

Europe, Middle East & Africa: Agriculture

Lower potash assumptions; no upside for ICL and URKA

Lower potash price assumptions post Indian tender results

The recently concluded Indian potash tender caught global potash market by surprise with the MOP price agreed at US\$460/mt, 26% below last year's contract price and competing offers from the largest suppliers. Even though the new price level is yet to be confirmed as the new benchmark by other producers, recent supply-side commentary and industry sources indicate it is more likely to be accepted globally than not. On this basis and following Goldman Sachs US Agrochemicals Research team which recently cut their 2010E potash price assumption from US\$550/mt to US\$475/mt FOB Saskatchewan, cut our potash price assumptions for Uralkali and ICL for 2H09 and thereafter. We now use a benchmark price of US\$475/mt FOB Baltics to drive our potash average selling prices forecasts; our 2009E/10E ASP changes are -13%/-13% for Uralkali and -11%/-15% for ICL.

Stand-off on benchmark contracts prompts 2009 volume cuts

We previously assumed that both Uralkali and ICL will resume deliveries to India and China from early 2H09. While some supplies to India may indeed start in Jul/Aug if an agreement with IPL is reached at reduced prices, we think that signing of the Chinese contract could be delayed until late 2009/early 2010. According to our Asian fertilizer analyst, China's potash inventories at the producer/distributor levels amount to c 4-5 mn mt, which would be sufficient to satisfy consumption needs through spring 2010. We reduce our estimates for 2H09 potash sales volumes for Uralkali and ICL. Our volume assumptions for 2010 remain unchanged - we forecast a sharp increase in next year sales as growers should increase application rates and global imports should rebound from the 2009 lows.

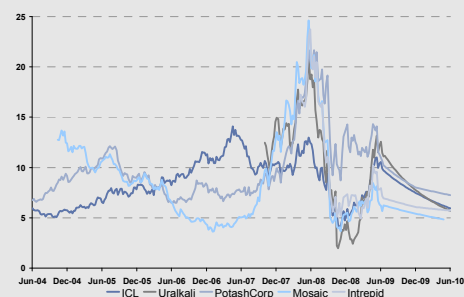
Limited upside for ICL and URKA despite 2010 demand recovery

We are using 12-month forward EV/GCI vs. CROCI/WACC which includes 2010 forecasts to derive our price targets. After adjusting our models for revised price and volume assumptions, our 12-month price target for ICL goes down to NIS39 (NIS46) and for Uralkali to US\$16 (US\$22). On back of revised potash prices both ICL and Uralkali appear fairly valued; both stocks trade at 2010E multiples which are close to historical mid-cycle valuations for the sector. We maintain our Neutral ratings for both stocks. Risks include potash prices, sales volumes, currency moves against the US dollar; potential further mine-flood related damage claims (Uralkali).

RATINGS AND 12-MONTHS PRICE TARGETS

Company	Rating	Currency	Current price	Price target		Return
				Old	New	
ICL	N	NIS	38	46	39	2%
Uralkali	N	US\$	16	22	16	3%

EV/EBITDA MULTIPLE FOR POTASH PRODUCERS



Source: Goldman Sachs Research estimates, FactSet

RELATED RESEARCH

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Prices are as of July, 17, 2009

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Estimate revisions

Exhibit 1: Uralkali and ICL sales volumes and ASP assumptions revisions

		Potash ASP, US\$/mt			Potash sales volumes, kt		
		New	Old	% Change	New	Old	% Change
Uralkali	2009E	451	518	-13%	2,475	3,062	-19%
	2010E	462	533	-13%	4,950	4,950	0%
ICL	2009E	514	576	-11%	2,173	2,698	-19%
	2010E	450	529	-15%	4,800	4,800	0%

Source: Goldman Sachs Research estimates

Exhibit 2: Uralkali and ICL financials, mn US\$

		Revenue			EBITDA			Net Income		
		New	Old	% Change	New	Old	% Change	New	Old	% Change
Uralkali	2009E	1,116	1,586	-30%	617	1,015	-39%	383	713	-46%
	2010E	2,285	2,638	-13%	1,316	1,666	-21%	949	1,265	-25%
ICL	2009E	4,439	4,876	-9%	1,336	1,622	-18%	791	1,003	-21%
	2010E	6,130	6,511	-6%	2,122	2,458	-14%	1,377	1,639	-16%

