

KPLUY Earnings Call Transcript

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Quarter: 3

Operator: Welcome to the K&S; Second Quarter 2025 Earnings Call. I will now hand over to Julia from K&S; for some technical notes.

Julia Bock: Ladies and gentlemen, also from my side, welcome to our call. We hope you've had the chance to review our posted slides as well as our Q3 documents available on our website. After the opening remarks by Christian, we will jump directly into the Q&A; session. Some technical notes as always. Please refer to our disclaimer on Page 2 of the presentation. And then a note on data privacy. Please be aware that the Teams session will be recorded, webcasted and available as an audio replay on our home page afterwards. People who ask a question in the Teams session should be clear that they are switching on their camera and microphone, they agree to the recording and replay of video and audio sequences. Now I'd like to hand over to Christian, our CEO, for the opening remarks.

Christian Faltz: Thank you, Julia, and welcome from my side as well. Starting with the quarter. Third quarter EBITDA was above the prior year quarter. Firstly, this was due to better prices in both customer segments. Last year's EBITDA was affected by a drawdown in inventories, which did not occur this year. This resulted in a positive EBITDA effect. Thirdly, our hedging brought us to a total positive FX effect, which was better than last year. Q3 free cash flow could also be increased from EUR 24 million to EUR 37 million. Regarding our full year guidance, we confirm the midpoint of our previous guidance range and now expect EBITDA to be between EUR 570 million and EUR 630 million. The expectation of a slightly positive free cash flow is confirmed as well. For the midpoint of the EBITDA guidance, we assume that the average price level currently achieved in all regions and for all product groups remains stable during the rest of the year. This would result in a full year ASP of EUR 330. Although we are highly committed regarding our potash deliveries until the end of the year, we still have some flexibility regarding the exact product mix. Furthermore, we assume normal winter weather, normal production as well as a U.S. dollar-euro exchange rate of \$1.18 and a gas price at EUR 36 for 30% open position in Q4. We would reach the upper or lower end if these factors in combination develop in our favor or against us. I'm looking forward to answering your questions together with my colleagues, Jens and Julia. And I will now hand over to the operator to start the Q&A; session.

Operator: [Operator Instructions] And this brings to our first question from Christian.

Christian Faltz: Christian Faltz here at Kepler Cheuvreux. Christian, Jens and Julia and team, congrats on the results in a difficult time, low season period. A couple of questions, please. So my first question would be your D&A; in Q3 was significantly lower than in previous quarters. I assume this is in context of the impairment you took for Q2, correct? And which D&A; level should we model in going forward?

Christian Meyer: Yes. Christian, you're absolutely right. The lower D&A; is based on the impairment that we had in Q2. So the base level now is much lower. So the current level that you could calculate for the other quarters.

Christian Faltz: Okay. Great. And my second question is, any news regarding the progression in talks about the tailing pile coverings.

Jens Keuthen: So we postponed the roundtable discussions and now went further in the smaller group with the local municipality and the citizens initiative. And the aim now is to focus on reliable measures which we can implement and also put in our procedural applications. And yes, now the discussions are ongoing, and we are still confident that we will find a solution.

Christian Faitz: This is for Neuhof, I assume.

Jens Keuthen: It is for Neuhof, yes.

Christian Faitz: Okay. And last question, what is the current run rate of annual production in Bethune? And where do you see Bethune gearing up to by the end of '26 in terms of production?

Christian Meyer: So in the current level, we expect a little bit more than 2.2 million. And in the next year, we have a big maintenance, and that's why we have a little bit more than this year, but not much more in the next year. But that's based on the long maintenance period. That's every 3 years.

Julia Bock: And you know that we always ramp by 100,000 to 150,000 tonnes and next year will probably rather be a 100,000 tonnes year.

Operator: Our next question comes from Sebastian.

Sebastian Bray: Sebastian Bray from Berenberg Bank. I have two questions, please. The first is on the volume outlook for the group as a whole for '26. Q3, it looks as if the group quite wisely cut some of the more commoditized volumes and went more for specialty. But I'm thinking about implications for next year. We have, as you had mentioned earlier to Christian, a little bit of maintenance at Bethune. Is 7.4 million tonnes a reasonable baseline? Or are there any one-off effects? And how do you think of that is for agriculture? And how do you think about volume growth, if any, moving into '26? Because if we have some maintenance at Bethune, additional ramp-up of specialties at the MOP market, let's say, remains a bit more challenging, is there any volume growth at the group level in the year?

Christian Meyer: Yes, Sebastian, what's very important is the final volume finally depends on the product mix. If we have some more specialties compared to MOP, than the volumes are a little bit lower. But from today's perspective, we expect a little bit more volumes for the next year. So growth of at least around about 100,000 tonnes.

Sebastian Bray: That's helpful. And can I ask about the salt business. The pricing has been very helpful over the last few years I think it is safe to say. Are there any signs that the pricing for de-icing salt or salt-like products more broadly is starting to flatten out or in some places, decline or that's not the case?

Christian Faitz: From today's perspective, not really. That finally depends on the weather conditions in the winter. If it's a pretty warm winter then it could be that's a little bit lower. But you should keep in mind that we are selling de-icing volumes over the whole year. So more than 1 million tonne is already sold. And so the rest finally depends on the weather conditions. If it's pretty cold, then the prices are better; if it's warm, then a little bit lower. But the general price level should be the same.

Operator: Our next question comes from the line of Michael.

