

# Fertiliser sector gets set for new growth

Yara, the industry's market leader, is being split from its parent company but its dominance might be short-lived, writes David Finn

In the 99 years since Norsk Hydro tapped into Norway's hydroelectric power to generate the vast amount of electricity needed to convert inert nitrogen in the atmosphere into nitrate that can be absorbed by plants, the world has become addicted to synthetic fertilisers.

But despite being the world's biggest player in this field, Norsk Hydro sees more fertile growth opportunities in its energy and light metals activities.

After five years of restructuring that has seen the company double the size of its oil and gas interests and become the world's number three aluminium company, Norsk Hydro has decided to part ways with its agricultural business. This month it will float Yara International on the Oslo Stock Exchange in a demerger that will create the world's largest independent fertiliser company.

But Yara's dominance of the sector will be short-lived. Cargill, the largest private company in the US, is also taking advantage of the upturn in farming to float its nitrate and phosphate fertiliser operations through

a merger with IMC, the heavily-indebted US phosphate and potash group. It will create a publicly traded company with 13 per cent of global phosphate and potash capacity, revenues of \$4.1bn and assets of \$5.4bn.

"Fertilisers have traditionally been state-owned, associated with food security and serving national markets. I think what we're seeing now is the industry becoming increasingly global, competitive and accessible to investors," says Oliver Hatfield, of Integer Research.

The IMC merger is part of a restructuring that has seen Cargill divest about \$2bn of assets to focus on higher-margin activities such as bio-sciences and raw material processing. Linking with Cargill will cut IMC's leverage from almost 8 times Ebitda to about 5 times.

The timing of the Yara and Cargill listings could not be better. In spite of a malaise in the broader chemicals industry, the \$70bn fertiliser market has improved significantly in the past 12 months. A combination of high crop prices after last year's drought in Europe and increased US farm subsi-

dies have sent fertiliser prices to an all-time high.

Shares in Agrium and PotashCorp have both risen almost 30 per cent in the past 12 months, although IMC has been overshadowed by refinancing worries. Higher nitrogen prices and strong demand for potash, which with phosphate make up the three key plant nutrients, are good signs that the fertiliser industry is making the transition out of a long down cycle.

CIBC says the outlook for the fertiliser industry is improving, driven by increasing disposable income for North American farmers and reduced competition for China, where rising agricultural demand is outpacing the construction of fertiliser production.

Consolidation around two global leaders should also bring more order to a sector that has a reputation for undisciplined investment during boom years.

With 55 per cent of US phosphate and potash capacity, the new company will have greater negotiating power with raw material suppliers as well as an ability to match output



Open field: the fertiliser industry is becoming increasingly global, competitive and accessible to investors

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to demand, according to Jacob Bout, analyst at CIBC World Markets, the Canadian stockbroker.

Nitrogen fertiliser production is a highly cyclical business. Overcapacity has forced US and European manufacturers to take out 15 to 20 per cent of their nitrate

capacity since 1999. US manufacturers are saddled with high gas prices and a recent report from Integer Research warned that EU enlargement will add to pressure on the European sector by increasing competition between western and central European producers.

But Norsk has won respect in turning round the fertiliser division under Thorleif Enger, who will become Yara chief executive.

Mr Enger plans to exploit his reputation for integrating smaller rivals in the fragmented nitrogen fertiliser sector.

"Over the last two or three years we have provided a nice cashflow to Norsk Hydro and now will be able to manage that cash ourselves. We are ready to continue improving productivity and to look at what other options there would be to grow the company," he says.