Source: Goldman Sachs Research estimates

Exhibit 3: ICL: summary financials

Profit model (\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (\$ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	6,904.0	4,439.1	6,130.4	6,471.5	Cash & equivalents	215.2	461.9	1,132.3	1,119.7
Operating costs	(4,235.3)	(3,018.3)	(3,885.8)	(3,997.9)	Accounts receivable	1,197.7	1,049.3	1,258.4	1,348.2
R&D	(57.3)	(84.7)	(122.6)	(129.4)	Inventory	1,278.0	1,381.2	1,373.8	1,452.5
Lease payments	0.0	0.0	0.0	0.0	Other current assets	271.9	205.3	205.3	205.3
Other operating profit/(expense)	(93.8)	0.0	0.0	0.0	Total current assets	2,962.7	3,097.7	3,969.9	4,125.7
EBITDA	2,517.7	1,336.0	2,122.0	2,344.2	Net PP&E	1,907.3	2,019.2	2,019.2	2,019.2
Depreciation & amortisation	(182.2)	(192.4)	(200.4)	(207.7)	Net intangibles	521.4	510.8	510.8	510.8
EBIT	2,335.5	1,143.6	1,921.6	2,136.5	Total investments	27.2	27.4	27.4	27.4
Net interest income/(expense)	(122.1)	(61.0)	(86.3)	(34.8)	Other long-term assets	319.2	284.8	284.8	284.8
Associates	13.8	0.6	0.0	0.0	Total assets	5,737.7	5,939.9	6,812.0	6,967.9
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	1,099.3	962.4	1,154.3	1,236.6
Others (recurring)	0.0	0.0	0.0	0.0	Short-term debt	411.5	399.7	402.4	426.2
Pretax profits	2,227.2	1,083.2	1,835.3	2,101.6	Other current liabilities	66.0	56.7	56.7	56.7
Income tax	(233.2)	(297.8)	(458.8)	(525.4)	Total current liabilities	1,576.7	1,418.7	1,613.3	1,719.5
Tax rate (%)	10.5	27.5	25.0	25.0	Long-term debt	1,022.3	957.7	947.0	208.5
Minorities	10.3	5.5	0.0	0.0	Other long-term liabilities	627.8	601.0	601.0	601.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1,650.1	1,558.7	1,548.0	809.5
Net income (pre-exceptionals)	2,004.2	790.9	1,376.5	1,576.2	Total liabilities	3,226.8	2,977.4	3,161.3	2,529.0
Other non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	2,004.2	790.9	1,376.5	1,576.2	Total common equity	2,443.0	2,900.0	3,588.3	4,376.4
EPS (underlying) (\$)	1.57	0.62	1.08	1.23	Minority interest	68.0	62.5	62.5	62.5
EPS (basic, reported) (\$)	1.57	0.62	1.08	1.23	Total liabilities & equity	5,737.7	5,939.9	6,812.0	6,967.9
Weighted shares outstanding (mn)	1,280.4	1,280.4	1,280.4	1,280.4	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	966.5	301.8	688.3	788.1	Capital employed	3,944.7	4,319.9	5,000.2	5,073.7
DPS (\$)	0.75	0.24	0.54	0.62	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	48.2	38.2	50.0	50.0	Adj capital employed	3,944.7	4,319.9	5,000.2	5,073.7
Dividend cover (X)	2.1	2.6	2.0	2.0	Gross cash invested	6,799.5	7,138.6	7,348.9	7,642.7
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	Ratios	12/08	12/09E	12/10E	12/11E
Revenue growth	68.3	(35.7)	38.1	5.6	CROCI (%)	34.5	16.0	22.7	24.1
EBITDA growth	177.1	(46.9)	58.8	10.5	CROCI/WACC (X)	2.2	1.1	1.4	1.5
EBIT growth	214.5	(51.0)	68.0	11.2	ROIC (%)	68.4	23.1	35.0	35.6
Net income growth	262.1	(60.5)	74.0	14.5	ROIC/WACC (X)	4.4	1.5	2.2	2.2
EPS growth	263.4	(60.5)	74.0	14.5	ROA (%)	38.4	13.5	21.6	22.9
DPS growth	77.9	(68.8)	128.0	14.5	WACC (%)	15.5	15.3	15.7	15.9
EBITDA margin	36.5	30.1	34.6	36.2	Inventory days	67.6	113.6	81.8	81.9
EBIT margin	33.8	25.8	31.3	33.0	Asset turnover (X)	3.6	2.2	3.0	3.2
Cash flow statement (\$ mn)	12/08	12/09E	12/10E	12/11E	Net debt/equity (%)	48.5	30.2	5.9	(10.9)
Net income	2,004.2	790.9	1,376.5	1,576.2	EBITDA interest cover (X)	20.6	21.9	24.6	67.3
D&A add-back (incl. ESO)	182.2	192.4	200.4	207.7	Valuation	12/08	12/09E	12/10E	12/11E
Minority interest add-back	(10.3)	(5.5)	0.0	0.0	EV/sales (X)	2.9	3.1	2.1	1.9
Net (inc)/dec working capital	(254.5)	(120.0)	(9.9)	(86.1)	EV/EBITDAR (X)	7.9	10.2	6.1	5.2
Other operating cash flow	(37.5)	96.2	0.0	0.0	EV/EBITDA (X)	7.9	10.2	6.1	5.2
Cash flow from operations	1,884.1	954.0	1,567.0	1,697.9	EV/EBIT (X)	8.5	11.9	6.7	5.7
Capital expenditures	(319.8)	(329.5)	(200.4)	(207.7)	P/E (X)	9.3	16.0	9.2	8.0
Acquisitions	(92.4)	0.0	0.0	0.0	Dividend yield (%)	5.2	2.4	5.4	6.2
Divestitures	6.1	0.9	0.0	0.0	FCF yield (%)	8.4	4.9	10.8	11.8
Others	(104.4)	(8.9)	0.0	0.0	EV/GCI (X)	2.9	1.9	1.8	1.6
Cash flow from investing	(510.5)	(337.5)	(200.4)	(207.7)	EV/adj. capital employed (X)	5.4	3.5	3.3	3.1
Dividends paid (common & pref)	(966.5)	(301.8)	(688.3)	(788.1)	Price/book (X)	3.6	4.4	3.5	2.9
Inc/(dec) in debt	(6.5)	(60.5)	(8.0)	(714.6)	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(244.2)	(6.5)	0.0	0.0	Note: Last actual year may include reported and estimated data.				
Cash flow from financing	(1,217.2)	(368.9)	(696.2)	(1,502.7)	Source: Company data, Goldman Sachs Research estimates.				
Total cash flow	156.3	247.6	670.4	(12.6)					
Capex/D&A (%)	175.5	171.2	100.0	100.0					
Reinvestment rate (%)	15.0	30.7	12.7	11.6					
Cash flow cover of dividends (X)	2.2	3.6	2.3	2.3					
Free cash flow cover of dividends (X)	1.6	2.1	2.0	1.9					

