ICL Israel Chemicals Ltd
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Stephanie: …on the European chemicals desk for BofAML. I'm very pleased to present our next speaker today, Limor Gruber, head of Investor Relations at ICL. So without further ado, I'll go ahead and hand it over.

Limor: Thank you, Stephanie. Hello, everyone. Thank you for coming. First, I apologize that our CEO in the last minute could not attend, but I hope I will be able to fill in for him.

So if you can quickly review this or later in the printed presentation, we're going to have some forward-looking statements, so it's important.

So this is our vision. Our products fulfill essential needs. Our bulk and specialty fertilizers contribute to agricultural productivity and to nutrition security in emerging markets. Our food additives contribute to more appealing mouthfeel and longer shelf life, while maintaining and improving the nutritional value of the food. And our industrial additives contribute to better production, better products, more environmentally-friendly and safer products. Our operation had to evolve and change in order to fulfill these needs. We have the asset base to do it, we have the know-how, and we have the drive to grow.

So what is ICL? What is our business model? We don't fit maybe the usual boxes that you may know. We're not just a mining company. We have mining resources around the world, but we're not just that – and we're not just a specialty chemicals company. We are a value chain management company, starting from our specialty minerals, all the way down to the downstream products.

A quick example, our phosphate operation. If you look at the phosphate industry in general, 80 percent of the rock is used in this value chain, the commodity value chain. However, for ICL, only 30 percent of the rock that we're producing is used for that. The rest is used for downstream products like specialty fertilizer, phosphate-based food additives, advanced additives for—based on phosphorous for different applications. In the bromine, if we want another example, the bromine is basically a byproduct of the potash production at the Dead Sea from the end brines after we extract the carnalite. These end brines are very concentrated in bromine, maybe 10 to 50 percent times higher than other resources around the world, and this, of course, gives us the strong position—cost position and the leadership in this industry.

Our focus is to grow our specialty business, and the specialty business is expected to grow faster than the commodity business. As a result, looking five years down the road, our target is to improve the balance between our specialty and commodity business so it will be more or less equal, versus thirds(?) from the specialty today.

Our asset base. We have different advantages in each of our assets. The Dead Sea, this is our biggest asset. We have bromine, we have potash, of course, there, and we have magnesium. The advantage of the Dead Sea, of course, is the hot and dry weather, which allow us to produce potash—the raw material for the potash through solar evaporation ponds, and this is a great saving in energy, and also the geographical location, which gives us logistical advantages. We're very close to the ports in Israel, to the two main ports in Israel, so land transportation costs are low. And the Port of _____, for example, is very close to the Asian market, very fast time to market. The Port of _____ has favorable shipment costs to the Americas because of the global shipment routes.

The hot and dry weather also enable us to accumulate inventories in the open air at the Dead Sea without any cost, and to a level that could even be more than one year of production. This allows us not to interrupt the production even in periods where demand is weak. And when demand is coming back, of course, we can react very quickly. In the last year and a half we have implemented an extensive efficiency and operational excellence plan at the Dead Sea. We had a long strike during the first two quarters of 2015, but following that – and you can see that easily from our Q4 report – we were able to significantly reduce cost and also increase production by 10 percent, even though we reduced labor by 10 percent.

Our European operations, these are higher-cost operations. There we also have logistical advantage because both of the mines that we have in Europe are very close to the ports – ICL Iberia 50 kilometers from the Port of Barcelona, ICL UK 30 kilometers from the Port of _____ in the northern UK.

In ICL Iberia we are going through a consolidation and restructuring project, from two mines and two processing facilities into one mine and one processing facility. This will significantly reduce our fixed costs, of course. And we're doing small bottlenecking of about 300,000 tons or 30 percent, which will eventually, these two projects, will reduce the cost per ton by 40 euros between 2014 and 2020.

The UK mine, this is an old mine. Its reserves are depleting, and this mine will be completely transformed into polysulphate mine by 2018. I will talk about it a little bit later.

Our phosphate operation, our main location, we have three open pit mines in the Negev Desert in Israel. The phosphates are in the center of our strategy to grow our specialty business, as I explained earlier. Here also, we've been through an efficiency program already starting in the beginning of 2014. We managed to reduce labor by 10 percent, at the same time increase production of green(?) phosphoric acid by 15 percent. And this, of course, led this business from more or less breakeven to lead the team's(?) EBIT margins.

And the new member in our family, the YPH JV in China. This is in the core of our strategy, because first, it secures our long-term resources, but we can also—we plan to duplicate the business model that we have in Israel towards the specialty into these operations, which today are 90 percent commodity.

So our commodity business, of course, serves the agriculture market through ICL fertilizer, and we have the potash and the phosphate fertilizer businesses. Here you use our targets for the fertilizer business. So if you look at the potash in 2015, we had a significant decrease in sales because of the strike. It would be challenging to reach our target for 2016 because the year started so weak. But in general, we expect to be more or less flat on the sales side because receiving(?) the production in the UK, we're somewhat increasing at the Dead Sea and in Spain(?). I have to say these are targets and not guidance, and that's why we used this flat potash price versus Q4 2015 potash price. What we want to emphasize is that we are growing our operating income mainly through efficiencies. The growth in the phosphate business will mainly come from our joint venture in China, which I will talk about in a minute.

