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Credit Suisse Basic Materials Conference

Christopher S. Parkinson - Analyst, Credit Suisse Securities (USA) LLC (Broker)

I think we're ready to get started. I'm Chris Parkinson on behalf of Credit Suisse's North American Ag Science team. I'd like to thank you all again for joining us here today. I'm very pleased to introduce, Mr. Wayne Brownlee, CFO of PotashCorp.

We have the pleasure now of hosting Wayne this conference for several years and always enjoy your remarks on the potash, phosphate and nitrogen industries. And as many of you know, the state of global agricultural remains one of the most heated debates within basic materials. I'm very pleased to have Wayne here today and discuss his views and hopefully set the record straight.

And with that, Wayne, the floor is yours.

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Thanks, Chris and good afternoon everybody. Thank you for being here.

{Technical difficulty with audio feed – missing part of session}

Sorry about that. So high operating rate right now, probably it looks like, all things being equal, of course they never are, but it looks like that has a potential to continue for the next two years or three years. So the question is, what's going to happen over the next two years or three years? Well, not sure, but the fundamentals are very strong. I know people are worried about what crop commodity prices are doing and whether it's going hurt consumption going down the road.

And right now, if we call this year a 58 to 59 million tonnes, we think that you are going find about the same range for next year, possibly higher, and the delta on the growth probably is going to be China and India. So it will depend on how those countries do. We'd expect that Brazil will be at or slightly higher next year. We expect U.S market might be off slightly in sympathy with the crop prices. But really and even with palm oil prices being down in Southeast Asia, we're still seeing 3% growth there per year. And we're seeing China is at a record of 12 million tonnes this year, compared to our original expectations of around 11 million tonnes to 11.5 million tonnes. India is around 4 million. So you get any kind of a break in India especially, if there is a change in subsidies, that are advantages to Potash and you get some sustain growth in China, there is recently that the market could continue to go up next year. So if you add that on top of supply constraints that we've seen this year and where the increasing capability is going to be, there is an outlook here

which I would say is our base case, which is some continued improvement. And that would still make allowances for some diminish consumption in the United States and sympathy with crop prices.

The other thing is just to reminding people that Potash has been an oversupply in 23 over the last 25 years. Only in two years in the last 25 years, there has been a slight demand match. And if you go back and look at what the margins are in Potash, they've been pretty good over that period of time. So the business model that we have at least has helped generate pretty good value for shareholders and we think that's going to continue. You can see here in terms of, where are the, where is a laser, sorry about that, there is where the capacity changes are going to be here between PotashCorp and our two other Canpotex members is going to make up 70%. So a lot of the increased capability over the next two to three years is going to be with North American producers.

So just quickly walking through markets in the next few slides. This year we think, India is around 4 million tonnes, that's without any change in a subsidy program that's been helpful to potash consumption. We would guess based on just demand and basically the market getting conditioned to higher prices, which they've seen now for the last three years or four years that without a subsidy change and you could grow to about 4.5 million tonnes next year. If you get a meaningful subsidy change, which probably is going to come at the expense of urea in India, there is a possibility for even more growth. So we'll see that will be something to watch going forward.

China, is up to 12 million tonnes this year. So very good consumption and a nice year-over-year increase. Right now, we have no reason to believe that we can't see some more sustained growth. And I would say this that in both India and in China, we do believe that our moderate pricing strategy has helped stimulate consumption growth. So, part of our program on a multiyear basis is not to let prices get too far ahead of themselves.

In South-East Asia a lot of the emphasis here goes to Indonesia and Malaysia, which are palm oil country and rubber. Even in a phase of declining palm oil prices, we're still seeing the volume consumption growth by about 3% a year, which basically says that potash applications are not substantially discretionary to get the yield that you want to have in a oil palm plant. So we don't expect that market to crumble with declining palm oil prices.

In South America – and a large part of this is Brazil – it's been a record year here with over 8 million tonnes of potash consumption and it's been a very strong marketplace. I don't think that we'll see the same year-over-year growth as we saw in 2014 and 2015, but I don't have a reason to believe at this stage that you're going to see a decline in consumption. So maybe a slight growth in certain jurisdiction that's what we're looking at in 2015 from acreage expansion and increasing application rates.

