EuroChem details potash entry; IPO possible within 5 years

EuroChem (Moscow), Russia’s largest producer of fertilizers, has detailed plans to enter the potash market; outlined its business plan; and said that it might launch an initial public offering (IPO) within five years. Entering the potash market would make EuroChem one of only four global players present in all three main plant nutrient segments: nitrogen, phosphorus, and potassium. The other three are PotashCorp, Agrrium, and Mosaic.

EuroChem is investing a combined $7 billion to develop 2 separate potash production facilities in Russia: the VolgaKaliy potash mining complex near Volgograd, based on the Gremyachinskoe ore deposits; and the Usolskiy manufacturing complex near Berezniki, in the Perm region. The investments will give the company 8.3 million m.t./year of potassium chloride (KCl) capacity, making it the world’s fifth-largest producer of potash, trailing K+S (Kassel, Germany) and Israel Chemicals.

Clark Bailey, EuroChem management board member/mining, said at a media briefing in Volgograd earlier this month that the projects are the largest for 50 years in the worldwide potash industry. The company will enter the potash market in the second half of 2017 with the first phase of the Volgograd project, which will have 2.3 million m.t./year of KCl capacity. The first phase of the Volgograd project will start up 2 years later than originally planned, however, because of issues with contractor Shaft Sinkers (Sandton, South Africa), which failed to sink one of the shafts in line with the companies’ contractual agreements, EuroChem says. EuroChem is suing Shaft Sinkers for $800 million in courts in Zurich and Paris, to cover write-offs and potential profit loss. EuroChem has taken over the development of the mines and is using Thyssen Schachtbau (Mülheim an der Ruhr, Germany) and US-30 (Moscow) as contractors.

The first phase of the Usolskiy project, also designed for 2.3 million m.t./year of KCl, is expected onstream in late 2017 or early 2018. The second phase at Usolskiy, which will be designed to produce 1.4 million m.t./year, however. The VolgaKaliy proven and probable potash ore reserves are estimated at 492 million m.t., giving the mine an estimated lifespan of 46 years.

EuroChem’s projects will also allow the company to cover its internal potash needs. The company uses 150,000 m.t./year of potash to produce NPK fertilizers. EuroChem buys potash from Uralkali to cover its needs in Russia and from K+S to supply EuroChem’s Antwerp fertilizer complex, which it acquired recently from BASF.

EuroChem’s plans foresee the company using about 1.5 million m.t./year of potash in complex fertilizers as well as in specialty, chlorine-free potash fertilizers, according to current estimates.

The company, in addition to potash, has several investment plans. They include construction at Ust-Luga of an ammonia manufacturing complex designed to reduce the company’s ammonia deficit in Russia as well as at Antwerp. EuroChem is also developing a phosphate manufacturing complex at Taraz, Kazakhstan that will eventually have 1.5 million m.t./year of phosphate ore capacity and will close EuroChem’s phosphate ore supply gap. About 80% of the company’s phosphate needs are covered from its Kovdorapatite deposits on the Kola Peninsula, Russia. The Taraz complex will eventually include a large number of downstream fertilizer plants, Bailey says.

Full back-integration to raw materials, substantial internal production of natural gas, and diversification to specialty fertilizers are high on EuroChem’s agenda, says Olivier Harvey, head of investor relations. EuroChem last year acquired Severneft Urengoi (Urengoi, Russia), which produces up to 1.1 billion cubic meters/year of natural gas, covering about 25% of EuroChem’s annual gas consumption. The company is exploring ways to secure 5–10 billion cu meters/year of in-house natural gas capacity.

EuroChem’s investments will likely lead to a doubling of the company’s size. EuroChem reported revenues last year of $5.4 billion and Ebitda of $1.6 billion. The company is currently owned by two individuals: chairman Andrey Melnichenko, who owns 92% of EuroChem; and CEO Dmitry Strezhnev, who holds 8%. The company may seek a listing in London via an IPO, following completion of the potash projects, Harvey says. Further details of the possible IPO were not disclosed.

— NATASHA ALPEROWICZ IN VOLGOGRAD