include major ammonia and urea projects (excluding Asia)
³ Phosphate includes phosphate rock and DAP/MAP and acid phosphate
 Note: Major projects displayed on the right side of each chart
 Source: CRU and Hannam & Partners research

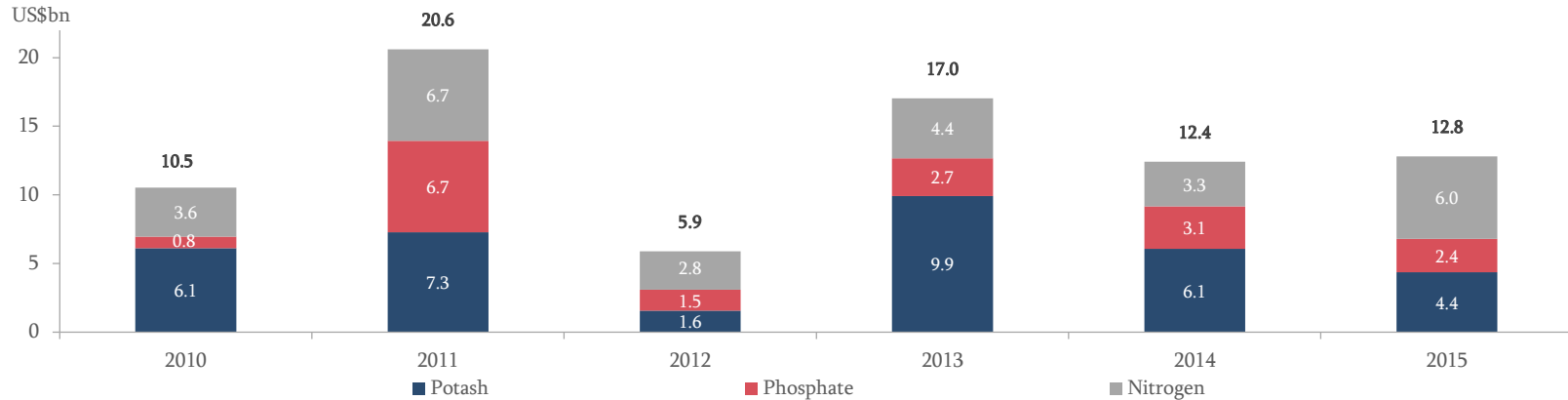
Industry capex covered by EBITDA in the coming two years



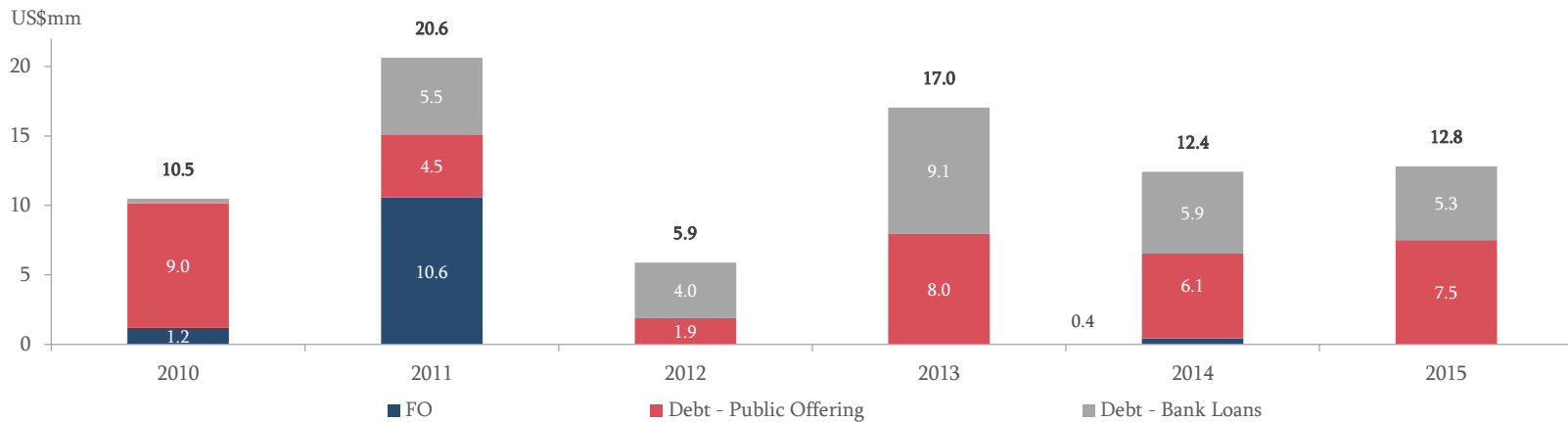
15 Source: S&P Capital IQ, Hannam & Partners and company filings as of 7 March 2016
 Note: average growth and sustaining capex for 2016 and 2017 over 2016E EBITDA