This is North America and I know once again people are worried about corn prices. So all this is just doing is showing you that potash is such a small portion of total input cost that all things being equal it should be less sensitive to declining corn prices and that is a part of our reference point for expectations for next year. So a slight possibility of a weaker market on volume consumption, but not in a ditch type of consumption that some people are worried about.

So shareholder value once again the growth is basically been paid for in our company. So, there is going to be a lot of free cash flow allocation coming out, a lot of that's through dividends and possibly share repurchase programs on opportunistic and balance sheet correction basis. In the meantime, you can expect us to continue to put emphasis on cost control in our potash and our nitrogen and phosphate business. And make sure that we can be at the very bottom end of the curve on a costs basis. This is our name plate capacity, our operational capability right now and this is only a very preliminary number for 2015. Our operational capability in 2014 was around 9.2 million tonnes. Right now, we're thinking about raising it up to about 10.5 to 11 million tonnes for 2015.

In the basis for doing that, basically it is our belief that there is probably a little bit of growth from the offshore market in 2015. And secondly, given some of the supply constraints that we've seen from some of our competitors, there may be room for us to have an increased volume. What we're looking at for 2015 is to make sure that we've got enough to respond to a better demand environment than we thought. It's a low cost option. And so, we're in a process of bringing some additional people back at some of our mines and to make sure that we've got the capability. It doesn't cost a lot to do it, but the cost of losing 500,000 tonnes of sales is substantial relative to the cost.

Next slide is just the completion of the Rocanville, and New Brunswick expansions. They will be finished by 2015, and that is really a question of ramping them up into a full capacity and we're looking at doing that. When Rocanville was up and running, we intend to run that full out. We think directionally the cash cost at Rocanville once it's at full operation, will be close to \$70 a tonne. So it will be at the very bottom end of the cost profile in Potash. So that is part of our way of maximizing the shareholder value. And you'll recall, with the cost slides here on the right hand side, when we talked in December about the work force reduction and we talked about a \$20 to \$30 tonnes reduction in costs, we're close to the \$20 a tonne cost reduction in 2014. The last big step will be bringing Rocanville on, which will bring our average cost down. And we think we can get our average cost down closer to \$80 a tonne on a cash cost basis.

In Nitrogen – just to go into nitrogen or phosphate, once again remind you that our nitrogen portfolio, I would describe is more defensive. It's more industrial sales, than fertilizer sales. So, it is better reflection of the U.S. economy, which as you know has been performing reasonably well. So, that business is going well and typically speaking, we have less volatility in our margins in our industrial business. So, it's a lot different. We also have a lot more ammonia exposure than urea exposure.

The nitrogen business has been performing very well for us. We continue to have some gas curtailment issues in Trinidad. The gas curtailment in Trinidad probably is going to mean, we're going to be penalized up to about 175,000 tonnes of production we could have had, if we had the gas, and that would be a little bit higher than we originally started the year at, where we thought it would be around 120,000 tonnes.

Once again, obviously with the shale gas being so cheap, we have tremendous advantage. Also, I would just remind you that two of our plants are well, inside the interior of United States. And so, are less prone to some of the imports that you see coming in

through the Gulf of Mexico, and that also has helped the margins on those basis. I expect that we will have a record gross margin in nitrogen in 2014.

In phosphate, once again also a defensive portfolio. We have more exposure to feed and industrial businesses, then our competitors and less to the fertilizer business, and that's helped both on the margins that we get and obviously prices.

Our production is down as you recall that in December we announced changes to the production rate at White Springs, which has now happened. And so going into 2015 we will get the full year benefit of those lower costs but will also see slightly lower production levels.

Just a wrap up here in the next couple slides. CapEx has only got about 6% left, so we're well and away in the tail end of that. Sustaining CapEx spend should be around \$800 million plus or minus, it's not a guarantee that it's a smooth straight line, and could be lumpy from time to time depending on what our requirements are, but that should be the level over a period of time. So, lots of cash with a primary goal of returning capital to shareholders through dividend. We still would like to see if we can grow that dividend more than it has, not in these big jumps that you've seen, but we would like to see a stronger pattern of dividend growth over a period of time, and then share repurchase programs to supplement a dividend payout program that makes balance sheets adjustments in terms of making sure that we've got a good capital structure in the company.

