

An Insight into Fertilizer Sector

Integer Research Ltd. is a UK-based company providing information services and consultancy in fertilizers. Fertilizer Focus recently spoke to one of the founders and owners, Mr. Oliver Hatfield. The interview centred on Integer's new Fertilizer Financial Insight service, which provides profiles and rankings of the world's leading fertilizer companies.

Focus: *How many companies does the Fertilizer Financial Insight service cover and what selection criteria do you use?*

Mr. Hatfield: Currently, we cover 60 of the top fertilizer companies from around the world. We aim to increase both the breadth and depth of coverage, adding more companies and more detail for each company. In the near future, we plan to increase our coverage to 100 companies. Longer term, there is the potential to include more than a hundred smaller companies, but we have already cracked the major players. Our starting point was the large

fertilizer companies with a considerable presence in the industry: those with a focus on fertilizers, and diversified majors with significant fertilizer interests. The product has a balanced coverage, tracking companies regardless of their nutrient focus.

The Fertilizer Financial Insight service also covers a broad geographical range of companies. A major challenge was the low level of disclosure by some companies. We have therefore built up a team that has particular strengths on Russia, the Middle East, and China. Russian companies were certainly a challenge, but we believe we now

have insight into the fertilizer sector in Russia, including companies such as Acron, Phosagro, MDM Eurochem, and Gazprom and its subsidiaries.

Focus: *What conclusions can you draw from the research about the fertilizer industry?*

Mr. Hatfield: From our analysis, it is clear that fertilizer companies' profitability is not directly linked to the global economic cycle. Poor profitability across the industry in recent years was the result of state-driven investment in production capacity in India and China and surplus capacity in the Former USSR, combined with low grain prices and market shocks such as the Russian currency devaluation and volatile energy prices. As nitrogen and phosphate prices hit cyclical lows, so profitability amongst the fertilizer companies has suffered badly.

On a positive note, though, most companies we follow continue to predict growth in world fertilizer consumption, particularly in Latin America and Asia, at a time when investment in new capacity has slowed. In part, this follows from the poor performance of many companies in recent years. A number of companies have more recently shown stronger results, but this trend is not reflected across the board. Many companies are facing a great deal of uncertainty. Industry consolidation continues, and the big multi-nationals continue to expand worldwide. Conversely, there are companies looking to exit the market, opening up opportunities for businesses looking to grow through acquisition. The tracking of this activity is one of the key elements of the report.

There are also a number of interesting geographical variations between companies. The Russian industry in particular has seen an enormous amount of consolidation. A more stable

Mr. Oliver Hatfield



Finances

Russian economy has meant large investments by some companies, and merger and acquisition activity. In India, companies' dependence on subsidies has exposed them to unpredictable changes in government policy. The effect of subsidy reform can be seen in deteriorating financial results in India.

Focus: *Where did the idea behind Integer Research come from?*

Mr. Hatfield: I spent over 6 years as a senior analyst at a major fertilizer consultancy in London. In that function, I would spend time chatting with clients about strategy and performance, and also about how their peers within the industry were performing. Companies love to talk about how their competitors are doing. Clients were keen to glean insight on the industry, particularly the reasons behind unexpected company profits or dismal losses.

I realised that the Internet and access to information has changed the nature of publishing quite dramatically. For a long time, the fertilizer industry has been well served with high quality information from a few key suppliers. However, the availability of information on the Internet is now growing rapidly, for several reasons. Fertilizer companies feel pressure to be more open due to the global nature of capital markets. Even state-run organizations are looking for funding for their operations, and most companies now have credit ratings. Companies feel the pressure from shareholders and investors to supply more information in press releases, conference calls and company reports to allow for assessment of their businesses. Increased disclosure has become an essential element in attracting investment and finance. Reporting of environmental performance is a further driver of greater transparency.

Clients have told us that as more and more information becomes available on the web, E-mail and newsletters, it has become a daunting task to keep up with market developments. The problem people face is how to cope with all the available information and condense it into something reliable, precise and useful. Meeting this need is one of Integer's key objectives.

Focus: *What has Integer Research done to help people cope with the overwhelming amount of information available?*

Mr. Hatfield: Our team had a good idea of the approach needed to handle the fertilizer data: from financial results through to plant capacities and news. We knew of similar products in other industries, but we realized that we needed to build a system tailored to the fertilizer industry.

We therefore invested in a publishing solution to suit the needs of our clients. However, the fertilizer product turned out to be much more intricate than we had expected, in order to cover the many aspects of fertilizer companies which are of interest. The end result is that we now have a system able to provide an essential analysis of the performance of the world's fertilizer industry.

We believe that Integer Research and its Fertilizer Financial Insight service will become one of the reference publications for the leading fertilizer companies. The feedback that we have had has been very positive. We are delighted to have found a strategic partner in FMB, the leading fertilizer publishing company, which is also based in London, and we plan to work closely with them to move our research forward and develop other products.

Focus: *How will your product benefit people in the fertilizer industry?*

Mr. Hatfield: Fertilizer Financial Insight is unique in the fertilizer industry. The service summarises in one place historical financial information for fertilizer companies, and reviews each company's history, ownership structure, operations and recent developments. The data is sourced from a number of places including company reports, press releases, analysts' presentations, stock exchange documents, and direct contact with the industry. A key section in our report is called "Integer Insight", in which we offer our view of the outlook for each company, and explain what lies behind its performance.

Our on-line benchmarking feature enables companies to compare their own financial performance with their peers across a range of indicators. Often, companies assign much of this analysis to Financial Directors or Market Research before feeding to board level. The information we provide will make this analysis accessible to people across a range of functions from corporate planning and business development to trade and production.

We also realised that clients were spending many hours collecting data on their rival's financial performance, tracking industry gossip and trying to sort the "news from the noise". Through the use of our product, we believe we will help companies avoid having to wade through pages of stock exchange data, investor documentation, annual reports and press releases to extract relevant information.

Focus: *What functionality does Integer Research's product offer?*

Mr. Hatfield: We offer a paper report, online access and E-mail reports. The paper report offers a profile of each company, and a summary section assessing the financial health of the fertilizer industry and comparing all 60

companies on a number of key financial indicators.

The online service offers additional information, such as detailed capacity lists and news summaries and analysis. We also offer the facility to view company financial information in any currency, and create tailored financial charts. Our website service can therefore be used to carry out complex analysis using data available online. We also provide the user with a company alert system which sends out an automatic E-mail when new information is received for a company of interest.

Focus: *Finally, how is the fertilizer industry changing and would you like to make any forecast on how it is likely to evolve?*

Mr. Hatfield: In most cases, the industry is becoming less opaque. Companies are revealing more about themselves and I think this is reflected in Fertilizer Industry Insight. As privatisation activity continues, there are fewer fertilizer companies owned by the state. We expect this trend to continue, which will create opportunities for the well informed. Besides Russia, we have been able to capture information on companies in interesting countries such as Poland, Bulgaria, Indonesia, Egypt and Iran.

In Asia, India and China represent two markets with enormous potential for growth. Although outside investment is still relatively limited, we are seeing a slow decline in state involvement. India has always been fairly open in terms of information. On the other hand, China has been enigmatic, but we are seeing situation change. We believe that we have gained useful insight into this market, and will continue to track developments there.

Focus: *Thank you, Mr. Hatfield. ■*