Capital raised by major fertiliser producers in the last 5 years

Majors¹ capital raised by sector



Majors capital raised by instrument



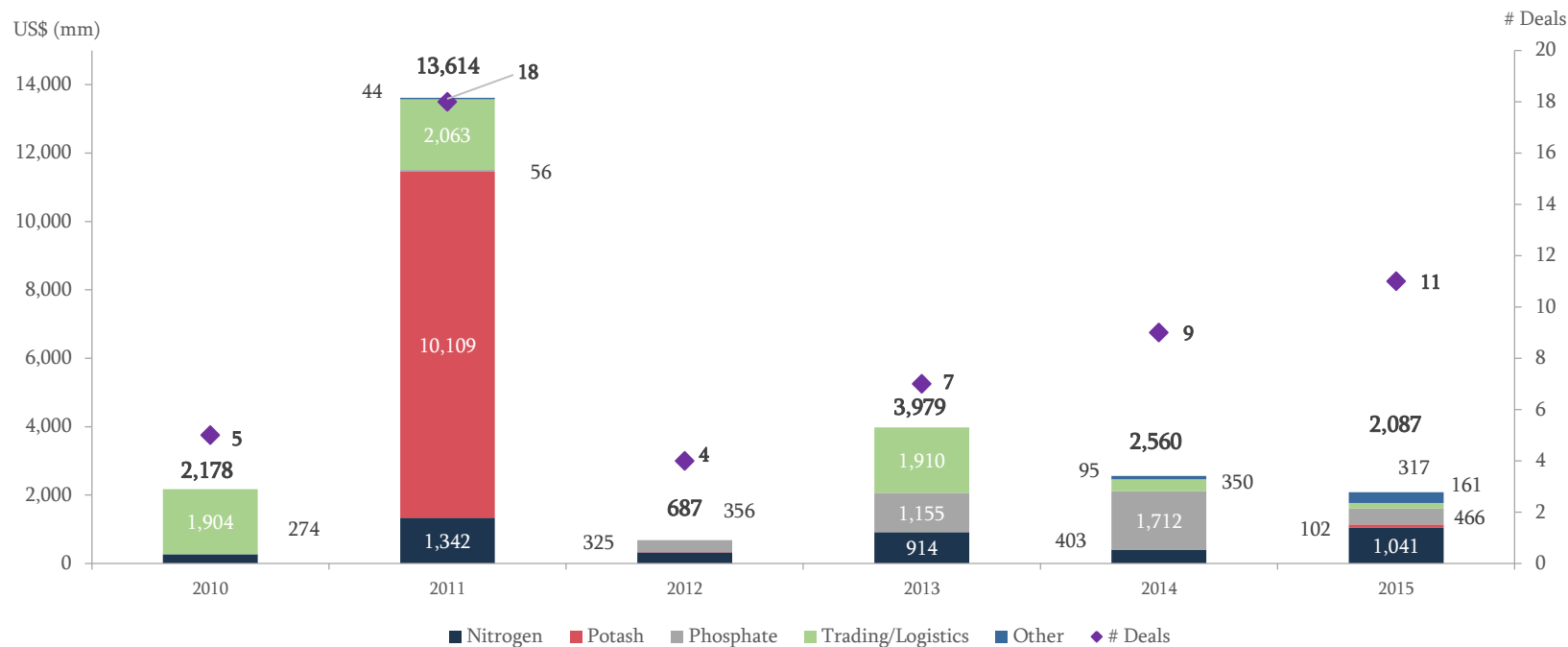
16 ¹Major fertilisers producers include: Agrium, CF Industries Holdings, EuroChem Group AG, Incitec Pivot Ltd, Innophos Holdings, Intrepid Potash, Israel Chemicals Ltd, K+S Aktiengesellschaft, The Mosaic Company, Office Cheriffen des Phosphates, OJSC PhosAgro, Potash Corporation of Saskatchewan, Sociedad Quimica y Minera de Chile SA – SQM, Uralkali OJSC, Yara International ASA, Acron, Jordan phosphates, OCI, OCP, Eurochem Mineral and Chemical Co, LSB Industries and Uralkali PJSC
 Source: Bloomberg, S&P Capital IQ and Dealogic as of 17 February 2016
 Note: PhosAgro listing in July 2011 excluded as no proceeds to issuer

