ICL
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Joel Jackson: Alright. So presenting next is Israel Chemicals, ICL, which is a leading producer and global marketer of potash, bromide and phosphates. The company's in the middle of a non-trivial multiyear cost savings program and has been busy over the past year optimizing its asset portfolio. And speaking today is the President and CEO of ICL, Stefan Borgas.

Stefan Borgas: Joel, thank you very much.

Ladies and gentlemen, in 20 years there will be 9 billion people in the world. All of the growth is going to come from regions that are poor. At the same time, more than 2.5 billion people will move from poor living standards into middleclass. Those two major megatrends are the basis for ICL's development into the future.

We fulfill essential needs in three core markets: agriculture, food and engineered materials. Those essential needs are driven by those two megatrends. More foods on limited or stagnate arable land; a growing middleclass that wants better quality food, all around the world, not just in the developed countries; and environmental needs that go up dramatically and are driven by the wishes of that growing middleclass and by regulations.

This results in ICL’s business model that's different from mining companies and it's different from specialty chemicals companies. We mine specialty minerals and we develop products for those end markets and we're driven by the build up and the growth and efficiency of that value chain. Let me show you how this is translated into products.

We have organized the company in three business segments around this idea of integrated value chains. In our agriculture segment we supply all the raw materials for the specialty end markets. And we also service the specialty end markets in agriculture, both with large-volume commodity fertilizers, but also with a very fast-growing specialty fertilizer business which grows around three times faster than commodity fertilizers and which already has reached sales of around $800 million.

Our engineered materials cluster takes these minerals, takes these raw materials and builds businesses in flame retardants, in industrial solutions, mostly into the energy sector and water purification sector, and advanced additives in a large variety of specialty markets. I'll show you what it is that we really do in a few minutes.

And in our food business we focus on the improvement of texture and stability of processed convenience foods that are growing at three times the speed of the world's food markets.

Let me take you through the pieces of this value chain by starting with the front end.

We have four large assets in which we -- out of which we get these minerals. Of course we have our Dead Sea operations. This is a world-class potash asset but, out of the side streams, we also make magnesium and bromine. And just on the side, are the world market leaders in bromine.

We have a competitive position here, but it is not as competitive as it can be. And over the last 30 years management, step by step, gave up the operational management capability of that site. We're in the process of taking this back. We're investing $250 million, the main part of this into a strike that is probably about to end around the end of June, maybe a little bit earlier. The noise level, at least, is appropriately high at the moment. This is an investment into management freedom which will have a payback of around 2.5 years. We can talk about that later.

Our potash assets in Europe are usually undervalued because they're not really well understood. The Spanish asset is the source of potash growth for ICL in the short and medium term, in the next four to five years. We are mining on 15% of the available resources. We're combining two small mines into one. This will give us a cost reduction of $40 per tonne. And then a platform for significant long-term growth; not with large amount of CapEx, but with slow, step-by-step measures that will give us the quantities that we need in a measured way without having to go through a big mining capacity risk.

In the UK we have a different situation because we have a mineral underneath the potash seam called polysulphate. This is a mixed fertilizer made out of sulfur, potash, magnesium and calcium which we have introduced into the market through agronomics trials, hundreds of agronomics trials in many countries around the world over the course of the last three years. We sold 50,000 tonnes of potassium sulfate last year. We're going to sell over 150,000 tonnes of this material this year. We will sell out the initial capacity of 600,000 within three years, including -- counting 2015 as the first year. The expansion capabilities then, up to 1 million tonnes can be done with virtually no additional CapEx; very low additional CapEx. The total amount of CapEx we spend for this million tonnes is around 60 million British pounds.

We are selling polysulphate at prices above $150 and we have mining costs that are very competitive here so that the margins with this product are going to be at similar levels to our potash margins from the Dead Sea. Extremely interesting opportunity for the company, which is starting to come into the P&L this year.

In the Negev Desert we make phosphates. This is the starting point. I will explain a little bit more our phosphate philosophy in a second. It is driven by the end markets food, specialty fertilizers and engineered materials.