Our specialty business. Our specialty businesses serve all of our three core markets – the agriculture, the engineered materials, and the food market. We have a specialty fertilizer business. We're one of the biggest specialty fertilizer companies around the world, with the broadest portfolio. We have controlled-release fertilizers, slow-release fertilizers, soluble fertilizers. Our engineered material market is served by our industrial products segment through the flame retardant business and the industrial solution, which is all the rest of the bromine compounds which are not flame retardant, and also part by the advanced additives business of our performance products segment, which is phosphorous-based compounds for different industrial applications. And finally, the food market is served through our food specialties business. These are mainly food additives based on phosphorous for texture and stability solutions.

So how do we plan to transform this joint venture in China? Mainly it's from shifting from 90 percent commodity and 10 percent specialty to 50 percent commodity and 50 percent specialty by growing in these three different markets. It's also important to say that there are a lot of efficiency measures that can be implemented there, especially in the production of phosphoric acid. The specialty fertilizer, the growth in this business is driven by regulatory changes. As you see here, the zero growth is zero nutrient use growth in China, for example, but also improved agricultural practices and, in general, greener approach. These trends lead, of course, to—or require more efficient use of fertilizer, and specialty fertilizers are the products that answer these needs. We plan to grow faster than the market, and it comes mainly from the strategic initiatives that you see here – innovation, of course. For example, a new coating technology which is better in terms of releasing the material when the plant needs them, and also more cost-effective for the farmer. It's geographical expansion of building plants near the demand areas. Of course, our joint venture in China will help that as well.

The polysulphate. The polysulphate is a mineral which we have discovered a few years ago under the potash seam at ICL UK. This is a very special mineral because, first of all, it's a compound. It's 50 percent sulphur, 14 percent K2O, and 36 percent calcium and magnesium. Now, why is it so special? This is a completely natural fertilizer. There's no chemical processes. You mine it, you crush it, and you can sell it for direct application and for blending. And as a result, this is a very cost-effective solution for sulphur-depleted soils in different areas, and you will see this problem growing in the Western world but also in China, and we have demand from the U.S., from Brazil, from Asia for this product. We managed to triple sales of this product in 2015 versus 2014. We target to double the sales in 2016 and to reach 1 million tons by 2020.

This product is actually the future of the business at ICL UK, because as I said, we're going to completely transform from the potash, which today we produce 600,000 tons of potash in this business, to polysulphate by 2018. When we will finish this transformation, there is a huge contribution both to—mainly to operating income, of course, and to operating margins. We are already starting to restructure. We will reduce labor by 350 employees in the first quarter of 2016. It will enable us to maintain the cost per ton stable, even though we are reducing the production in the UK in 2016 versus '15.

So our industrial solutions, our advanced additives, all our solutions for different industries are in the industrial products segment and the advanced additives business of the performance products segment. Here, in the industrial products, it's mainly optimizing pricing, meaning a value-oriented marketing approach, but also cost reduction. We also had in our bromine operation in Israel a long strike in the first half of 2015, but we were able to reduce costs already by $10 million in the second half of 2015, and we expect additional $15 million in 2016. This cost reduction will now expand to other areas where we have plants in this segment. The growth in this segment in the short term will be relatively limited. We expect more or less stable demand in the bromine market. But in addition to the pricing initiatives, there is also shifting mix, moving to the next-generation flame retardants, which are more environmentally friendly, and these markets are much less competitive. Basically there are no Chinese players there. And, of course, prices are better and margins are better.

We are also investing in advocacy, in educating our customers on the contribution of flame retardants and how to manage the risk in flame retardants. Sometimes we find that there are flame retardants that are too risky, and we take them out and bring new products instead of them. We're educating our customers so they will educate their customers. Another part of the advocacy is promoting mercury

You can see the cost reduction very clearly from our result, especially in the potash. You can see it also in the margins for the bromine for the industrial products segment in Q4. But in the potash, the index here is calculated very easily. We just took the full cost that you can see in our report, just the total revenue minus the operating profit, the full cost divided by the total volume, and you clearly see this reduction in the cost per ton. In the green phosphoric acid, we had to calculate for you(?).But again, as I said, this business went from breakeven. Specifically, the Israeli operation went from breakeven to meet the teams(?) EBIT margins.

This summarize the attractive investment case that I feel has everything that I've discussed so far, and I think we can now move to questions.

Q: [Inaudible]

Limor: So 2016 started in a very challenging way, I would say. China also will probably not come back until maybe a couple of months from now. India, the same. We have the flexibility to accumulate inventory, and this is what we'll do. 2016 in general, as we see it, could be lower than 2015. There are some wild cards, because if the monsoon in India will be good, we could see them grow versus 2015.

In China, it's hard to see growth. Brazil will probably be stable. But if, again, again, the credit availability, we continued to improve as it started the year, we could see them maybe surprising. Europe is stable. The U.S. maybe can grow a little bit. All in all, 2016 will be probably slightly weaker than 2015. And this is from shipments' perspective, 'cause I think that if you look at the underlying demand, actual farmers' use, you see a relatively stable growth of 2, 3 percent per year. It's all about inventory management.