Source: Goldman Sachs Research estimates

Exhibit 4: Uralkali: summary financials

Profit model (Rubl mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (Rubl mn)	12/08	12/09E	12/10E	12/11E
Total revenue	62,798.0	35,691.5	64,428.3	81,228.9	Cash & equivalents	16,174.0	14,517.1	28,432.4	49,405.4
Operating costs	(22,454.0)	(16,462.3)	(28,163.6)	(36,233.2)	Accounts receivable	6,616.0	4,687.5	6,057.2	7,897.3
R&D	--	--	--	--	Inventory	2,965.0	3,261.5	2,574.9	3,390.0
Lease payments	0.0	0.0	0.0	0.0	Other current assets	49.0	49.0	49.0	49.0
Other operating profit/(expense)	(1,511.0)	(2,136.7)	(2,327.2)	(2,438.6)	Total current assets	25,804.0	22,515.1	37,113.5	60,741.7
EBITDA	41,349.0	19,732.8	37,096.3	46,295.9	Net PP&E	30,642.0	38,701.8	46,642.9	54,004.2
Depreciation & amortisation	(2,516.0)	(2,640.2)	(3,158.9)	(3,738.7)	Net intangibles	527.0	527.0	527.0	527.0
EBIT	38,833.0	17,092.5	33,937.5	42,557.2	Total investments	492.0	492.0	492.0	492.0
Net interest income/(expense)	(1,004.0)	(1,944.1)	(848.3)	240.8	Other long-term assets	4,858.0	4,858.0	4,858.0	4,858.0
Associates	0.0	0.0	0.0	0.0	Total assets	62,323.0	67,093.9	89,633.5	120,622.9
Profit/(loss) on disposals	(8,294.0)	0.0	0.0	0.0	Accounts payable	4,159.0	2,856.6	3,983.6	5,244.7
Others (recurring)	0.0	0.0	0.0	0.0	Short-term debt	4,606.0	6,230.7	6,230.7	8,264.1
Pretax profits	29,535.0	15,148.4	33,089.1	42,798.0	Other current liabilities	8,230.0	426.0	426.0	426.0
Income tax	(7,592.0)	(2,895.8)	(6,325.4)	(8,181.4)	Total current liabilities	16,995.0	9,513.3	10,640.3	13,934.8
Tax rate (%)	25.7	19.1	19.1	19.1	Long-term debt	10,192.0	10,192.0	10,192.0	10,192.0
Minorities	(6.0)	(8.0)	(8.0)	(8.0)	Other long-term liabilities	516.0	516.0	516.0	516.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	10,708.0	10,708.0	10,708.0	10,708.0
Net income (pre-exceptionals)	21,937.0	12,244.6	26,755.7	34,608.6	Total liabilities	27,703.0	20,221.3	21,348.3	24,642.8
Other non-recurring items post tax	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	21,937.0	12,244.6	26,755.7	34,608.6	Total common equity	34,599.0	46,843.6	68,248.2	95,935.0
EPS (underlying) (Rubl)	51.63	28.82	62.97	81.46	Minority interest	21.0	29.0	37.0	45.0
EPS (basic, reported) (Rubl)	51.63	28.82	62.97	81.46	Total liabilities & equity	62,323.0	67,093.9	89,633.5	120,622.9
Weighted shares outstanding (mn)	424.9	424.9	424.9	424.9	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	2,758.6	0.0	5,351.1	6,921.7	Capital employed	49,418.0	63,295.3	84,707.8	114,436.2
