

Israel Chemicals, Ltd. (NYSE: ICL)

Sector: Materials



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	12M Dividend Yield	Beta
\$4.94	\$3.76	\$5.76	\$3.68	11.02	\$4.81B	5.66%	1.044

Business Description:

Israel Chemicals Ltd. (ICL) is a global powerhouse in the production of specialty chemicals and fertilizers. It owns and operates 44 manufacturing plants in 13 countries worldwide. ICL is the world's largest producer of bromine and is responsible for 35% of the global supply. It is also the world's 6th largest producer of potash and is responsible for 11% of the global supply. ICL primarily uses potash to manufacture fertilizers to be used in the agricultural industry. ICL also produces a variety of phosphate solutions that have many uses across multiple industries from oil drilling, oral care, metals, leather, mining, water treatment, and more. One of ICL's biggest mining operations takes place in the Dead Sea for which the company has exclusive mining rights for certain materials through 2030.

Industry Trends:

Demand for the chemicals produced by ICL is generally stable and expected to see stable growth in the coming years. ICL's chemical products have numerous applications, but the largest market is for industrial fertilizer products, which has inelastic demand. As the world population grows, demand for food is also growing. This increase in food demand is expected to cause an upward trend in fertilizer demand as farmers need to produce more food on the same land. Despite this, the prices realized for chemical sales can vary year to year. In the year ended 2019, global prices for phosphate and potash trended downward, which hurt the margins of several chemical companies, including ICL, however this was partially offset by strong prices for bromine.

Investment Thesis:

We believe that ICL is a strong buy because of its dominance in the market that will deter new entrants and allow ICL to continue to grow, acquire, and maintain its competitive advantage. One of the biggest advantages that ICL sees is the access to and exclusivity of the Dead Sea. Because of its salty concentrations, the Dead Sea makes the mining process and extraction of chemicals easier for ICL and therefore gives them a competitive advantage. Additionally, the diversification of different industries within which ICL's products are used give them resilience if demand for one product were to shift.

Valuation Assumptions:

WACC: 9.5%

Perpetuity Growth Rate: 3.0%

Margin of Safety: 31.4%

1-Year Share Performance vs. S&P 500:



Competitive Advantage and Analysis:

Israel Chemicals' key competitive advantage lies in its size, being a top global producer of various different chemicals, which gives them substantial bargaining power. The Materials sector is highly capital-intensive, which should deter new market entrants. Additionally, ICL possesses exclusive mining rights to certain minerals in the Dead Sea through 2030, providing a significant barrier to new entrants. The unique nature of the Dead Sea provides significant access to natural resources and also provides cost advantages.

Risks:

One big risk we considered was the fact that Bromine is a highly dangerous substance. However, we found no real indication of viable substitutes in flame retardants and therefore, despite these risks, bromine demand is expected to grow. Another risk is that potash demand is heavily influenced by weather conditions and the impact this has on farmers, which ICL cannot predict. There are other risks such as shipping price risk or energy risk, but ICL is hedging their financials to mitigate these risks.

Corporate Social Responsibility Highlights:

- Member of Bloomberg Gender-Equality Index for past 2 years

Report Prepared By:

Morgan Van Liew and Justin Wagner on 2/25/2020

Sources: Bloomberg