

# SISR Strategic International Securities Research

Basic Materials

Agricultural Chemicals

## The Mosaic Company

Change in New Income and Revenues

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### Rating Information

Sector Rating	Overweight
Current Price	\$34.60
Target YE	\$60.00
Rev Growth 5 Yr A	42.62%

### Trading Data

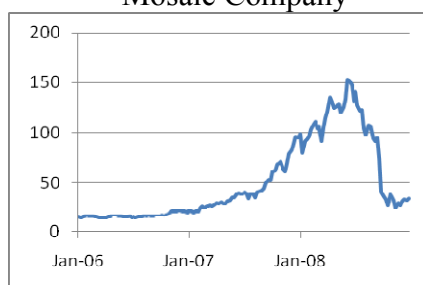
52 Wk Range	21.94 to 163.25
Market Cap.	15.37B
Shares Outstanding	444.5M
Dividend Yield	0.58
Ave. Daily Vol. (3M)	12,932,500
Float	156.3
Beta	2.6

### Fundamental Data

EV/EBITDA	3.4
Enterprise Value	14.67B
Total Debt (mrq)	1.497B
Tot Debt/Equity (mrq)	0.194
Book Value /Share	7.26
Current PE	5.21

### Price Performance Chart

Mosaic Company



## Mosaic Company Lowering Earnings and Revenue but Maintaining Price Target of \$60

- We are lowering our Q209 earnings estimate to \$1.69 from \$2.18 and our revenue target from 3,945M to 3,254M.
- We are lowering our full year 2009 estimate from \$16.2M to \$14.9M with earnings of \$7.26 per share down from \$10.63.
- We are keeping our 12 month price target on The Mosaic Company (MOS) at \$60 per share from the current price of \$34.60.
- We are keeping Mosaic on our recommended list.
- We feel that given a historical PE of 12 for the industry our target is rather conservative given that they are likely to earn at least \$6.00 this year and next, with consensus currently being at \$7.59 for 2009, and 9.13 for 2010. Our Q209 estimate is for \$1.69. MOS currently has a PE ttm of 5.21.
- These estimates and our thesis since the unbuckling of the stock, is that they will attempt to maintain the price while reducing output, so their long run outlook will be better, emanating from their oligopoly pricing power.

Basic Earning Per Share	Q1	Q2	Q3	Q4	Annual
2008	0.69	0.89	1.17	1.91	4.67
2009	2.67	1.69E			7.26
Revenues	Q1	Q2	Q3	Q4	Annual
2008	2,003.0	2,195.4	2,147.2	3,466.7	9,812.6
2009	4,232.2	3,254E			14.900E

\*PLEASE REFER TO PAGE 12 OF THIS REPORT FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION STRATEGIC INTERNATIONAL SECURITIES 380 LEXINGTON AVE. NY, NY 10168.

## Analysis

### Company Overview

We are restating our price target and rating for The Mosaic Company (MOS) with a recommendation list overweight rating, and a \$60 price target. We are looking for current quarterly earnings to come in at \$1.69. We have seen in the last three months what we had earlier identified as:

“a period of readjustment for Mosaic with both price declines and output reduced. Mosaic and the industry however are very effective at holding prices up by reducing output. We expect this to be the pattern for the coming months and even year or so as the price of these commodities adjusts to the international condition of a worldwide slowdown.”

This is exactly the pattern that we have been observing in that Mosaic has been willing to sacrifice output while maintaining price at a relative high level. Given that they have been able to increase prices nearly 400%, depending on the component; this will be the story going forward: how well will they be at keeping prices at elevated levels? Oil has come down, agricultural products have come down hard over, but not fertilizers

The entire question going forward will be how effective will Mosaic and their associated companies principally Potash Corporation be at maintaining pricing. We have seen that corn, soybeans, and wheat are down 50% from their highs, Crude oil is down 75% from its highs, but the fertilizers are down less than 10% from their highs.

Mosaic has been sacrificing output of phosphates by nearly 800 K tons this quarter alone and indicated they were willing to reduce output by another 1 million tons for the year as conditions require, but year over year prices are significantly. Pricing for Potash is stable shipments are down approximately 20% y/y.

We have a situation where there are two major consortiums Mosaic and Potash as one consortium for all international product, and Russia and Belarus as the other. With product concentrated in the hands of so few players, they certainly appear to have some level of Oligopoly power in their pricing.

## Valuation

### I. Segment Analysis

Mosaic Company operates in 3 segments Phosphates, Potash, and Offshore, with the company breaking down sales by region and total tonnage by price in each of the respective segments.