From this asset in the Negev Desert we have built a fantastic business in Europe. We have a good position in North America through a contractual agreement, but we were virtually not present in China and in Asia. Therefore, we entered into a long-term alliance with Yunnan Yuntianhua, which is the third largest phosphate producer in the world, fully focused on commodity phosphates, on rock and DAP and MAP. We have bought one of their mines and one of their large commodity sites. We will take this over and then convert it into a specialty platform.

This is a $500 million business with low single-digit EBIT margins which, over the course of five years, we will convert into a double-digit EBIT margin business of about $700 million size, focused at least 50% on specialties that we will sell in China and in Southeast Asia. Very excited about this opportunity. The closing of this deal, because it involves natural resource permits for a foreign company in China, this is the first time that this happened, was scheduled to be in March 2016. The approval process is going much better than we had initially thought so we are very confident that we can close this deal still in 2015 and have it fully in the books in 2016.

We're in a similar way looking at other opportunities. We have made an offer for a Canadian junior mining company called Allana Potash. The shareholders are at this moment deciding about the offer. We have heard no adversarial opinions on this. The interesting thing about Allana Potash is they have a concession that they brought to a certain level of maturity in Ethiopia on potash.

Why does the world need another potash mine? Well, the world doesn't need another potash mine, but the African continent needs a dramatic upgrade in agricultural performance. They only fertilize with nitrogen and a little bit of phosphate. In order to really go to a balanced fertilization and then upgrade the output of agriculture, we believe it needs local assets. So, this is a potash mine of around 1 million tonnes, maybe a little bit more, that will focus on Africa, on East Africa initially. Just the Ethiopian market has a current need of potash of 400,000 tonnes; just Ethiopia. And it consumes today 40,000; 10%. We're determined to develop this need with downstream operations with our specialty knowhow, with our agronomics knowhow, and then supply the material from a local mine that will also create a lot of value for the country.

Let me just briefly explain to you how this entire value chain works at ICL. We mine rock like everybody else in phosphates, we make commodity fertilizer -- commodity-grade phosphoric acid like everybody else, and then we sell phosphate fertilizers like everybody else. This is the world phosphate value chain. About 80% of all the phosphate rock goes through this chain.

In the ICL case, only 30% of our rock goes through this chain and 70% goes into specialty end markets. What is the benefit of this? 10% to 15% additional EBIT on top of the commodities. This additional EBIT has a return on invested capital of 25% to 30%. If we take this entire system together in ICL, we're able to return 300 to 400 basis points higher return on invested capital than anybody else in the mining sector.

So, what do we really do on the end market side? Pictures say more than a thousand words.

(Video begins)

ICL, world leader in specialty minerals, is here to fulfill humanity's essential needs in its core markets: agriculture, food and engineered materials. The population is constantly growing. Urbanization keeps on spreading and arable land per capita is diminishing while meat consumption is rising. Global needs continue to change and evolve and so do we.

We develop and produce best-in-class fertilizers that enable farmers around the world to provide food for humanity by driving higher crop yields, generating better quality, enduring diseases and natural hazards, and providing longer shelf life. Our advanced specialty fertilizers allow continuous accurate plant feeding. Controlled-release fertilizers applied to the soil, as well as liquid and water-soluble fertilizers used in drip irrigation and full-year application enable long-term precise fertilization, optimize efficiency and maximize productivity. It's more economic. It's more ecological. Our fertilizers help feed the growing population and boost emerging markets towards strong nutrition security.

Driven by modern-day demographic shifts, lifestyle changes, new trends and consumer awareness, the world is in the midst of transit to sophisticated processed and convenience food products. As global leaders in creative solutions, ICL is the perfect partner for major food industries with an unparalleled experience and culinary scientists. We bring to the world a broad portfolio of innovative ingredients, tailored formulations and novel products. Optimizing stability, modifying textures, fortifying nutritional value and balance. All these increase availability of healthier, tastier fresh food variety in cities.

Our Dead Sea operations provide a third of the global supply of bromine, offering a world of leading applications for mankind. Bromine and phosphorus-based flame retardants are now part of everyday products, daily protecting lives and infrastructure. Clear brine fluids are essential to balanced pressures in deep drilling. Bromine-based biocides neutralize industrial water from organic waste and enjoy a growing demand by the shale gas fracking industry. ICL's Merquel eliminates 90% of hazardous mercury emissions, minimizing health damages, especially amongst children. A variety of roaming compounds are highly essential for many industries.

