



# HALLGARTEN + COMPANY

Sector Coverage

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## Growth Minerals Sector Review

Buyers & Sellers in a State of Flux

May 2025

# Growth Minerals Sector

## Buyers & Sellers in a State of Flux

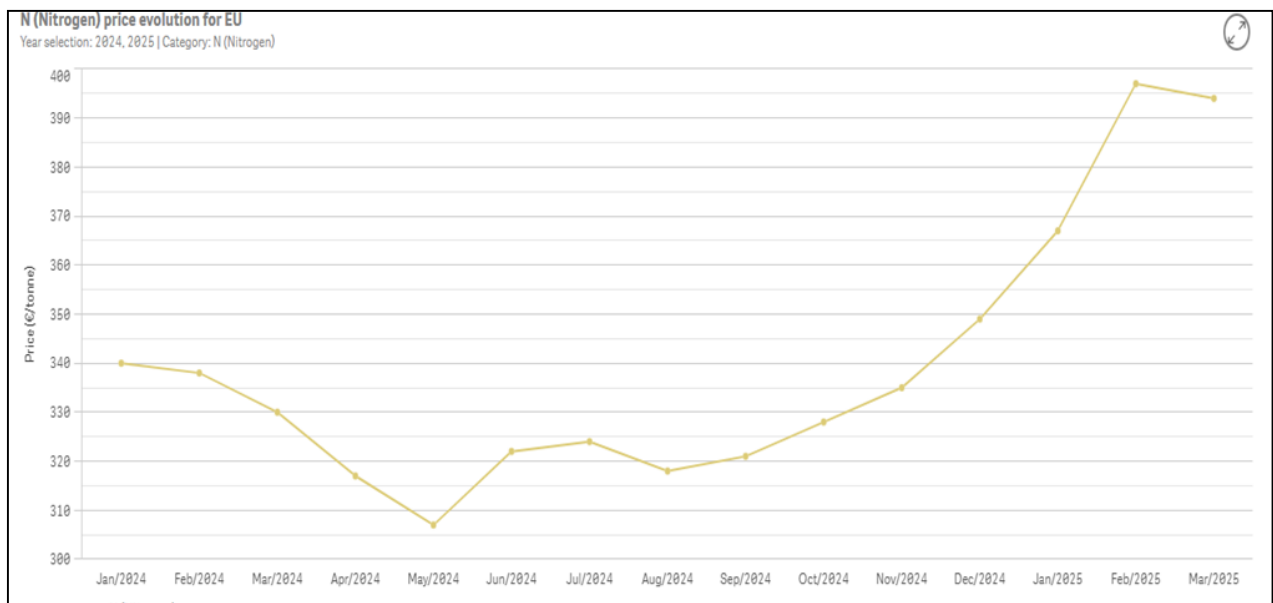
- + Nitrogen fertilizer supplies to the EU are a tricky subject but at least the EU has loads of options (despite appearing still wedded to Russian dominance of its supplier list)
- + Nigeria is pushing to make itself a key fertilizer supplier and is teaming up with Senegal in an interesting regional collaboration to achieve this
- + Millennial Potash has been a collateral beneficiary of Gabon's successful election and its "coming in from the cold"
- + Africa is on the move (not just in Gabon & Nigeria) as big users of fertilizers, such as Ethiopia and Kenya look to secure supplies
- X French imports of Algerian fertilizer products are under threat due to a diplomatic spat
- X Yara are on the receiving end of Russian displeasure on termination of contracts for material due to sanctions related to the Ukraine war
- X US Administration actions on the tariff front are infuriating agricultural lobbyists are due to making their products less competitive in global markets
- X Mosaic is faced with a dilemma as it has built its business on North American integration and now finds itself astride a widening chasm in opinions and policies

### EU nitrogen fertilizer market explodes

From the beginning of the year, the European Union (EU) saw record high levels of nitrogen fertilizer imports, primarily from Russia, Egypt and Algeria, by order of magnitude. There is more than meets the eye here, as EU trading partners for nitrogen fertilizers also include Nigeria, Trinidad and Tobago, Turkmenistan and Azerbaijan. All four of those countries are known for harboring some of the world's largest natural gas reserves and production facilities, so it should not be a surprise that more natural gas production was used for fertilizers to meet the growing demand in the EU. Most importantly, Russia remains the top supplier of nitrogen fertilizers to the EU—despite sanctions and the war in Ukraine.