Happy to take questions.

Question:

I'll start it off. Could you just very quickly just walk around the world, and just go through what you're seeing in various Potash markets, whether it's Southeast Asia, Brazil, North America, whether you're seeing strength in demand, whether you're pleased with that, and potentially some areas where you would like to see some further improvement as we had into 2015?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

The Brazilian and US markets have been very strong; obviously. We've been able to push prices up there by about 20% over the course of the year. So, it's in a good position. It does reflect a Granular premium – as a reminder there are two main products, one granular and one standard. The historic premium has been around \$15 a tonnes, it's probably closer to \$30 a tonnes right now, and it reflects that producers around the world are constrained in their granular capacity. And so, when the market is moving on up, it's pretty typical that you'll see granular prices lead the market up, and that's been the case in United States and in Brazil. And I would also say that in the United States, probably, the

logistical constraints have helped make the customer a little bit less worried about price and more concerned about getting product availability. And so, it's a healthy market, Brazil has been a very healthy market at 8 million tonnes plus, once again, reflecting limitations on what the competitors can do on granular capability.

The Chinese market going from about 11 million tonnes to 12 million tonnes, has been very strong. It's mostly a standard market, although there is growing granular capability – growing granular demand in China. We do think that in China, as I said, in India, that lower prices have helped increase consumption there, it's made a difference. Prices are probably half to a third of what they were three years or four years ago. So, it has made the product more affordable, and we're seeing the response on the demand side.

India has seen moderate growth. As I indicated, customers are getting used to a higher cost of potash with the subsidy pullback, but still a real requirement for it. The Indian market should probably be a 12 million tonnes market. Yet, right now – it's at 4 million tonnes and its peak was 6.5 million tonnes. So agronomically, there is a strong need for it, it really is an affordability issue and you've got a lot more subsistence farmers and so they're heavily biased right now towards urea consumption because of tremendous urea subsidies that they have in India. We think that that will be rectified over a period of time, but I think our current view is that whatever the government policy is they won't happen overnight rather over a three year or four year period. So, we would be surprised if you would see a huge dramatic one-step fix on the subsidy program. So that's why we are a little bit more cautious about India, but still remain optimistic compared to the current base.

Southeast Asia once again, palm oil market, prices have been going down over the course of the year, but really Potash is not as discretionary for a palm oil crop. They really do need to maintain yields and to support the business and so it's been still a pretty good market. We have seen, and I would say this is true historically, Indonesia and Malaysia have been more of a typical commodity market which is lowest price fixed business. That's the market where we've seen the most competitiveness with Belaruskali taking a disproportionate share of that marketplace. It's one of the reasons even though the market's grown why the price still is trailing the other markets, but we think it will come up.

Question:

You had mentioned in your prepared remarks, and just now, that India will be a growth driver over the next let's say three to four years, could you talk about your market development programs that you've had in the country or you've been successful or you'd like to be more successful and how that initiative is going in your view going forward?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Well, most of the market developments in India has been on crop demonstration projects today, which is doing side-by-side crops and one without and one with potassium or one with or without phosphate and indicating what the yields potential pickup is. That's been most of it. I do think that from my understanding, there is a mandate from the various Canpotex members, wanting a more aggressive market development program in India over time, and I think that that will start to come to the forefront more, which will be an investment. I think it will be something that we think will be better done with partners, who are in the business in India, which should be our largest sales customers, who are private sector customers. So I can't tell you a lot more than that. This is at preliminary stages, but I think that there is some consensus that we need to do more than we have been doing to really improve potash consumption there.

Question:

Wayne you hit on some of this as well already, but when you look at your balance sheet and look at the potential growth of your company and your capital allocation decisions including the roll off CapEx. Can you just give a little more clarity on your view of the dividend versus the buyback, is that largely contingent on growth or a reduction in other cash needs and then also just where you target that over the next, let's say, two years to three years?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Good question, Chris. I'd say a couple of things. For a company, dividend payout is a much more dependable in some ways less risky return of capital for a company. You can always get caught up on the timing of the share repurchase program in terms of how much value you added. And typically you only know with three years to five years of hindsight whether or not your timing was good or not. So it is certainly prone to discussion.

