



## Economics & Financial Markets

### United States Equity Markets

Philip L. Miller – 646-415-9141

Chief Strategist

[pmiller@sisresearch.com](mailto:pmiller@sisresearch.com)

[www.sisresearch.com](http://www.sisresearch.com)

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## **Mosaic Disappointment Could Get Worse: Removing MOS from our Recommended List: On the Basis of Expected Future Earnings**

### **Introduction**

We are removing Mosaic from our recommended list on the basis of their current earnings and expected earnings going forward. We are recommending a sell on the stock with a projected price target of \$30 in the intermediate future, or lower.

After the close today Mosaic reported their Q309 earnings with net earnings of \$58.8M or \$0.13 on sales of 1375.5. This compared to Q308 with net income of \$520.80 or \$1.17 on sales of 2147.2.

Our greatest concern was that the sales of phosphates tonnage was down 50% year over year and their sales of potash tonnage were down 63%. Of greater concern was that their average selling prices of phosphates were down y/y from \$487 per ton to \$413 per ton or 15%. That would not trouble us as much if their Q209 price was not \$1083 or a 61.9% decline q/q, from last quarter. Potash was better, but perhaps a disaster ready to happen in that their average price for potash actually increased from Q209 to the current quarter, from \$529 to \$565 or a 7% increase.

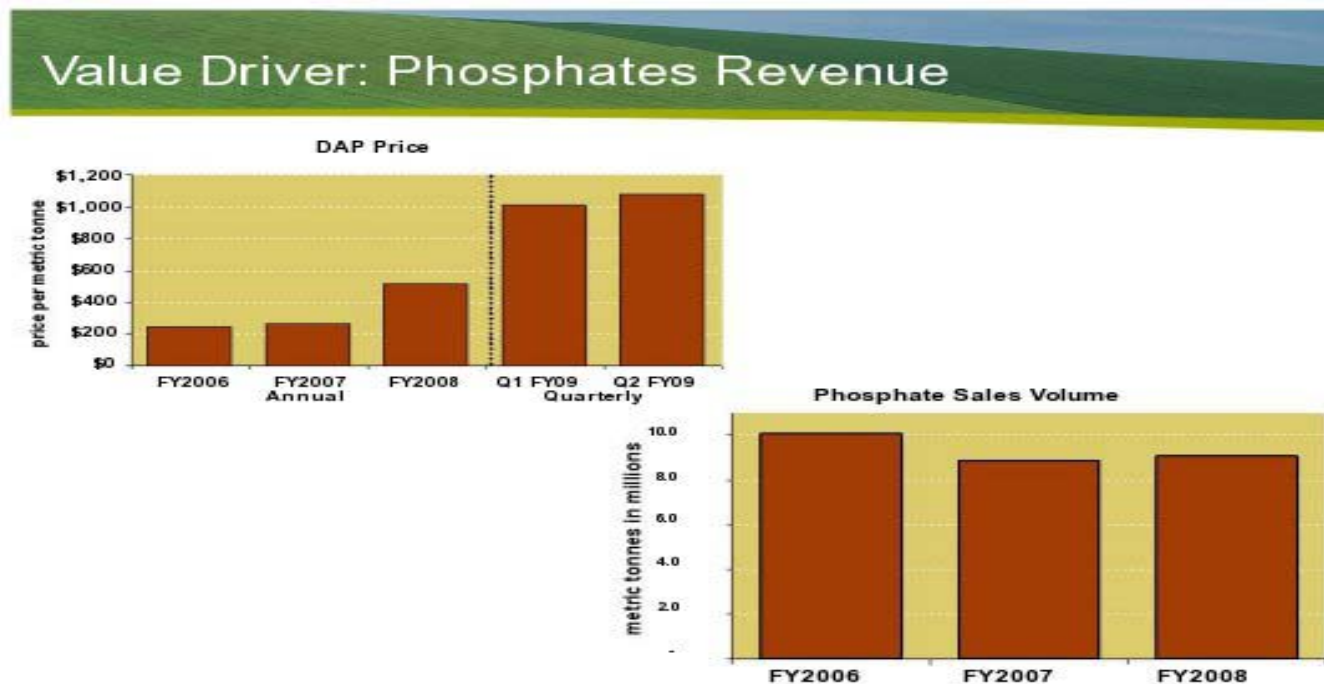
In essence we are finding a 67% drop in per unit sales of both potash and phosphates but more startling a 62% decline in price in phosphates, their main product in one quarter. Even worse despite the fact that their net sales were down 35.9% their COGS were down only 15.0%. Then we have forward quarters where they will have very difficult price comparisons since there was nearly a 200% price increase last year.