France decided to upper cut Algeria this month, even after the two countries were supposed to be improving their relations. The events were related to France sentencing three Algerians over their alleged role in the abduction of an Algerian dissident in France. Algeria responded in kind. All the French embassy officials were kicked out of Algiers. Of course, the timing of all this was crucial to fertilizer markets and prices. Since prices for nitrogen fertilizers kept going up from the beginning of the year, the EU had to keep a stable supply to tame prices. Algeria was the third largest supplier of EU nitrogen fertilizers after Russia and Egypt.

Nigeria is likely to become another one of the top suppliers to the EU nitrogen fertilizer market in the near term. The famous Nigerian businessman Aliko Dangote has already announced the country's interest to supply the global market with African-produced fertilizers. Moreover, the plan is to coordinate with Senegal to create a regional player in the fertilizer export market. Senegal contains phosphate rock and other processing facilities. To ease investors' concerns, Dangote brought onboard Shell to ensure that the Dangote Fertiliser and Petrochemical plant would be a successful venture, with TotalEnergies in tow. Shell already committed to a final investment decision in early 2024.



Source: EU – Fertilizers

### Seize the day before Russia takes it away!

High nitrogen fertilizer prices were reflected in Yara International's first quarter earnings report in April: US\$638mn EBITDA. Insights from Yara's earnings report also reveal that urea and other nitrogen-based fertilizer products will be prioritized due to concerns about ammonia production. Yara even noted that urea has a less geopolitical risk imperative compared with ammonia. However, it is more likely that volatile natural gas prices at the beginning of the year caused the company to de-emphasize ammonia production. Germany's BASF has been an outspoken critic of Europe's ammonia problem.

Yara International has more problems on its hands than figuring out how to play the global market for nitrogen fertilizers and ammonia supplies. In March, Russia's Uralchem, under its subsidiary Uralchem Trading, filed a lawsuit against Yara International over fertilizer supply agreements that were obviously not met in the aftermath of Russia's invasion of Ukraine in 2022.

Yara CEO, Svein Holsether, went on a worldwide campaign (and of course to Davos!) to denounce Russia's invasion of Ukraine, as well as the link between Europe's fertilizer dependence and Russia's

geopolitical risk. Yara International might have plenty of fighting words, but since the case was filed in Moscow courts, they are likely going to be on the losing side of the case. Uralchem wants 1.5 billion rubles (US\$17.4 million). For perspective on this case, Yara reported a net income of US\$16 million in its first quarter earnings of 2024.

### **Back to reality with US tariffs**

US President Donald Trump imposed a 90-day pause on all tariffs. Read last month's Growth Minerals Sector Review - [Musical Chairs May Leave US Standing](#) - to understand how US tariffs impact potash and other mineral fertilizers. It was a controversial topic, to say the least, given the widespread panic around Canadian potash exports to US farmers. The confusion was finally settled after everyone came to terms with the fact that Canada's potash is USMCA-compliant, and thus it should be free of Trump's Liberation Day tariff structure. The bigger problem that everyone ignored was the fact that Canada is also reliant on US phosphate exports.

The Mosaic Company Canada went on a radio talk show in Saskatchewan to discuss the issues related to US tariffs and phosphate exports to Canada. It should be remembered that Nutrien Ltd's dominance over the global fertilizer markets pertains to its all-encompassing business model to produce, supply and distribute a wide variety of fertilizer products, including NPKs, through retail stores in the US and Canada. Without a stable, low-cost supply of phosphates, Nutrien would be relying on its low-cost production of potash to push the business model forward. Canpotex is the entity that dictates production and supply arrangements from potash mines in Saskatchewan—the whole world is beholden to this fact!

US and Canada trade associations won't give up the fight over the US-Canada trade relationship. Both the Canadian Agri-Food Trade Alliance (CAFTA) and the US's most powerful wheat lobbies, the National Association of Wheat Growers (NAWG) and the U.S. Wheat Associates (USW), pleaded with officials in Washington DC to rethink the tariffs on agriculture and fertilizers. The US wheat lobbies are particularly concerned about the Section 301 tariffs that Trump decided to ratchet up against China since the 90-day pause. China has decided to target the US agriculture industry in response to Trump's liberation day tariffs, so the pressure is undoubtedly on Trump, due to the powerful US agriculture lobbies in both the Republican Party and Democratic Party.

All in all, the US is going to have to search for new global markets for its agricultural commodities in the future. They will lose out to China-Brazil relations, low-cost Black Sea wheat and grains and the imminent EU-Mercosur deal. Canada even took the opportunity to secure a free trade agreement with Ecuador. Perhaps the US agriculture industry will be betting on a food crisis in Asia to save them—Japan seems to be the only country that is okay with this prospect.