Michael Schaefer: This is Mike Schaefer speaking from ODDO BHF. Two questions from my side. The first one is more on the general market conditions in the potash market. Initially, into '25, we discussed a lot about production curtailments in Russia and Belorussia. So obviously helping to bring potash prices up. But if we look into rail shipment statistics year-to-date October, we see that basically volumes are up 10%. So my question is, how do you see, let's say, the supply side from Russia? And how we should think about let's say, going into '26 from this source and what this is doing to the potash market environment in general in '26 from your perspective? This is my first question.

Christian Meyer: Yes, with Belarus and Russia, they are back on the pre-war levels and increased their volumes a little bit. But the main or the most important answer is that there's the demand. And that regardless of these additional volumes, we saw increasing prices, for example, also for the cross-border deliveries to China. But also if you have a look to Brazil over the last 12 months, we have a much higher level in Brazil. And for the next year, we will see in the spring season when the demand comes from every region globally that we will see how tight the market is. So we expect still a good demand for next year. And if the supply -- we will see if the supply is able to fulfill this demand in the spring season.

Michael Schaefer: Okay. Second question is more related to K&S; specifically on the major building blocks for your cost items, major cost items in '26. So can you just remind us on how you -- you mentioned the EUR 36 price assumption for natural gas in the fourth quarter. So -- but how in general should we think about those energy costs and personnel, what to expect in '26 compared to '25?

Christian Meyer: Yes. In total, we expect that the cost level will be more or less stable. With regard to

the personnel cost, you should keep in mind that the bargaining agreement was in place since the second quarter of this year. So the next year, we have, in the first quarter, a higher level compared to this year, but the bargaining agreement will run until the end of the next year. So there will be no additional increases. And with gas, we already hedged around about 70% for our gas consumption, and that's a little bit below EUR 40 of the hedging position.

Operator: Our next question comes from the line of Tristan.

Tristan Lamotte: Tristan Lamotte, Deutsche Bank. I'm just wondering about Q4 and your ASP assumptions. I think you said EUR 330 for the full year, which implies quite a drop-off in Q4 versus Q3 even if you consider FX. So I was wondering if you could maybe talk through that.

Christian Faitz: Yes. So what's very important, I mentioned that we expect stable market prices from the perspective of today. We are at a peak, for example, with the Brazilian prices. That's also a little bit weaker currently. And you should keep in mind that the FX effects compared to H1 will also be -- is included in our calculation. And the third thing that we have some seasonality with regard to the product mix. So mathematically, that results finally in this EUR 330 a tonne.

Tristan Lamotte: And maybe second, I was wondering if you could maybe comment on where you think inventory levels are at the moment in potash in the different regions.

Christian Meyer: Yes. In the different regions, we see more or less normal levels if you have a look to Europe, U.S. and Brazil. If we have a look to China, there, we see that the prices for cross-border deliveries increased and that the port stocks are below the strategic levels of 3 million. They are around about 2 million. And so at the end, there are normal levels in total, maybe in total, a little bit lower than the normal levels if you see the global market.

Operator: [Operator Instructions] This brings us to the next question of Angelina.

Angelina Glazova: I will have two. The first one is specifically on Brazil and the current market environment. Could you give us a bit more color as to what you're seeing on that market? Because we know that potash is relatively more affordable compared to other micronutrients right now and demand has generally been good from Brazil, but still the farmers have seen some challenges from the economic side, and their availability to credit has become more difficult. So have you seen any impact on your operations from that? And how are you expecting the situation to develop in terms of demand in Brazil due to this?

Christian Meyer: Yes. Yes, you're absolutely right. The general conditions for the farmers are still good. And from our perspective, we optimize our regional mix. So we have some better netbacks in some other regions currently. So we don't bring too much volume to Brazil. But the volumes that we are finally export to Brazil, there, we look pretty close on the payments and that we secure or ensure our receivables. So from our perspective, we don't see a risk for us. And the general farmer conditions are pretty good. So at the end, that's more, yes, depending on different customers that we have a closer look, but in total, we don't see a risk for us.

Angelina Glazova: Understood. And my second question is a bit of a follow-up to Sebastian's questions regarding volumes. So one of the things that we've seen, I think, over the course of the past few quarters, but particularly in Q3, is you're shifting to more higher margin product mix. And I just wanted to understand to what extent do you have further potential to ship your product mix that way? Is it mostly down? Or you still think that there is some addition you can make in terms of SOP or maybe more broadly in terms of premium products?

Christian Meyer: Currently, we are very happy with the product mix, but there's not much room for more specialties currently.

Operator: Our next question comes from the line of Lisa.

Lisa Hortense De Neve: This is Lisa De Neve from Morgan Stanley. I have one question. Against your expectation for rising potash demand in 2026, as you just stated, and your comment that Chinese potash inventory is maybe slightly below their normal strategic levels and their domestic production in China being quite restricted. I mean what are your qualitative expectations for the timing of the Chinese potash contract negotiations? And to which extent do you see potential for the price to be settled higher year-on-year?

Christian Meyer: What's very important to keep in mind the point I already addressed and you just also addressed, we are not part of the negotiations. That's very important to understand. For this year,

everybody expect that it won't take too long that we see a Chinese contract compared to this year. So I can't imagine that we will see that in the summer or in the late spring, it should be earlier, but the rumor is in the market, but we are not at the table.

Operator: And if there are no more questions, we will conclude the call.

Christian Meyer: Okay. Yes. Thanks for your questions, and hope to see you on the road in the next weeks, and have a good day.

Julia Bock: Thank you. Bye-bye.

Christian Meyer: Bye.

Jens Keuthen: Thank you. Bye-bye.

Operator: This concludes today's call. Thank you, and have a great day.