Our current environment is that, obviously there's low interest rates. It appears to us that low interest rates are going to continue probably not as slow as they've been, but there is a market that has been risk adverse and in search of yield alternatives. And so, having a higher dividend payout has really given us access to a larger group of shareholders and it maybe in the same funds, but they're now the dividend funds that can actually buy-in or in some cases just brand new firms. So it's provided a broader shareholder base for our company, which I think has been provided a good support for the stock and it helps all shareholders in terms of the liquidity of the market for our shares.

And obviously, if you have good liquidity and you have a strong investor base, you ought to get a higher valuation. And I think on top of that, we're one of the very few companies, not only in our space but across Canada that have a shareholder base in the United States that's almost as high as it is in Canada. And so, we probably have one of the most diverse shareholder bases, certainly as appear in our sector that I think has helped generate shareholder value and spread it out even more to people who are looking for yield. I think it's been helpful. And so, it's not just what's the cheapest easiest way to push out cash, it's how much shareholder value are you creating at the same point in time, and one of those elements is broadening the shareholder base.

Question:

You mentioned one of your biggest worries at least in the near term is that logistics issues, could maybe give us a little bit a more color details on what you are seeing specifically that's causing those and what we can take away from that?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Yeah. So I mean the logistic issues hit us first in Canada. Canada had a disproportionately large grain crop in 2013 that put a lot of pressure on our railroads. So much so that the politicians got involved and gave the railroads their marching orders not only verbally, but actually in government legislations or regulations to tell them how much they had to transport and so that has put pressure on the system. But then in North America at large, I bet you if we went around the room, nobody would put their hand up and say that we're going to transport oil by rail in any kind of meaning manner, I mean now the railways are, so I think what's happened over the last few years is, railway is trying to generate optimal profitability for their shareholders, that means running at a low – as high an operating rate as you can which means getting rid of surplus capacity, you are not building surplus capacity and so, I would guess that there has been somewhat of a disconnect between what the forecast volumes were going to be versus what the volumes are coming in at.

So if you add on top of that that you're probably going to have a record grain, corn crop, grain crop in the United States. It is going to put more pressure on the rail system. And I think that we're going to feel that. The resolution of this is going to be an increase investment by the railways particularly on engines. Our understanding is there is a backlog of up to two years to do that. So you can expect and I would expect to that for a lot of commodity customers or companies who are dependent on rail that you are going to find logistics is becoming an increasing issue over the next two years or three years until there's a capacity build or investment by the railways.

I think in the meantime, what it's going to do is, as you recall from 2009 on, customers got into the position where they were comfortable that they could potash whenever they wanted to. And so we moved into a just-in-time delivery system. And I think that you're going to find that over the next two years to three years and certainly even immediately, that the just-in-time is going to get moved away from, and you're going to see product inventory investment become a bigger part of the distributors, who are going to not take chance on just-in-time any more. So I think that there is a reasonable chance that the customer response will be spread out delivery somewhat to make sure that they don't get caught product-short.

Question:

Wayne, can you review your status of our equity investments and how continuing those fits in with the strategy on the dividend and stock repurchase side that you talked about?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Sure. Let me carve out your potash company first, because we're actually controlling our sales. So they have 2 million to 2.5 million tonnes of sales volume in the potash market. There is value added for us to control those sales in terms of how they're placing to market, that goes beyond just their 2.5 million tonnes. There's value added on our 10 million tonnes or whatever we're selling. So if you allow me, I'm going to sort of park that one, say that's when you get control of the sales that's what the differentiator is. And then the other one I'm going to park, and just say and I don't mean to be over simplified here, but our Sinofert investment is a longer term bet on the Chinese market and where we could end up. It's from a valuation perspective, and once again I don't mean to be too dismissive. But it is more or less a small decision on whether or not we maintain that. But I think the prospect of having that strong footprint in China on a long-term basis is beneficial for our shareholders.

They are the largest distributors of fertilizer in China on a retail basis. And having that relationship really is what I would call an option on the long term bet in China. So it's really not costing us anything. You could argue that sure you're not getting much value from it. And may be while right in terms of the investment, but it really is a longer term outlook on China which we think at the end of the day will still be good value.

