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By Yuliya Fedorinova

July 4 (Bloomberg) -- OAO Uralkali, the potash producer billionaire Suleiman Kerimov built into the world's largest, is increasing profit faster than its five largest competitors in the \$25 billion global market by curbing output costs.

The Russian supplier of the crop nutrient estimates its 2011 merger with rival OAO Silvinit will reap \$300 million in annual cost efficiencies. Earnings before interest, tax, depreciation and amortization will jump an estimated 30 percent to \$2.69 billion this year, the mean of 16 analyst estimates compiled by Bloomberg.

Kerimov, who controls about 55.14 percent of Uralkali with his partners, is among the few suppliers along with Canada's Potash Corp. of Saskatchewan Inc. and Mosaic Co. of the U.S., that are expanding without raising prices high enough to draw new entrants into the market. BHP Billiton Ltd., the largest mining company, in May delayed plans to begin any big projects.

"Uralkali has one of the lowest costs of production in the industry," Elena Sakhnova, a VTB Capital analyst, said by phone in Moscow. "It will continue to benefit from stable potash prices should new global start-up projects be delayed."

Uralkali will charge an average \$492 a metric ton in 2012 to export the potassium-laced additive used to make crops more resilient, while holding costs to \$65, Sakhnova estimates.

The Russian miner said it achieved \$137 million in savings from the merger in 2011, helping margins at the Berezniki-based company, whose trading arm supplies more than 40 percent of global exports.

Shallower Mines

An even bigger advantage is its easier access to lucrative mineral deposits. Uralkali's deepest mine is 450 meters (1,500 feet), while only one of Potash Corp.'s has a mining depth of 400 to 700 meters, the Saskatoon, Canada-based company's website shows. Its deepest is 1,040 meters.

BHP failed in a hostile \$40 billion bid for Potash Corp. in 2010 and then proposed building the world's largest potash mine in Saskatchewan. While Melbourne-based BHP said in January that year that a final investment decision was expected in late 2011, CEO Marius Kloppers said in May he won't sign off on any major projects before the end of 2012.

Potash Corp. is expected to increase Ebitda 6.2 percent to \$4.67 billion, based on 21 analyst estimates. Mosaic's Ebitda is projected to be little changed, while an 8.2 percent drop is expected for K+S Group and a 4.7 percent slump for Israel Chemicals Ltd.

Best Margin

Investors don't recognize Uralkali's full value, even as it reports higher margins, said Mikhail Safin, an analyst at Renaissance Capital in Moscow.

Uralkali's 59 percent Ebitda margin last year beats the 50 percent posted at Potash Corp. and the 31 percent at Mosaic, according to Bloomberg data. Incorporating Silvinit figures from January pushes the margin to 69 percent, Uralkali said in April.

The stock has gained just 7 percent in Moscow this year, trailing Mosaic's 8.8 percent return and the 10 percent gain of Russia's benchmark Micex index.

"Uralkali is underestimated due to Russia-related risks," Safin said. They include potential increases in taxes and tariffs that could hurt its bottom line, Safin said.

The Euro zone crisis is weighing on Uralkali's share price as investors prefer to have cash on hand rather than investing in stock, Vladislav Baumgartner, Uralkali's 39-year-old chief executive officer, said in an interview in St. Petersburg on June 22. "We still believe that our share price is hugely undervalued in terms of the potential of the company."

Food Security

Potash producers are tapping the food demand of a swelling global population. Food output will need to expand 70 percent by 2050, according to the United Nations. The imperative for farmers to improve their crop yields is what's prompting BHP and Vale SA to try to compete with established potash suppliers.

"Our business is directly related to the food security story and there are very strong fundamentals behind that," Baumgartner said.

Uralkali's Ebitda is projected to almost double by 2015, Bloomberg data show. By that year, the price of potash will rise by some 32 percent to \$560 a ton, according to VTB estimates.

Uralkali will retain its standing among the lowest-cost producers even as its costs rise to \$65 a ton this year from \$55 in 2011 because of planned output cuts, VTB's Sakhnova said.

The Russian company's pro-forma Ebitda for 2011, assuming a full-year of combination with Silvinit, was \$2.46 billion. The projected gain in 2012 earnings would still be largest among its biggest rivals at 9.5 percent.

'Main Danger'

Should all proposed potash projects get built, the price may slump 8.7 percent by 2015 and as much as 24 percent in 2020, UBS AG said in December. Output would climb an average 4.1 percent a year to 2020, outstripping a 3.4 percent gain in demand.

Uralkali, which has the largest expansion plans in the industry and intends to add 7.5 million tons of potash capacity by 2021, sees such an outcome as unlikely.

"The main danger for the market comes from greenfield projects such as BHP's," said Baumgartner. Market conditions mean that for the next five or six years "Uralkali doesn't believe all such projects will be realized, as they require huge investment and time."

Vale's \$5.9 billion Rio Colorado project in Argentina may be at risk because of potash prices, according to Konstantin Yuminov, an analyst at Raiffeisen Bank in Moscow.

Producers need long-term potash prices exceeding \$500 a ton to justify building new mines, UBS estimates.

Jansen Project

"Brownfield projects are definitely the most beneficial for the time being," Yuminov said.

Kerimov, 46, built his fortune investing in distressed companies, and has personal wealth estimated at \$6.5 billion by Forbes magazine. He directly owns 17.16 percent of Uralkali, with the

rest in the hands of his partners. They bought control of Uralkali from Russian billionaire Dmitry Rybolovlev in June 2010.

BHP has already spent \$1.2 billion at its Jansen project in Canada, where it intends to produce about 8 million metric tons a year, with output possibly starting in 2016. Jansen may cost as much as \$10 billion, Citigroup Inc. has estimated.

Vale targets 4.3 million tons of annual output from Rio Colorado in Mendoza province. Vale has completed 30 percent of the project, which was expected to be ready in the second half of 2014. In May, Vale said it intends to review its plans.

Farmers' Yields

"Greenfield projects are difficult everywhere, and for BHP Billiton and Vale in particular," Baumgartner, who holds an MBA from the U.K.'s Kingston Business School and a financial management degree from the University of London, said in the June 22 interview.

Most start-up projects were announced before the 2008 world economic crisis, when the average price of potash excluding delivery peaked at about \$500 a ton, said VTB's Sakhnova. Prices have since dropped to about \$390, destroying the business case for these ventures, she said.

In the longer term, companies are still likely to approve new projects at the lower-end of the cost scale to gain from forecast increased demand from farmers for crop nutrients as the global population climbs and food consumption increases.

"Between 1990 and 2010, the population grew by 20 percent," Baumgartner said, giving global estimates. "At the same time, arable land per capita decreased also by 20 percent, which means that farmers need an efficient agricultural business to achieve high yields."

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