



## 3 Developments Every Investor in the Fertilizer Industry Should Track in 2014

### Description

2013 is likely to go down as one of the worst years in the history of the fertilizer industry. If potash prices plummeted on unexpected industry developments, demand for phosphate remained soft through the year. While nitrogen companies were better off, rising input costs and Chinese substitutes left them worried. Not surprisingly, **PotashCorp** (TSX:POT, NYSE:POT) shares have lost 15% year to date while **Agrium** (TSX:AGU, NYSE:AGU) is down about 4%.

With uncertainties in the fertilizer industry far from over, it is difficult to predict what will happen in 2014. But keeping an eye on the following three developments should help investors prepare themselves better and avoid unpleasant shocks next year.

### Where's all this headed?

Things weren't as bad for PotashCorp and Agrium until July, when the sudden collapse of the cooperation between Uralkali and Belaruskali sent shockwaves through the global potash market.

Together with Canpotex – the marketing group comprising PotashCorp, **Mosaic** ([NYSE: MOS](#)), and Agrium — the Uralkali-Belaruskali cooperative controlled the supply and price of potash nutrient. Uralkali's exit, and its plans to pursue a volume-over-price strategy, led to huge drops in the nutrient's demand and prices. That explains why PotashCorp's revenue and net income fell 8% and 6%, respectively, for the nine months ended Sept. 30, 2013. Agrium's revenue was flattish over the period, backed by robust demand for seeds and crop protection products, but its profit tanked 16% year over year.

Uralkali has just ousted its CEO, and speculation is rife that the partnership will revive. If that happens, the potash industry's woes could end sooner than you think. Even if Uralkali doesn't form a group again, it recently mentioned that it will be "prioritizing volumes or prices depending on the market situation", which suggests that unlike what the broader market thinks, Uralkali may *not* boost production at the cost of low nutrient prices. That's certainly encouraging.

But remember, it's just speculation as of now, so investors must track every news and development on this front going into 2014. Whatever Uralkali finally decides to do is bound to have major implications

on the potash market, and hence, the performances of PotashCorp and Agrium.

### **Are contracts coming in?**

China and India are key fertilizer export markets, but demand from both, especially India, slowed down in 2013. Phosphate companies, including PotashCorp and Mosaic, are worst hit since India is [a key customer](#). The two companies also recently dissolved their association, PhosChem, through which they exported phosphate nutrient.

Canpotex members are eagerly waiting for fresh contracts from either of the markets. India is expected to increase its fertilizer consumption next year, and China has just extended its potash contract with Canpotex for 2014. Though the price has yet to be finalized, it could mark the nutrient's bottoming. These are [encouraging signs](#), and investors should keep an eye on any fertilizer-related news from the two nations.

### **Don't ignore natural gas**

Natural gas is the key input for nitrogen, so its prices play a key role in determining the profitability of PotashCorp and Agrium. With natural gas prices bouncing back substantially this year, PotashCorp's gross margin per metric ton of nitrogen slipped 12.5% for the nine months through September, while Agrium reported 31% drop in its nitrogen gross profit for the period.

If prices of natural gas continue to increase next year, these companies could be hit hard. Conversely, flattish or lower gas prices will be great news. Investors should note that PotashCorp sources gas from Trinidad unlike Agrium, which depends more on the U.S. for its gas requirements. While supply from Trinidad was disrupted this year because of outages, which hurt PotashCorp's gross profits, an improvement in 2014 should help the company rake in higher profits.

Since an improving nitrogen division could also help offset weakness in other nutrient markets, tracking natural gas price movements through 2014 could help investors gauge where the companies' bottom lines are headed to.

### **The Foolish bottom line**

Investors in fertilizer stocks may have had a tough year, but it was an exceptional year, and most factors point towards better market conditions in 2014. Since fertilizers are essential to boost crop yields, their long-term story remains intact. So even if the industry faces hiccups next year, you shouldn't panic, because these are just short-term headwinds, and PotashCorp and Agrium certainly [have it in them](#) to generate good returns if you're willing to wait.

## **CATEGORY**

1. Investing

### **Category**

1. Investing

### **Date**

2025/07/28

### **Date Created**

2013/12/27

### **Author**

---

nehams

default watermark

default watermark