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## Rating Fertilizer Companies





## DBRS Rating Approaches

### Rating Fertilizer Companies

The following is an addition to the base DBRS rating methodology for industrial companies (see General Overview), which adds some factors that are important considerations for DBRS in deriving credit ratings for the Fertilizer industry. For a full understanding of the rating methodology that DBRS uses for the Fertilizer industry, the reader should refer to this document and the General Overview.

Generally, as most commodities are cyclical in nature and can dramatically affect the operating and financial profile of a company from peak to trough, DBRS attempts to rate a company through a cycle. For fertilizer companies, the factors below are examined, as they relate to supporting a rating constantly over a cycle.

#### Industry Factors

##### Supply/demand equilibrium

Analyzes the major factors relating to changes in food demand and food production including world population growth, per capita food and protein consumption, changes in global grain inventories; weather influence; industry capacity additions/shutdowns.

##### Government subsidies and political influences

Examines the role of government subsidies and taxation; currency devaluation; political unrest as it affects global purchasing power.

#### Company Specific Factors

##### Product mix

This is an assessment of the company's product mix including diversification; commodity grades vs. specialty higher-value added products; sales by geographic mix; customer concentration and pricing sensitivity.

##### Pricing leadership

Relates to questions regarding the level of critical mass, and market share by country that the Company has in its chosen markets. The maturity of key markets is another consideration. Additionally, consideration is given as to whether the company is a swing producer.

##### Cost position

Being a low cost producer and achieving economies of scale in chosen lines is a key consideration, particularly as it relates to cyclical, commodity products.

*Nitrogen production:* gas feedstock and transportation costs; structure of natural gas contracts.

*Potash:* mining costs; capacity and replacement costs; ore deposits.

*Phosphate:* raw material costs.

##### Selling and distribution

What are the company's selling and distribution channels for its products?

##### Labour relations

Historically, what has been the company's relationship with its workers? Is the company's labour force unionized? If so, what are the dynamics of the contract (i.e. collective bargaining agreement, length, wage escalations, pensions)? Are the negotiations made on company or industry basis? Is there work-rule flexibility?

#### Acquisition and expansion plans

This assesses the company's ability to build its business. Is the company aggressive in its expansion plans or acquisitive, particularly when growth is in geographic or product areas that are new to the company? Has the company been successful in integrating previous acquisitions and achieving stated goals of revenue and cost synergies?

#### Key intangibles

What are the hedging strategies as they relate to natural gas and foreign exchange?