#### A. Phosphate Segment

For the Phosphate segment we are projecting a 35% decrease in sales volumes and a 60% increase in price, from Q208. For the quarter we have seen almost no decreases in prices, and are projecting a 3% q/q increase. We expect some price decrease going forward but more in the range of 10 to 20% as opposed to 50 to 70% as seen with other commodities. Company outlook is for a 40% reduction in unit sales but a 2-5% increase in the price of the Phosphate fertilizer.

Table 1: Phosphate Segment Data

Phosphates	Q209E	Q109	Q408	Q308	Q208	Q108	Q407	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales														
North America	572	910.3	785.4	578.8	489.7	478.5	413.7	347.1	244.2	279.4	253.0	283.6	253.0	301.9
International	780	1682.5	1249.7	679.1	741.1	704.0	546.0	343.6	519.7	510.2	552.2	415.7	482.8	554.6
Total Sales	1352	2592.8	2035.1	1257.8	1230.8	1182.5	959.7	690.7	763.9	789.6	805.2	699.3	735.8	856.5
Cost of goods sold	946.4	1587.1	1183.5	779.4	833.2	829.0	692.8	671.0	728.0	680.4	762.1	700.0	668.1	719.6
Gross Margin	405.6	1005.7	851.6	478.4	397.6	353.5	266.9	19.7	35.9	109.2	43.1	-0.7	67.7	136.9
Sales Volume Tonnes														
North America	550	779.0	1005	979	845	902.0								
International	750	1138	1135	980	1201	1141.0								
Total Volumes Fertilizer	1300	1917	2140	1959	2046	2043	2028	1862	2090	2077	2941	1882	2159	2672
Feed	150	174	213	249	234	200.0	204.0	212.0	211.0	218.0	125.0	233.0	291.0	264.0
Total	1.45	2.09	2.4	2.21	2.28	2.24	2.23	2.07	2.30	2.30	3.07	2.12	2.45	2.94
Av price per tone (FOB plant)	1040	1013	700	487	417	407	331	246	243	251	245	246	249	240
Phosphates	2008	2007	2006											
Net Sales														
North America	2332.4	1284.4	929.2											
International	3373.8	1919.5	2168.3											
Total Sales	5706.2	3203.9	3097.5											
Cost of goods sold	3625.1	2772.2	2849.8											
Gross Margin	2081.1	131.7	24.7											
Sales Volume Tonnes														
North America	3732	2856	2661											
International	4456	5201	6520											
Total Volumes Fertilizer	8188	8057	9181											
Feed	896	845	914											
Total	9.1	8.9	10.6											
Av price per ton (FOB plant)	513	264	245											

Source: Company Reports, SISR

## B. Potash Segment

For the potash segment we are projecting a 300% price increase y/y and nearly an 20% decrease in unit sales exactly what our early projection was, despite the company's early October guidance that they will be able to maintain their current levels. Our channel checks and analysis indicated that there is softness both domestically and internationally for this component. With respect to the company's initial October guidance for pricing of \$560 to \$620 per ton, we had projected a 20% price reduction in price instead of a 20% price increase that the company is projecting. Their revised outlook is much in line with our initial expectations.

Table II: Potash Segment Data

Potash	Q209E	Q109	Q408	Q308	Q208	Q108	Q407	Q307	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales														
North America	367.5	379.7	462.1	322.5	280.0	236.4	159.9	244.0	231.9	182.4	228.9	146.5	231.3	160.6
International	556.5	596.7	398.4	224.8	151.5	175.4	334.1	98.7	120.2	107.7	100.5	82.1	98.9	107.1
Total Sales	924	976.4	861.2	547.3	431.6	411.8	494.0	342.7	352.1	290.1	329.4	228.6	330.2	267.7
Cost of goods sold	450.2	473.2	518.1	338.2	256.4	285.2	319.2	261.4	263.7	220.7	229.5	204.5	209.7	160.6
Gross Margin	473.8	503.2	342.4	209.1	175.2	126.6	174.8	81.3	88.4	69.4	99.9	24.1	120.5	107.1
Sales Volumes														
North America	500	546	950.0	825	789	789.0		768.0	836.0					
International	990	1090	1105.0	1028	948	1070.0		775.0	901.0					
Sub Total	1490	1636	2055.0	1859	1737	1859.0		1543.0	1737.0					
Non-Agricul - Industrial and Feeds	270	261	299.0	249	279	225.0		243.0	213.0					
Sales Volume Tonnes	1.76	1.9	2.4	2.1	2.1	2.1	2.5	1786.0	2.0	1.7	1.7	1.3	1.9	1.6
Average price per tonne (FOB plant)	525	488	325	221	171	164.0	141.0	144.0	142.0	129.0	139.3	134.0	147.0	137.0
Potash	2008	2007	2006	2005										
Net Sales														
North America	1301.1	818.2	767.3	611.6										
International	950.1	660.7	388.6	257.8										
Total Sales	2251.2	1478.9	1155.9	869.4										
Cost of goods sold	1397.9	1065.0	804.3	623.3										
Gross Margin	853.3	413.9	351.6	246.1										
Gross Margin as a percent of net sales	37.9%	28.0%	30.4%											
Sales Volumes														
North America	3354	3393	2509											
International	4151	3596	2842											
Sub Total	7505	6989	5351											
Non-Agricul - Industrial and Feeds	1058	918	1148											
Sales Volume Tonnes	8.60	7.91	6.50	5.5										
Average price per tonne (FOB plant)	226.00	141.00	140.00	124.0										