## **East Africa - Competitive Tensions**

Recent events in Africa have been completely overlooked during the negativity from US tariffs. Kenya and Gabon are in the spotlight right now, albeit for very different reasons. Kenya is an agriculture powerhouse, and thus it is a massive fertilizer importer. The Kenyan government provides subsidies to farmers to ensure low-cost fertilizer supplies. The fertilizer subsidy programs have become very controversial with President Ruto, however.

This year, Kenya is likely to become the East Africa region's largest economy, moving ahead of Ethiopia. These findings are based on IMF projections for Kenya's GDP, which is estimated to be approximately \$132 billion, surpassing Ethiopia's \$117 billion GDP figures. At any rate it's a friendly occasion between the two countries. Kenya and Ethiopia will sign a free trade agreement under the auspices of the African Continental Free Trade Area (ACFTA). Both countries have the problem of being massive fertilizer importers, so they already have this in common from an economic standpoint.

They also both have fast-growing populations that will lead to a rising demand for food, and thus fertilizer imports will be a critical issue in the East Africa region's politics going forward. In the case of Tanzania and Malawi, it already is a critical issue. Tanzania threatened to restrict fertilizer exports through Tanzania to Malawi and South Africa. The threat was rescinded, but it could easily happen again. In fact, Tanzania demonstrated how easy it could use fertilizer supplies as a carrot and stick model in the lead up to the country's election at the end of this year.

## **Gabon Elections (et al.) Fire up Millennium Potash**

Speaking of elections, Gabon held its election in April. It was reported that nearly 920,000 people voted in the elections that saw Brice Oligui Nguema win a landslide victory over the opposition candidates. Those election results proved to be a historical moment for Gabon, since the African Union (AU) welcomed Gabon back into the multilateral forum. This also might have something to do with why Millennial Potash's stock price continues to soar on the TSX-V. Since the beginning of April, MLP has gained +51%, breaking through \$0.90 per share to keep climbing higher. It is just a matter of time before the stock completely breaks through \$1.00 per share.

MLP announced new details about the port and logistics project in Gabon. Phase 1 of the Mangali Port will expand on the port's operational capacity, such as barges and landing craft to increase throughput of potash supplies. In addition to the port operations, the power project, known as the Mayumba Power Station, is scheduled to be in operation by mid-year. Millennial Potash Chairman Farhad Abasov spoke to the investor community in the US about the Banio Potash Project in Gabon, where the stock trades on the NYSE as MLPNF on the OTC markets. He told a radio host: "Potash is the backbone of global food production, yet most people don't realize how fragile the supply chain is. With rising demand and geopolitical instability, securing new sources of potash is critical to keeping food prices stable and

ensuring long-term agricultural sustainability.”

On top of all this success, a nearby competitor for MLP was suspended from trading on the Australian Securities Exchange (ASX). The company is Kore Potash, a potash development company with 97% ownership of the Kola and DX Potash Projects in the Sintoukola Basin of the Republic of Congo. According to the Kore Potash’s press release: “the Company is unable to comply with the timeline imposed by the ASX in announcing details under the Term Sheets”. This is a boon for Millennial Potash, as the company now has even greater incentives to expand production capacity in the West African region for the foreseeable future.

## **Conclusion**

Nitrogen fertilizer prices will start to go down as this year’s spring planting season ends. It will be interesting to see the winners and losers from higher nitrogen fertilizer prices in the next quarter. Greenfield potash mines are coming online, which will be a boon to global potash imports in the near term.

Phosphate prices will not go down this year. It will be key to track the producer price index (PPI) to see how high the phosphate fertilizer prices are likely to go this year. Farmers all over the world will cut back on phosphate fertilizer needs. This is already evident in India where the notorious phosphate deal with Morocco was cancelled. Morocco probably wishes they would’ve sold to Ethiopia by now. OCP missed a key market opportunity.

One of the advantages of the farming community is the ability to switch crops in any given scenario where they can cut costs on crop inputs. Meanwhile, a variety of people will seize on the high prices for nitrogen and phosphate fertilizers as a sign that prices are getting out of control again. That’s just not going to be the case this year. The EU was able to weather the storm of high nitrogen fertilizer prices, which is the first sign of higher affordability compared with the 2021-2022 global fertilizer price swings. Potash prices skyrocketed from 2021-2022 because of high agricultural commodities prices, in addition to the sanctions and other geopolitical risk concerns.

## Important disclosures

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