M&A activities in the sector are distinct in purpose

Objectives driving the M&A activities in the sector

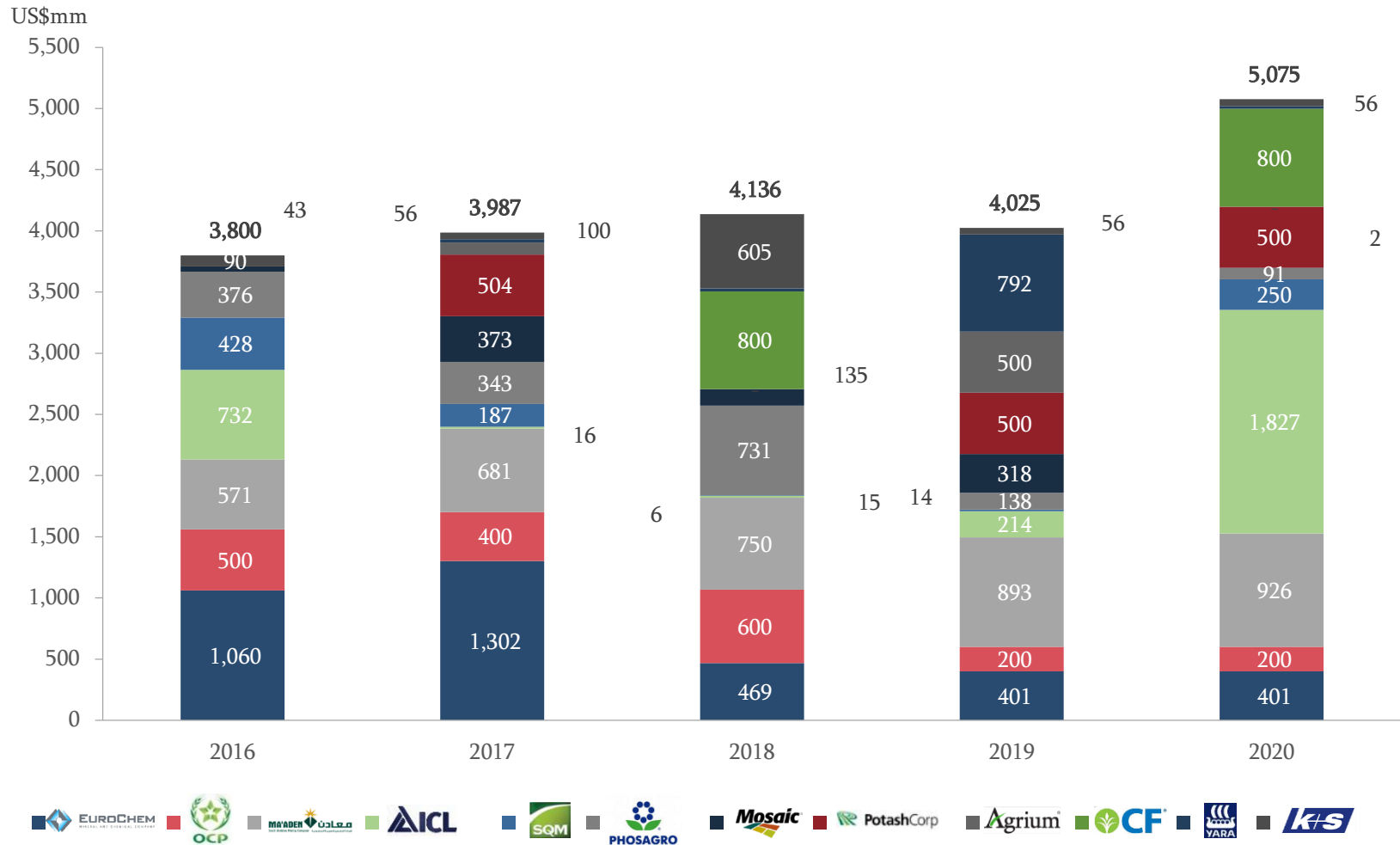
- Horizontal mega-mergers: PCS/K&S (not successful) and CF/OCI (not closed) – driven by synergies and market defence
- International JV: ICL/YPH, Mosaic/Ma'aden – IP exchange and access to markets and resources
- Access to markets through logistics and retail : ADM, Heringer, Bunge, Greenbelt ... with South America and Africa the focus (long term trend in the US)
- Access to raw materials: ICL and Yara as deposit buyer in Africa and South America

Majors' M&A transactions by sector¹



¹ Major M&A producers include: Agrium, CF Industries Holdings, EuroChem, Incitec Pivot, Innophos Holdings, Intrepid Potash, ICL, K+S, Mosaic, OCP, PhosAgro, Potash Corp., SQM, Uralkali, Yara
Source: Merger Market, Hannam & Partners, S&P Capital IQ as of 7 March 2016

The industry has a constant and manageable debt maturity profile in the coming years



Source: Company filings

Critical success factors for an effective equity raise at times of depressed fertiliser prices and capital markets

- The equity story needs to be immaculate in the case of junior phosphate companies
- Junior miners have struggled in recent equity markets – both due to difficult fundraising conditions and depressed commodity prices
- Working with partners is becoming an increasingly popular business model for managing risk across a portfolio in a climate of lower returns and a contracting capital raising environment
- Those that have been successful have sought out diverse funding sources rather than relying on vanilla equity
- Regardless of market conditions, access to varied sources of capital, and the right local partner, the classic features of success in capital markets remain: quality assets and respected management teams can always succeed

Management

- Management experience, proven track record and overall credibility is key to positioning the story with investors
- Investors are often investing in management as much as they are investing in an asset
- Management needs to be well versed in equity and debt markets

Board

- A majority of independent directors help investors feel that their interests are represented
- Industry “heavyweights” on a company board add gravitas
- Diversity critical in many ways

Asset and Product Quality

- Phosphates is not widely understood by PE and institutional investors
- Favourable product specifications and clearly understood (diversified) end market demand
- Ore body size and expandability
- Low initial capex requirement and execution risk that can be grasped
- Low cash cost and favourable logistics

Fundraising Strategy

- A sound and realistic strategy is the foundation of success
- Efficient use of capital is essential to create market confidence
- Build in delays and capital overruns
- Respond to market views on capital structure