DPS (Rubl)	6.49	0.00	12.59	16.29	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	12.6	0.0	20.0	20.0	Adj capital employed	49,418.0	63,295.3	84,707.8	114,436.2
Dividend cover (X)	8.0	NM	5.0	5.0	Gross cash invested	47,707.0	65,881.4	76,537.5	89,031.5
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	Ratios	12/08	12/09E	12/10E	12/11E
Revenue growth	112.9	(43.2)	80.5	26.1	CROCI (%)	70.6	15.3	43.0	46.1
EBITDA growth	241.8	(52.3)	88.0	24.8	CROCI/WACC (X)	4.2	0.9	2.5	2.7
EBIT growth	283.6	(56.0)	98.6	25.4	ROIC (%)	68.9	25.0	37.0	34.9
Net income growth	172.8	(44.2)	118.5	29.4	ROIC/WACC (X)	4.1	1.5	2.2	2.1
EPS growth	172.8	(44.2)	118.5	29.4	ROA (%)	43.0	18.9	34.1	32.9
DPS growth	(34.7)	(100.0)	--	29.4	WACC (%)	16.9	17.0	16.9	16.9
EBITDA margin	65.8	55.3	57.6	57.0	Inventory days	17.2	33.4	14.6	15.2
EBIT margin	61.8	47.9	52.7	52.4	Asset turnover (X)	2.0	0.9	1.4	1.5
Cash flow statement (Rubl mn)	12/08	12/09E	12/10E	12/11E	Net debt/equity (%)	(4.0)	4.1	(17.6)	(32.2)
Net income	21,937.0	12,244.6	26,755.7	34,608.6	EBITDA interest cover (X)	41.2	10.1	43.7	(192.2)
D&A add-back (incl. ESO)	2,516.0	2,640.2	3,158.9	3,738.7	Valuation	12/08	12/09E	12/10E	12/11E
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	6.7	6.3	3.3	2.4
Net (inc)/dec working capital	68.0	329.6	443.9	(1,394.0)	EV/EBITDAR (X)	10.2	11.4	5.7	4.1
Other operating cash flow	8,083.0	(7,796.0)	8.0	8.0	EV/EBITDA (X)	10.2	11.4	5.7	4.1
Cash flow from operations	32,604.0	7,418.4	30,366.4	36,961.3	EV/EBIT (X)	10.9	13.2	6.2	4.5
Capital expenditures	(10,693.0)	(10,700.0)	(11,100.0)	(11,100.0)	P/E (X)	18.6	17.1	7.8	6.0
Acquisitions	(9.0)	0.0	0.0	0.0	Dividend yield (%)	0.7	0.0	2.6	3.3
Divestitures	49.0	0.0	0.0	0.0	FCF yield (%)	5.4	(1.6)	9.2	12.4
Others	(2,257.0)	0.0	0.0	0.0	EV/GCI (X)	8.8	3.4	2.8	2.2
Cash flow from investing	(12,910.0)	(10,700.0)	(11,100.0)	(11,100.0)	EV/adj. capital employed (X)	12.7	4.6	3.7	3.0
Dividends paid (common & pref)	(12,361.0)	0.0	(5,351.1)	(6,921.7)	Price/book (X)	3.3	4.5	3.1	2.2
Inc/(dec) in debt	1,042.0	1,624.7	0.0	2,033.4	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(38.0)	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
Cash flow from financing	(11,357.0)	1,624.7	(5,351.1)	(4,888.3)	Source: Company data, Goldman Sachs Research estimates.				
Total cash flow	8,981.0	(1,656.9)	13,915.3	20,973.0					
Capex/D&A (%)	425.0	405.3	351.4	296.9					
Reinvestment rate (%)	32.9	150.9	37.1	28.9					
Cash flow cover of dividends (X)	11.8	NM	5.6	5.5					
Free cash flow cover of dividends (X)	7.9	NM	3.6	3.7					

