



## All I Want for Christmas Is Mosaic Co.

### Description

**Mosaic Co.** ([NYSE:MOS](#)) is a U.S.-based producer and marketer of fertilizer products, including potash and concentrated phosphate crop nutrients. The company's stock price has remained relatively stable over the past year, spiking recently on news that the company is acquiring Brazilian iron-ore and potash producer **Vale SA (ADR)'s** ([NYSE:VALE](#)) potash assets for US\$2.5 billion in a cash and stock transaction, which is slated to be finalized next year.

### Merger details

The US\$2.5 billion merger between Mosaic and Vale is expected to be half cash, half stock, resulting in a Vale ownership interest in Mosaic of approximately 11% when the deal closes. This deal, pending regulatory approvals, would result in Mosaic taking over top spot from **Potash Corporation of Saskatchewan Inc.** as the largest global producer of phosphate crop ingredients.

Extending the market share is never a bad idea, and the company's stock price has responded in kind—up 30% from its October low.

Reasons for considering the merger are abundant for Mosaic, a company that has developed strong sales in Brazil but was looking for a way to capitalize on the strong and growing Brazilian market for fertilizer. Mosaic currently operates a port in Brazil, and will now be able to vertically integrate its Brazilian and Peruvian potash assets accordingly. The purchase of Vale's long-life, low-cost production assets are viewed by Mosaic management as a prudent move, even considering that potash is currently trading globally near a 10-year low.

Vale is a diversified mining company focused on iron-ore production with a number of other mining assets, including potash and phosphates. By divesting of these assets, Vale seeks to take advantage of further concentration of its efforts on its core businesses, while raising cash to invest in much-needed upgrades to existing mines.

Mosaic expects to finance the cash portion of the merger by raising approximately US\$1.25 billion of debt next year. The anticipated increase in annual earnings from the acquisition is expected to range from \$0.05 per share to \$0.10 per share in 2018, generating approximately \$80 million of free cash

flow.

## Mosaic long-term outlook

As one of the lowest-cost producers in the potash business, and considering the recent merger announcement in Brazil, Mosaic is positioning itself well to take additional global market share away from higher-cost producers in this low commodity price environment. This acquisition, while not cheap, may turn out to be a bargain in the long run due to the scarcity of low-cost potash production globally.

Should potash prices rebound accordingly, Mosaic will be in a fantastic position to capitalize on its cost-leadership strategy.

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1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)
2. NYSE:VALE (Vale S.A.)

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