Q: And then on the supply side, we've also heard from some of your peers about your capacity rationalization in the current weak market. What is ICL's view on that? Would you consider rationalizing(?) your capacity at the risk of protracted period of market weakness?

Limor: Well, we are rationing(?) our capacity by accumulating inventory. We are not selling if we think prices are not sufficient, and we will not sell if there is no demand, and you will see that—in the first quarter you will see the inventory accumulation. It's just that we prefer not to interrupt the production at the Dead Sea, and also the production in our mines in Europe, and accumulated inventory.

Q: And then you touched upon the polysulphate production. What is your sense in terms of whether that polysulphate could be a substitution, perhaps, for SOP in the future?

Limor: It can be, in certain cases. Mainly when you do blending, you can use polysulphate instead. And if it's attractive enough from a price perspective, then it's possible. We still think, looking at the polysulphate, this is a niche market. We plan to get to 1 million tons in 2020, but the potential is up to 3 million tons. It will not reach the SOP level.

Q: Maybe I'm looking at the wrong slide and the wrong presentation on your slide, but just on the potash, full cost per ton, you're showing it at a percentage decline, but could you give us a number?

Limor: No. This is a very sensitive commercial number. But no, this number, actually it's very simple. You can just calculate. It was 100—if you have our reports, you can calculate it. It was $190 per ton on average for the company in the fourth quarter of 2015. Specifically for each site, we prefer to keep it for ourselves.

Q: Another question I've been getting recently on the industrial products side is whether the price increases that we've seen, particularly in Israel, are sustainable? What's your view on that?

Limor: So a lot of it is up to us, and we want to maintain it, and this is why we think this is something that can be done. We do expect—this is a seasonal effect. We do expect some moderation in elemental bromine prices in China as we enter the summer months. It's just that the local production increases during this season. But still, it will be significantly higher than the prices of the summer of 2015. Today, prices are about 50 percent higher than the winter of 2015. So as long as we are very strict with our strategy, we think that this is sustainable.

Q: And then perhaps moving on to capital allocation and sort of _____ projects, you obviously had the issues around the tax reforms in Israel in 2015. How do you think _____ capital allocation in Israel versus worldwide? Would you prefer to see more outside the region?

Limor: Yeah. So we already see our growth plans are concentrated outside of Israel. Israel's share of the capex will go down during the next five years, and this is not necessarily because of specifically the tax situation, but in general, it's easier to do business in other markets than in Israel – unfortunately, but that's the situation.

Q: [Inaudible]

Limor: Well, first of all, today neither buy nor build, at least in the commodity part of the business, in the potash part of the business. Now, in the specialty businesses, yes, there may be bolt-on acquisitions in the protein part of the business or other additives that are complementary to the phosphate additives. In the specialty fertilizer, there aren't many targets, and there we prefer to build plants and invest in marketing organization and agromony in emerging markets. And we have the potential new potash resource which—we'll have to see what will be the decision on it. And in the _____, we secured our resources for the next decade with our Chinese joint venture, and now we have to take this business into the next level.

Q: And then just from SOP, where we've actually seen pretty strong prices over the course of 2015 and the premiums actually being increasing sequentially, what is your sense in terms of the price trajectory(?) for SOP going forward?

Limor: So the SOP is tight. We don't see a significant change in this supply/demand balance, and there aren't many players. There is not much increase in capacity. It seems like this premium could continue.

Q: But is there a level that you think the premium should reasonably be at, so when you think about investment decisions, et cetera, you think that there's an average premium ...

Limor: I think the premium today is probably a little bit too high. It _____ to be around—I'm sorry, $100 per ton. I also think that potash prices today are probably below their sustainable levels, so the premium can float from different directions.

Q; So what do you mean by the sustainable level or how do you think about the long term price...

Limor: $200, $250 per ton potash price. If you think longer term what is the sustainable price, it also takes into account the fact that there are maintenance investments, and eventually you have to take into account the capex to maintain the business, it's very tight. And we're already starting to see operations that are not economical in these prices.

Q: And then just to circle back on the cost savings in China, when can we expect to see that in your bottom-line numbers?

Limor: This is a process. Today this business is breakeven. Our target is to get to high single-digit EBIT margins five years from now, and at the same time, increase the revenues through that ship(?) into our specialty business. So we will gradually start to see it, but it will not be in the first year of consolidation.

Q: And perhaps just finally, on the price _____, can you give us a sense of how you see 2016 ...

Limor: There is still a lot of seasonal influences on phosphate prices. You see already see today that when the season starts to kick in, you're starting to see a recovery in prices, and we think this recovery will continue. India is the question, because I think that demand in India and how it will develop this year, and a lot depends on how will be the monsoon season will determine whether on average the _____ commodity phosphate prices could be similar to 2015.

Stephanie: If there's no further questions, I think that we can stop there. Thanks a lot, Limor.

Limor: Thank you.

Stephanie: Thanks.

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