Our phosphorus-based applications make a world of difference. Forest fire retardants prevent the spread of wild land fires to populated areas, save lives, and protect the planet's atmosphere. Corrosion inhibitors make paints and coatings much more environmentally friendly. High-purity electronic (inaudible) upgrade high-quality semiconductors and LCDs. The lubricants and anti-wear additives provide higher fuel economy and longer engine life. Many key industries could not exist without all these innovative additives.

We do not only react to market trends and changes, we initiate new formulations and create original solutions to amplify our growth engines, meet expanding universal green regulations, and offer a world of benefit through our customers, society and the environment. Our next-generation products already developed today are essential for generations to come.

ICL, where needs take us.

(Video ends)

Stefan Borgas: Wonderful. And this is how it translates into numbers. These are the numbers of the first quarter, influenced to two very big one-time items: the strike, which I already mentioned, where we booked the first half of that investment into efficiency, and the profit from a divestiture activity that we have in order to divest non-core businesses that do not fit into this integrated value chain from minerals into these three end markets, agriculture, food and engineer materials. The timing of those two events coming together is not by chance.

How do we go forward from here? We grow this core business that I have just explained, mostly through organic activities and investments, but also through a numerous smaller and midsize acquisition that built these end market positions, in many of which we have very large and strong market shares which give us pricing and shaping capability.

We have an efficiency plan that we put into place, which by itself provides significant value. We have committed to bring an additional $350 million to the bottom line by the end of 2016. This happens through a reduction of costs in the big mineral assets. We are very far advanced on this in the Israeli phosphate assets. We are just starting in the Dead Sea. After the strike this is the first step we'll take. We are nicely along in the UK where we see a nice profit jump in the first quarter of this year. And we haven't even yet started on our Spanish operation. We're going to employ these two fields and create a big part of that value.

The other big part of that value comes from procurement optimizations. ICL buys $4 billion worth of product, services and equipment. We have been buying this in 52 different legal entities, 52 different procurement organizations that were totally independent one from each other. To generate 3% to 5% improvement on this $4 billion is not a huge stretch and that's the number that you see here.

This value alone, this program alone has a net present value of $2.6 billion, which is 25% of our market cap. And if you can safely assume that in 2016 this is not finished, it will continue beyond that, you can see the big potential we have on this side of the operation.

Last, but not least, let me just talk about a few of the trends that we see in the short term. We expect to continue our cost reduction program. Last year we delivered $120 million run rate out of the $350 million. This year we will add another at least $120 million to $140 million to that run rate. We see weaker potash markets than last year because the shipment quantities were so high, so we -- the demand is going to be a little bit lower, but prices are nice and stable.

In the ICL portfolio we have, of course, a big step-up of the polysulphate business out of the UK that I have mentioned before.

The phosphates continue on a positive trend. We have had a similar strike for restructuring in phosphates last year, so we will this year enjoy the full benefits of this operation; not only 8 months, but the full 12 months of lower cost here.

The flame retardants business in the bromine area is stable, quantities are good. Prices have increased considerably because we have announced a price increase in December last year. But most of our competitors have followed on this, are implementing in a rather disciplined way here. The bromine market, of course, is extremely short at the moment because we, as the largest global producer, haven't been supplying any bromine into the world market for three months now. So, that helps the overall environment.

Divestitures in the performance products segment are lowering their top line, but acquisitions in the core business balance out the bottom line mostly. In our food specialties business especially, we are very, very encouraged through the integration of the whey protein business that we added to the portfolio. This is nicely ahead of plan and also ahead of the payback.

My last slide is on the way we bring this value directly to you. We have a strong dividend commitment. We are committed to pay up to 70% of our net income in dividends. We like to do this in a percentage declaration because this helps us in the commodity fluctuation. We've been very disciplined with this policy. This gives an average dividend yield -- gave an average dividend yield in the past of around 6%. There's absolutely no reason whatever for this policy not to continue into the future. We pay dividends every quarter, so this is a very solid value contribution.