So the other two are really Israel Chemicals and SQM. And I wouldn't make these generic statements about both of those. The reason to hold onto those investments are is there a reasonable possibility that you can get control in a reasonable period of time at a reasonable price and bring much more shareholder value to the company. We know that just the dividend payout is not a sufficient reason in either case to sort of maintain those

ownership levels. So it really is a case of is there an option value here and over what period of time and how can you exercise it. We're going through that process. We've gone through that process year-over-year.

Question:

For the last few years, we'll continue to go through that process and take a look at that and make a determination of whether or not we're adding shareholder value or not on a short-term and longer term basis and then we'll see at that point. What are the key themes in your asset base is the potential for you to further reduce your average cost of production. Can you walk through where you think you're going to be for 2014 and then as you ramp up Rocanville through 2016, land again in New Brunswick, can you just net that out on kind of give us a bridge over the next two years or three years on where you think you could be during that time period?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

So we probably will have reduced our cost of production by between \$15 and \$20 a tonne this year. We are bringing some of that capacity back up, so there is a bit of a delta there, but it still will be within that range. The next big jump is going to be bringing Rocanville on, which should help reduce our average cost by another \$10 a tonne. Once Piccadilly is up and running at above 1.8 million tonne, the cost in New Brunswick should come down up to a \$100 a tonne.

And so, we actually think that the New Brunswick Piccadilly assets are very strong for us. We need to get past the build up and the ramp up, which will probably take at least two years, maybe until 2018 that we're fully there. But there is a lot option value in New Brunswick at a much lower cost. They'll be much more competitive, their ocean freight costs into Brazil are quite a bit lower than basically almost all of the other competitors that are selling into Brazil. And it could be used into developing markets in Africa, further market development in Central America and South America, and who knows, I mean maybe into Europe at some point in time. But we think the completion of that project will give us a lot of option value in terms of creating shareholder value. So, that one will make a difference on the East Coast of Canada.

Question:

I guess we'll just wrap this up with one final question. You've been on the road as well as other members of senior management over the last few weeks. Obviously, there's been a

strong debate within agriculture and the potash industry at large. What do you still think is being missed by both the sellside and the buy-side as far as the market is concerned, as well as your specific story?

Wayne Brownlee – Potash Corporation of Saskatchewan Inc. - Executive Vice President & Chief Financial Officer

Well, I would just make two comments. One I would say that the discount that the stocks have priced in around the concerns about corn prices is probably overdone, but everybody has got to make their decision. So I'm not going to whine about it too much. It just is a fact and that's fine. I think the real issue is when people are looking at the potash capability, production capability, they are basically going to 2018, 2020, when you're going to see EuroChem come on stream, the Legacy project come on stream and they are jumping to that and say, it's going to be oversupplied.

They are assuming that there is not much market growth and historically, potash has grown at accelerated growth rates of 5% to 6.5% for four years or five years or six years and then has had plateaued growth, and then it gets on to an accelerated growth. So I think part of the answer here is will we see some accelerated growth with moderate pricing over a period of time, it really is going to help consumption growth. And then the other thing I think is especially, over the next three years really the capacity increases are going to come on to the stream and enhance the Canpotex members, which I think is going to be constructive on a near term outlook, which I'd say is up the next three years.

The other thing I would say is that when the construction is finished, you don't go to full capacity overnight. And I think that there is always some anticipation that, and even with some of the people that are building it is like, you're going to do it. And so I think that the market has historically underestimated the wrap up time. And we've certainly seen and we would think that we're as good executor as anybody in the business, and we've seen ramp up issues at all of our expansions that we brought up. I think you're going to continue to see them as these other expansions come up. And you're even going to have more difficult ramp up issues with brand new capacity than you're going to have with expansions. And so, I think that the market has probably leapfrogged ahead too many years and is worried too much about how it's going to get and is still assuming there's not much market growth at the same point in time.

So we could well be into much tighter market situation than people anticipate and I think that that's what the investor should look at. If they're looking at a growth story and if you're comfortable that, that no, we're wrong, that's fine too. But I think that anyone who is looking at space should say, okay, one of these guys have got the most optional growth that's out there. And then, really do your homework in terms of what different outcomes can be in terms of how much volume can we get to and where that leads us on a pricing basis.

All right. Thank you very much.