Source: Goldman Sachs Research estimates

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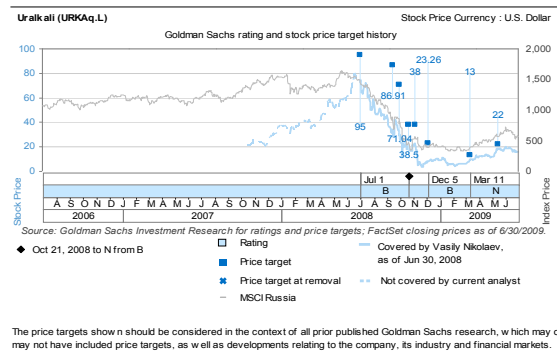
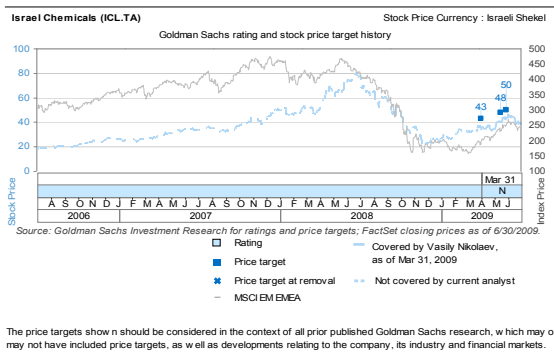
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	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	30%	51%	19%	54%	52%	44%

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Price target and rating history chart(s)



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