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Potash Corp. Said to Get Sinochem, Vale's Inquiries (Update3)  
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(Updates with closing shares in fifth paragraph.)

By Jeffrey McCracken

Aug. 23 (Bloomberg) -- Potash Corp. of Saskatchewan Inc. was contacted by China's Sinochem Group and Brazil's Vale SA as the company tries to fend off a hostile takeover from BHP Billiton Ltd., said a person with knowledge of the matter.

Sinochem and Vale made initial inquiries with Potash Corp.'s board of directors late last week about the possibility of holding talks, said the person, who declined to be identified because the information isn't public. Other companies also contacted the board of the world's biggest fertilizer producer, and talks may not materialize, the person said.

Any bidder would go up against BHP, which took its \$39 billion offer to shareholders last week after the Canadian company rejected an initial approach. State-owned Sinochem's interest would indicate China's desire to stop BHP from controlling more supplies to the world's biggest consumer of commodities after years of price tensions over iron ore.

"If the Potash board decides to go with the poison pill of having a Chinese company - Sinochem - buy a stake, and BHP goes 'let's get out of here,' they're then left with the Chinese on the register," Glyn Lawcock, an analyst at UBS AG, said by phone from Sydney. That "then becomes basically an inhibitor to any future flows. Then their share price is going to fall dramatically," he said.

BHP Billiton, the world's biggest mining company, rose 0.6 percent to A\$38.11 at the 4:10 p.m. Sydney time close on the Australian stock exchange. BHP Billiton offered \$130 a share for Potash Corp., which closed at \$149.67 on Aug. 20.

#### 'Closely Watching'

"We are closely watching BHP Billiton's bid for Potash Corp.," Li Qiang, head of the president's office at Sinochem, said by telephone from Beijing. "This is big news for the industry and it's only natural that everyone is looking at it. I cannot verify that Sinochem and Potash have been in any form of contact." Sinochem is China's biggest chemicals and fertilizer trader.

Potash Corp.'s board and its advisers are focused on preparing a document that will explain to investors why they find BHP's proposal inadequate, the person said.

Fatima Cristina, a spokeswoman for Rio de Janeiro-based Vale, and Bill Johnson, a spokesman for Saskatoon, Saskatchewan-based Potash, also declined to comment. Kelly Quirke, a spokeswoman at Melbourne-based BHP, declined to comment.

Growing Chinese Demand

China is seeking to control more commodities after its companies last year spent more than \$30 billion, a record, buying oilfields and mines. The biggest consumer of rice, wheat and soybeans, needs more productive farmlands as it wants to supply food for 22 percent of the world's population using only less than 10 percent of the globe's arable land.

"The growth of China's potash demand in the long run will exceed the expansion of its own production," said Xu Hongzhi, an analyst at Beijing Orient Agribusiness Consultant Co. "China has tried to invest in potash mines in other countries but the record doesn't show much success."

Potash is a form of potassium mined in Canada, Brazil, Germany and the U.S., and used to help boost crop yields by improving the ability of plants to withstand dry soil conditions.

#### Key Company

China is the world's largest user of potassium fertilizer and relies on imports for more than half of its needs. It's the second-biggest importer of potash after India. Sinochem Group is listed as a key state-owned company under the nation's State-owned Assets Supervision and Administration Commission of the State Council.

The group, incorporated in 1950, posted a record gross profit of 8.7 billion yuan (\$1.3 billion) in 2008 on sales of 300 billion yuan, according to the latest information on its website. Sinochem's attempt to buy Nufarm Ltd. last year was stymied when Japan's Sumitomo Chemical Co. bought a 20 percent stake in Australia's largest farm chemicals supplier.

"It's unrealistic for Sinochem to make a counter bid for Potash Corp. because the cost would be too high," said Shi Ming, a Shanghai-based analyst with Shenyin Wanguo Securities Co. "China is expanding its own potash capacity to cut its dependence on imports."

Output from Chinese mines may increase to 7 million metric tons by 2015 from the current 4.5 million tons, Shi said.

#### Vale's Move

Vale, the world's biggest iron ore exporter, has agreed to purchase assets including phosphate mines from Bunge Ltd. for \$3.8 billion to help meet demand for crop nutrients in South America. The company in April also received an initial environmental license for a potash mine project in Brazil's Sergipe state.

The Carnalita project is set to be the biggest potash mine in Brazil when it starts operating, Vale said April 13. It may also build a potash plant to start up in 2014 with initial output of 1.2 million tons a year.

Potash Corp.'s board of directors discussed Chinese companies as possible suitors in the days after BHP Chief Executive Officer Marius Kloppers met with Potash Corp. CEO Bill Doyle on Aug. 12 to discuss BHP's bid, people with direct knowledge of the talks said last week. Advisers told Potash Corp.'s board that Chinese companies may move slowly in making a counteroffer, the people said.

"It's credible that Sinochem are interested but view them as a relatively minor threat to BHP Billiton as they won't be able to go for" the whole company, Liberum Capital Ltd. said today in a note. Canada is unlikely to want Chinese state control of Potash Corp. and "a

minority stake at a premium will require some very big off-take/joint venture concessions, which may impinge long term value," it said.

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To contact the reporter on this story:

Jeffrey McCracken in New York at +1-212-617-8517 or [jmccracken3@bloomberg.net](mailto:jmccracken3@bloomberg.net).

To contact the editors responsible for this story:

Jennifer Sondag at +1-212-617-2716 or [jsondag@bloomberg.net](mailto:jsondag@bloomberg.net); Hwee Ann Tan at +852-2977-6644 or [hatan@bloomberg.net](mailto:hatan@bloomberg.net).