

## Potash Corporation

POT-TSX: C\$119.73; POT-NYSE: US\$116.93 — BUY  
 TARGET PRICE: C\$143/US\$140; PROJECTED RETURN: 20%



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### POT Raises Q1/10 Guidance on Rebounding Demand - Target to US\$140

#### EVENT - Raising Our Target

POT raised its Q1 guidance to \$1.30-\$1.50, well above initial guidance of \$0.70- \$1.00 (consensus of \$0.93) due mainly to a rebound in potash demand.

#### ACTION - Improving Fundamentals Makes POT a BUY

With improving demand, rising prices, and overall tighter demand/supply fundamentals, we are bullish on the potash sector and Potash Corp. Our target price increases to \$140, from \$111, on the back of our higher forecast and higher valuation multiple. We are upgrading from HOLD to BUY.

#### IMPACT - Positive. Demand Picture and Profitability Improving

**Higher Q1 guidance:** The higher guidance is reflective of a record quarter for N.A. sales volumes (likely >1.1 million tonnes or >2x our estimate) and strong offshore shipments, as well as higher-than-expected margins in nitrogen and phosphate. POT will discuss any revisions to its 2010 guidance in its Q1 results press release, which will be issued on April 29, 2010.

**Forecast increased substantially.** We raised our Q1 EPS to \$1.32, from \$0.71. Our 2010 EPS increases to \$5.39, from \$4.06, to reflect the momentum from Q1 and recognizing that dating back to 2002, only once has Q1 EPS not been the weakest quarter for the year (in 2005 it was essentially the weakest quarter along with Q4). For 2010, we raised our margins to reflect improving operations in nitrogen and phosphate, as well as higher potash volumes. Our 2011 EPS increases to \$7.56, from \$6.75, based mostly on higher nitrogen and phosphate margins (Figure 1).

**N.A. potash inventories continue to trend down:** January data shows that N.A. producers' potash ending inventory continues to be drawn down, representing the third consecutive month that inventories have declined.

**Pricing should trend higher:** With demand expected to pick up on the back of recent settlements by both China and India, we would expect to see prices continue to trend higher from the floor price set by China of \$350/t. We have already seen price increases from both BPC (Feb 3 - Asia and Brazil to \$410/t) and Canpotex (Feb 19 - India at \$370/t and Mar 5 - spot price to \$415/t) recently.

**Additional potash price data points:** BPC is expected to settle with India soon, which should clarify the impact of India's new fertilizer subsidy policies. Arab Potash is close to signing deals with China and India as well.

#### VALUATION - Our Multiple Remains Below Recent Trading Range

Since April 2008, POT has been trading above 17x forward P/E and currently sits at 20x (Figure 2). Consequently, we are raising our valuation multiple from 16.5x to 18.5x to reflect: (1) investor sentiment and POT's recent valuation levels; (2) evidence of tighter demand/supply fundamentals (i.e. falling inventories, suppliers sold out until Q1, contract signings with China and India); and (3) potash prices demonstrating support at current levels.

#### Financial Metrics (US\$)

Share Price	\$116.93	Market Cap (mm):	\$34,541	
52 Wk. High:	\$126.47	Basic Sh O/S (mm)	295.4	
52 Wk. Low:	\$73.27	FD shares (mm)	304.1	
Target Price	\$140.00	Div/sh	\$0.40	
Return	19.7%			
<b>FY December 31</b>	<b>2008A</b>	<b>2009A</b>	<b>2010E</b>	<b>2011E</b>
Sales (mlns)	\$9,447	\$3,977	\$5,844	\$7,260
Gross margin	55.4%	33.6%	46.7%	49.6%
EPS	\$11.01	\$2.71	\$5.39	\$7.56
P/EPS	10.6x	43.1x	21.7x	15.5x
CFPS	\$11.89	\$4.44	\$6.54	\$9.01
P/CFPS	9.8x	26.3x	17.9x	13.0x
<b>2010 Quarterly</b>	<b>Q1E</b>	<b>Q2E</b>	<b>Q3E</b>	<b>Q4E</b>
EPS	\$1.32	\$1.35	\$1.37	\$1.35
CFPS	\$1.56	\$1.63	\$1.37	\$1.67

Target Valuation Parameter  
18.5 x 2011 EPS



Courtesy of BigCharts.com

#### Key Risks

The main risks include lower fertilizer prices, weakening demand or increased supply.

#### Corporate Profile

Potash Corp. is the world's largest fertilizer enterprise. It is an integrated producer of key fertilizer nutrients (potash, phosphate, nitrogen), as well as industrial and animal feed products.

#### Upcoming Events

Mar 16: Allan Mine Tour.  
Apr 29: Q1 results

US\$	Q1/10		2010		2011	
	New	Old	New	Old	New	Old
EPS (FD)	\$1.32	\$0.71	\$5.39	\$4.06	\$7.56	\$6.75
Sales, \$mlns	\$1,379	\$1,105	\$5,844	\$5,445	\$7,260	\$7,260
Gross Margins	47.7%	35.9%	46.7%	40.9%	49.6%	47.1%
EBITDA	46.9%	36.4%	46.0%	39.8%	50.8%	46.8%
Net margins	29.1%	19.7%	28.1%	22.7%	31.8%	28.4%
Shares, basic	295	295	295	295	295	295
Selling	3.5%	4.0%	3.2%	3.7%	2.5%	3.2%
Potash						
Volumes, 000s tonnes	1900	1300	8100	7200	9000	9000
Price, US\$/tonne	\$365	\$338	\$361	\$357	\$394	\$394

Figure 1. New Forecast  
Source: Mackie Research Capital

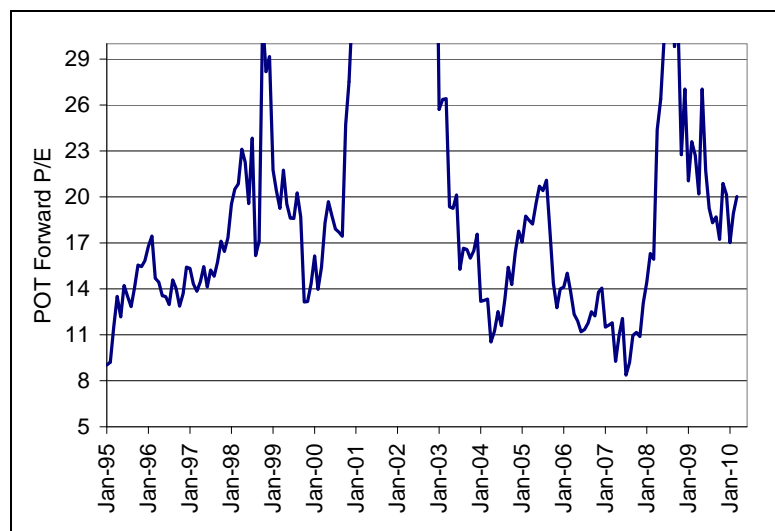


Figure 2. Potash Corp. Historical Forward P/E  
Source: Company reports, Bloomberg, Mackie Research Capital

**RELEVANT DISCLOSURES APPLICABLE TO: POTASH CORP.****LIST OF DISCLOSURE TERMS:**

1. None applicable.

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