Thank you very much for your attention. I'm very much looking forward to your questions if we still have a little bit of time, Joel.

Joel Jackson: Yep. Please raise your hand for questions.

Okay, I'll kick it off from a question from the app. So I think you've been quoted somewhere in the last few weeks of saying you could be potentially interested in buying into SQM or buying out the company and the person wanted a commentary on that.

Stefan Borgas: The company is not available, so no news to discuss.

Joel Jackson: Okay. In the bromine markets, once you bring back on your capacity after the strike ends, how long do you think higher prices can stick or would you expect some softness once inventories pick up?

Stefan Borgas: Well, there's two pieces to the bromine price increase at the moment. The one part is the structural price increase that the industry needed that we led and that should stick. This is something like a 20% improvement compared to last year.

Then there's the strike induced shortage in bromine, leading to a price increase that comes on top of this. Depending how long our strike lasts, this will be at an additional 10% point or maybe even more than this. This will erode over time. We expect this to happen slowly because we're not coming back online in one shot. This will take some time. We'll do this in an intelligent way, so we'll take advantage of this. And we -- I think this erosion will happen over something like 12 to 18 months.

Joel Jackson: Maybe you could talk about contracts with China and India for potash, as the strike's ongoing. Would you expect the majority of your potash shipments under your Chinese contracts to ship later in the year? And then in India, I don't think you've signed a contract yet. Will they wait for you to supply volume or are you worried that you could lose share to other global players?

Stefan Borgas: In China the customers -- and this shows, I think, the strength of our customer relations because most of the products for China come from that Israel plant that's on strike. The Chinese customers signed just at the same level as last year with very strong commitment to take the volume as soon as the strike is finished. We have significant inventory -- we have some inventory in the Dead Sea, so we can supply the Chinese immediately the day after the strike. And in India the business behavior, the culture is a little bit different, but we expect to have the same kind of shipments as last year in India as well. So, all indications we get here are very solid as well.

Joel Jackson: On Allana Potash, once you get full control over the assets, how do you look at the rigor of their studies? Your guys have been looking at that project for over a year. Do you have to do a lot of new work around evaporation rates and mining and logistics to have better comfort levels? And how much would you be willing to sort of invest of your own money into that project?

Stefan Borgas: So, there are three workstreams on this mine in Ethiopia. There is the detailed engineering of the mine itself which has already started. This is pretty much the same technology that we have at the Dead Sea, the same geological source, so the minerals are very comparable. It will be an evaporation technology so we bring a lot to the table and, as you said, we've been working on this. But the detailed design of this will take more or less a year. We've just kicked off the RFQs for this.

The second workstream is with the local government. Ethiopia is not a place with super fantastic infrastructure yet. So, we need the collaboration of the Ethiopian government. They need to build about 180 kilometers of road. 30 kilometers of those are already done. Another 60 are under construction now. This takes nine months roughly to build. And the rest has just been budgeted for next year. So, this is going well.

The Djibouti Port, which will be the port of exportation for those volumes we will not sell in the country, was not existent. Djibouti did not have a valid port until two years ago. We visited them and they promised to build it. Well, the port's fully under construction and will be finished in the middle of 2016. We've spent a lot of time helping them. So, this is a part of the world where the execution capability of the local government is very, very good.

And the third workstream is on financing and partnerships. We're talking to quite a few interested parties who are willing to join us on this project. This will de-risk our own engagement, but also will put it on broader footage.

So, I'm actually quite confident that we will eventually move forward with this project. The final decision we will make in the second quarter of 2016.

Joel Jackson: Just about 45 seconds left, but there was a follow-up question from the app on the Ethiopia project, which is SOP or MOP, which of the products would you focus the initial production on?

Stefan Borgas: The answer is yes.

Joel Jackson: Yeah. But you have to have two different plants, though, right?

Stefan Borgas: No.

Joel Jackson: You would not?

Stefan Borgas: Well, it -- I think this is one of the benefits we bring to this picture, that we can bring it together and a lot, a lot, a lot of this can be shared.

Joel Jackson: Great. Thank you very much.

Stefan Borgas: Thank you very much.