### **Analysis**

What may have surprised everyone is that despite a drop of 58% in units sold, their sales price q/q for phosphates was down 62%. We were surprised despite the data telling us that prices for phosphates were

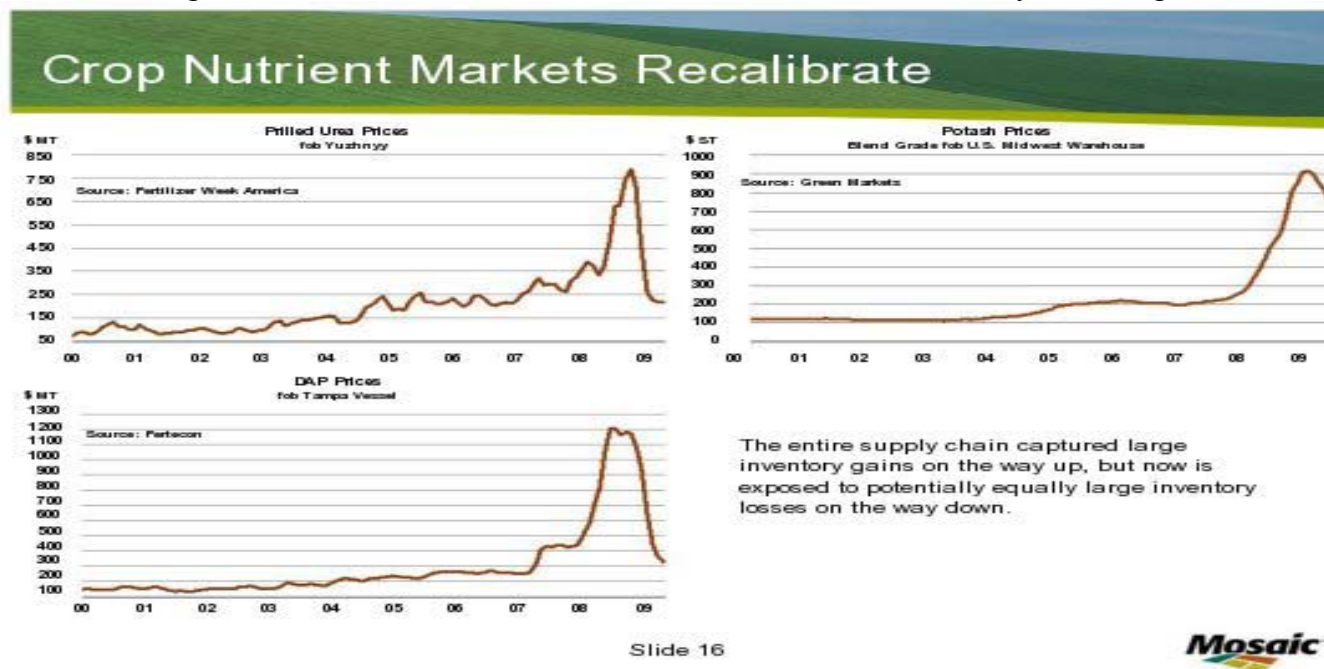
down 60% from the PPI table, we did not believe it, because we were under the impression that the wholesale price had fallen but that the companies were maintaining their price structure to the suppliers. What may have confused us were these tables present at their analyst meeting on Jan13, 2009.

Figure IB: Slide 82 of Mosaic's 2009 Institutional Investor & Analyst Meeting



Source: The Mosaic Company Presentation Jan 13, 2009

Figure IC: Slide 16 of Mosaic's 2009 Institutional Investor & Analyst Meeting



Source: The Mosaic Company Presentation Jan 13, 2009

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These tables as presented at their analyst meeting in January indicated that MOS was maintaining their price to the wholesaler while the wholesaler may have been trying to unload inventory at lower prices. This confused us when we looked at the PPI phosphates which were down 60% and we ignored those results thinking that the price decline was only from the wholesaler.

Our second concern is that while Potash pricing has remarkably held up but in light of what we have seen with phosphates we believe that Potash cannot hold up. The potash price has held up because of year long contracts with many of the international countries and there is a stronger oligopoly for that element. However, the countries see what has happened to the price of phosphates and we do not believe they will agree with high prices going forward, and in fact are likely to demand a price reduction. We have argued that while China thinks that they are doing themselves a favor by having year long fixed price agreements, they in reality may be setting the price too high which is why Potash is still increasing in this market, with the China price setting a floor.

The third major concern is that with the price drop we have only seen the first quarter of comparisons of Q308 to Q309. When we factor in y/y for Q409 and then Q110 in comparison their y/y comparables when prices were not 15% lower but 60% lower this may foreshadow a real awakening to how really bad this report was.

### **Dropping MOS from Recommended List**

On this basis we are removing Mosaic from our recommended list and suggesting that holders sell MOS and wait till prices improve before considering purchasing again. We would not be surprised to see this stock selling below \$30 per share before that happens. We cannot see how Q409 and Q1 and Q2 2010 can impress anyone when the price of phosphates will be 60% higher in the prior quarter as compared to only 15% from this quarter on y/y comparisons.

If prices remain where they are for phosphates through the end of this year the y/y comparison for Q210 with Q209 will have phosphate prices down 62% y/y for comparison basis not the 15% we had this quarter. The price of Phosphates increased nearly 500% in the past two years as seen in the table above.

Then if we have some price destruction in Potash this company is likely to be losing money by year end, and the stock price will not be friendly to that occurrence, particularly if there is no price increase in sight. Additionally farm income which is the best projector of fertilizer prices are declining not going up.

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- 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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**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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