Source: Company Reports, SISR

### C. Offshore Segment

The offshore segment while constituting over 15% of revenues, has historically had little variability in gross margins, and as a consequence similarly has had little significant impact on changes in the financial condition of Mosaic Company in recent years.

Table III: Offshore Segment Data

Off Shore	Q209E	Q109	Q408	Q308	Q208	Q108	Q407	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales	940	1048	695	387	644.3	497.5	308.9	242.9	499.9	303.9	245	186.1	467.8	340
Cost of goods sold	760	867.4	561.5	343	594.2	446.4	278.6	231.6	476.1	290.6	229.2	183.8	453.2	327.8
Gross Margin	180	180.6	83.5	43.2	50.1	51.1	30.3	11.3	23.8	13.3	15.8	2.3	14.6	12.2
Off Shore	2008	2007	2006	2005										
Net Sales	2223.8	1355.6	1238.9	1228.9										
Cost of goods sold	1945.9	1276.9	1194	1129.5										
Gross Margin	227.9	78.7	44.9	99.4										
Gross Margin % sales	12.50%	5.80%	3.60%	8.80%										

Source: Company Reports, SISR

### D. Financial Statement for Mosaic 2008 and 2009 with Q2 Estimates

We have taken our estimates down for each of the segments and build that into our estimates for Q2 09. We estimate that earnings per share will come in at \$1.69 for Q2, on revenues of \$3.254 billion. These are both significant decreases from the prior quarter, but these are not normal times and commodity prices, farm income, and international growth conditions do not warrant higher estimates.

The vast majority of the increase in sales and net income over the past three years has been a result of price increase enabled by explosive increases in crop prices and farm incomes. This party is now clearly over and the 75% decrease in the price of Mosaic from \$163.25 to the current price around \$35 is an indication that the markets do not like companies that have negative growth going forward. This is not to say that this company will not stabilize and retrace some of these losses. This in fact is what we are projecting. We believe that the Mosaic is still much oversold, and that they will beat consensus estimates.

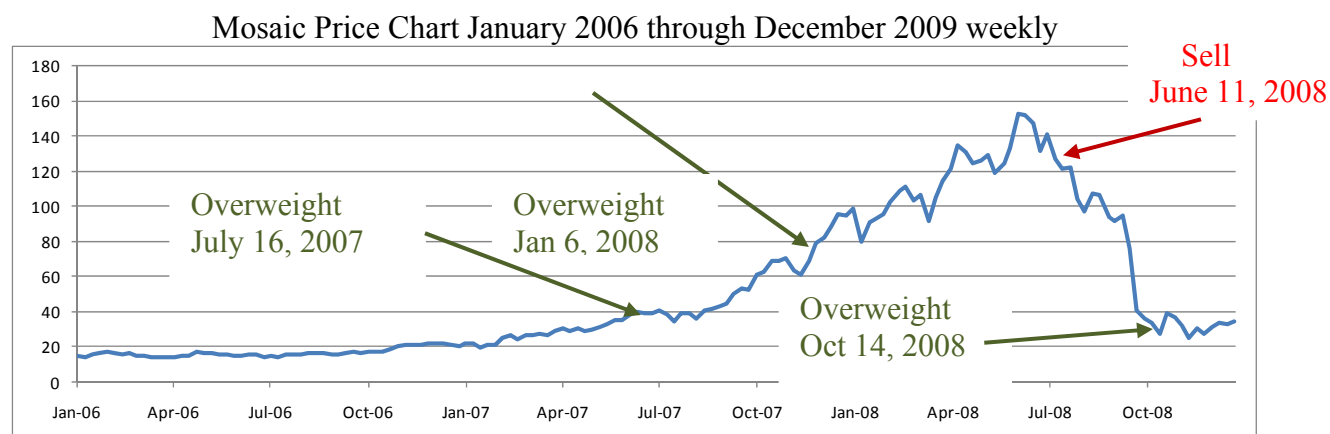
Table IV: The Mosaic Company Q209 &amp; Full Year Projections

