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BHP seeks to grow in fertiliser industry

By William MacNamara
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BHP Billiton's \$39bn approach to Potash Corp of Saskatchewan, revealed on Tuesday, highlights the interest the fertiliser industry has generated among commodities investors and producers over the past two years.

The fertiliser sector is currently the subject of rapid consolidation. Companies are keen to exploit an expected increase in food demand from emerging economies like China and India, while potash supply is scarce, with deposits mostly limited to Saskatchewan province in Canada, Kazakhstan and Brazil. (As well as being the world's largest potash producer, PotashCorp is a leading Canadian miner.)

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In January this year, **BHP signalled its increasing interest in the potash industry when it acquired Athabasca**, a small-scale potash developer, amid long-standing speculation that it would make a bigger bid for PotashCorp or rival **Mosaic**. The acquisition was notable as virtually the only acquisition BHP made during the downturn, even though it carries a sizeable chunk of cash on its balance sheet.

BHP's strategy was to unite Athabasca's deposits in Canada with its own early-stage potash project nearby and grow its way gradually to a leading position in the industry over five or 10 years. The approach on PotashCorp marks a u-turn in this strategy.

"This is quite a backflip," said one prominent analyst of BHP who asked not to be named.

"The finance director was crystal clear that they had a better greenfield option in Athabasca and Jansen [BHP's neighbouring deposit], that they did not want to do a big acquisition that would get contaminated with Canadian labour laws. So it is quite surprising and a bit cute from an M&A point of view."

BHP approach comes amid as the fragmented fertiliser industry consolidates rapidly. Among fertiliser feedstuffs, however, the potash industry is already highly consolidated, suggesting that Canadian competition authorities may direct special scrutiny to a takeover, if one is agreed.

"There is a great chance that we see further M&A activity," says a senior executive from a fertiliser producer. Another executive from a European based-company added: "I will be not surprised at all if we see further consolidation this year."

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