

POT/POT (T; N)	\$119.73; US\$116.93
Stock Rating:	Outperform (Unchanged)
Target:	US\$127 (Unchanged)
Risk Rating:	Above Average (Unchanged)

#### Stock Data

52 - Week Range	US\$63.65 - US\$126.47		
Symbol / Exchange	POT / TSX; POT / NYS		
Bloomberg / Reuters (US)	POT US / POT		
Bloomberg / Reuters (Cdn)	POT CN / POT.TO		
Shares Outstanding (mn)	303.9		
Market Cap (US\$ mn)	\$ 35 540		
Free Float:	100.0%		

	2009A	2010E	2011E
<b>Estimates (Dec)</b>			
Adj. EPS	\$3.25	\$6.00	\$7.74
Net sales	\$3 658	\$6 072	\$6 720
EBITDA	\$1 389	\$2 940	\$3 626
EBITDA Margin	38.0%	48.4%	54.0%
Free Cash Flow	(\$882)	\$253	\$422
Dividend / Share	\$0.40	\$0.40	\$0.40
<b>Valuation</b>			
P / E	36.0x	19.5x	15.1x
EV / EBITDA	28.5x	13.4x	10.9x
Free Cash Flow Yield	-2.5%	0.7%	1.2%
Dividend Yield	0.3%	0.3%	0.3%

#### Opinion & Financial Data

<b>Stock Rating</b>	<b>Outperform</b>
<b>Target Price</b>	<b>USD 127.00</b>
Potential 12-Month Total Return	9%
Enterprise Value (US\$ mn)	\$39 523
Net Debt-to-Cap. (2009E)	43.0%

#### Industry Rating: Underweight (NBF Economics & Strategy Group)

#### Company Profile:

PotashCorp, based in Saskatoon, is the largest global producer of fertilizer. It is a) the single largest producer of potash, accounting for 17% and 22% of the global production and capacity; b) second largest producer of phosphate fertilizers (by nutrient capacity); and c) third largest producer of nitrogen fertilizers (by nutrient capacity). Its global potash investments include ICL in Israel (11% interest), APC in Jordan (28%), SQM in Chile (32%) and Sinofert in China (22%).

**Hari Sambasivam - (416) 869-7801**  
hari.sambasivam@nbfinancial.com

**Associate: Jing Feng, CFA - (416) 869-6515**  
jing.feng@nbfinancial.com

## Potash Corp of Saskatchewan

### Estimate change

### Upward revision to guidance

## HIGHLIGHTS

#### ■ Strong potash sales in North America and offshore

On a positive note, POT raised its guidance for Q1 2010 to \$1.30-\$1.50/share, citing "record North American sales volumes, strong offshore shipments and higher-than-expected margins in nitrogen and phosphate." POT's revised guidance compares with a surprisingly cautious guidance on Jan. 28 of \$0.70-\$1.00/share in Q1 and \$4-\$5/share for 2010. We are already modelling an admittedly more optimistic EPS of \$6.00/share, including Q1 EPS of \$1.50. POT's revision today is not entirely surprising given signs of strengthening potash pricing since the conclusion of the Chinese contract (\$350/tonne cfr) as demonstrated by a) Canpotex's prices in Japan, Taiwan and Vietnam of \$385-\$400/tonne cfr; b) POT's U.S. Corn Belt pricing at \$430-\$441/tonne until Feb. 28, and \$463-\$474/tonne after March 1; c) increase in Canpotex's pricing on March 5 to \$415-\$430 cfr; d) Canpotex's recent contract to supply 600,000 tonnes at US\$370 cfr to an Indian consortium; and e) sharp increases in DAP prices to \$500-\$510 fob bulk U.S. Gulf, from \$345-\$350 in mid-December. We have retained our "Outperform" rating and price target of US\$127, based on a strong global recovery in 2010 for crop nutrient application, following the weak application in 2009.

## Stock Performance



## Positive revision based on strong sales in North America and offshore, and strength in nitrogen and phosphate

On a positive note, POT raised its guidance for Q1 2010 to \$1.30-\$1.50/share, citing "record North American sales volumes, strong offshore shipments and higher-than-expected margins in nitrogen and phosphate." POT's revised guidance compares with a surprisingly cautious guidance on Jan. 28 of \$0.70-\$1.00/share in Q1 and \$4-\$5/share for 2010. We are already modelling an admittedly more optimistic EPS of \$6.00/share (potash volume of 8.2 mln tonnes), including EPS of \$1.50 in Q1 (potash volume of 2.1 mln tonnes). Key areas of difference between our estimate and that of POT's Jan. 28 guidance included a) potash gross margins of \$1.4-\$1.8 bln (our forecast of \$2.5 bln); and b) combined nitrogen + phosphate gross margins of \$0.4-\$0.5 bln (our estimate of \$0.4 bln). POT's revision today is not entirely surprising given signs of strengthening potash pricing since the conclusion of the Chinese contract (\$350/tonne cfr) as demonstrated by a) Canpotex's prices in Japan, Taiwan and Vietnam of \$385-\$400/tonne cfr; b) POT's U.S. Corn Belt pricing at \$430-\$441/tonne until Feb. 28, and \$463-\$474/tonne after March 1; b) increase in Canpotex's pricing on March 5 to \$415-\$430 cfr; c) Canpotex's recent contract to supply 600,000 tonnes at US\$370 cfr to an Indian consortium; and d) sharp increases in DAP prices to \$500-\$510 fob bulk U.S. Gulf, from \$345-\$350 in mid-December. We assumed global potash demand of 45+ mln tonnes, based on strong shipments to the U.S., India (potential to import 5+ mln tonnes in 2010) and China (potential to import 8 mln tonnes in 2010). This compares with POT's global shipment forecast of 50 mln tonnes (~58 mln in 2007 and 30-35 mln in 2009). We have retained our "Outperform" rating and price target of US\$127, based on a strong global recovery in 2010 for crop nutrient application, following the weak application in 2009.

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