Financials Mosaic	Q209E	Q109	Q408	Q308	Q208	Q108	Q407	Q307	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Net Sales	3254	4232.2	3466.7	2147.2	2195.4	2003.3	1684.4	1278.7	1522	1288.6	1331.5	1073.2	1497.5	1403.6
Cost of Goods Sold	2190	2673.9	2179	1419.3	1572.3	1481.5	1228.2	1165.6	1361.5	1092.3	1165.3	1059.2	1289.1	1154.8
Gross Margins	1064	1648.6	1287.7	727.9	623.1	521.8	456.2	113.1	160.5	196.3	166.2	14	208.4	248.8
Selling, general and admin expenses	90	90	96.2	81.2	79.8	66.6	95.9	78.8	70.4	65.7	54.5	61.8	68	57
Restructuring and other charges	0	0	8.8	-0.8	10.3	0	-1.7	0	0	-0.4	287.6			
Other Operating (income) expense	6	9.7	2.6	0.1	3.4	5.6	2.2			-0.6				
Operating Earnings (Loss)	968	1548.9	1180.1	647.4	529.6	449.6	359.8	34.2	90.7	131.6	-269.7	44.2	139.3	192
Interest Expense	10.1	10.6	6.3	24.7	25.5	34	30.1	49.6	41.6	40	41.1	44.2	42.9	38.3
Foreign currency transaction (gain) loss	-30	-86.7	-12.8	-1.5	52.4	19.4	53.5	-17.8	-19.8	-7.3	34.1	13.8	13.7	39
gain on extinguishment of debt	0	0	0	0.5	1.6	0.5	-0.7	-33	0	0	0	0	0	0
Other income	-1	-1.5	4	-27	-2.8	-0.5	4.5	-7.4	-6.7	-15.1	5.2	-1.7	-3.8	-0.9
Earnings from consolidated companies before income taxes	988.9	1626.5	1184.6	650.7	452.9	396.2	272.4	43.7	75.6	114	-96.8	-100	86.5	115.6
Provision for income taxes	296.67	497.7	354	159.2	100.9	100.8	85.3	6.6	24.1	7.4	-18.2	-27.2	42.3	51.5
Earnings from consolidated companies	692.23	1128.8	830.6	491.5	352	295.4	187.1	37.1	51.4	106		-73.5	44.2	64.1
Equity in net earning of non consolidated companies	60	59.8	35.8	30.9	45.5	11.8	16.5	0.4	-1	3.9	0	-0.1	-2.1	-2.2
Minority interests in net earnings of non-consolidated companies	-2	-3.9	-1.9	-1.6	-3.5	-1.7	-1			-1.5				
Net Earnings (loss)	752.23	1184.7	862.5	520.8	394	305.5	202.6	42.2	65.9	109	-180.9	-71.6	55	76.1
Preferred stock dividend						0	0	0	0	0		2.6	2.5	2.6
Basic earnings per share	1.69	2.67	1.91	1.17	0.89	0.69	0.45	0.10	0.15	0.26	-0.49	-0.19	0.14	0.19
Basic weighted average common shares outstanding	444.1	444.1	442.3	443.3	442.3	444.3	432.3	439.5	438.1	438.1	382.2	383.6	381.1	380
Financials Mosaic	2009E	2008	2007	2006	2005									
Net Sales	14900	9812.6	5773.7	5305.8	4396.7									
Cost of Goods Sold	9983	6652.1	4847.6	4668.4	3871.2									
Gross Margins	4917	3160.5	926.1	637.4	525.5									
Selling, general and admin expenses	340	323.8	309.8	241.3	207									
Restructuring and other charges	25	18.3	-2.1	287.6	0									
Other Operating expenses	15	11.7	2.1	6.6										
Operating Earnings (Loss)	4537	2806.7	616.3	105.8	318.5									
Interest Expense	80	90.5	149.6	166.5	120.5									
Foreign currency transaction (gain) loss	75	57.5	8.6	100.6	-13.9									
Gain on extinguishment of debt	10	2.6	-34.6	0	0									
Other income	-20	-26.3	-13	-1.2	-3.1									
Earnings from consolidated companies before income taxes	4392	2684.4	505.7	5.3	98.3									
Provision for income taxes	1317.6	714.9	123.4	48.4	55.9									
Equity in net earnings of non-consolidated companies	150	124	41.3	48.4	55.9									
Minority interests in net earnings of consolidated companies	-10	-8.7	-3.9	-4.4	-4.9									
Net Earnings (loss)	3234	2082.8	419.7	-121.4	165.6									
Basic earnings per share	7.26	4.67	0.95	-0.35	0.46									
Weighted average diluted shares outstanding	445.7	445.7	440.3	382.2	360.4									

Source: Company Reports, SISR

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July 16, 2007 Overweight \$40.79 Price Target \$45; January 6, 2008 Overweight; June 11, 2008, Sell; October 14, 2008 Overweight, Recommendation List.

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### Stock Rating:

1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.

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3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.

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**Price Chart:**

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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