

Special Situations

Agriculture Industry Update



WELLINGTON WEST
Capital Markets Inc.

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Companies we cover in this report:

Anglo Potash Ltd. (AGP.V)

Price: \$6.86

Target: \$11.00 (from \$6.50)

Rating: Strong Buy

Athabasca Potash Inc. (API.T)

Price: \$8.75

Target: \$16.00 (from \$8.00)

Rating: Strong Buy

Strategic Value of Potash Becoming More Clear as China Succumbs to Rising Prices

- **Canpotex announced KCl price agreement to China, up 228% y/y.** '08 negotiations conclude with Sinofert at US\$~575/mt FOB VCR, up ~228% y/y, and in-line with recently announced contracts to India.
- **Sales volume to China materially lower y/y, confirms tight supply.** Canadian potash exporters could only commit 1M tonnes to China through '08; we estimate '07 Canpotex exports were ~2.3M tonnes.
- **KCl's strategic value to China – a potential trigger to acquisitions?** China has targeted base metals and oilsands – might potash be next in a rising price environment where food security is of growing concern?
- **Raising LT KCl price to US\$450/mt drives up AGP & API targets.** Latest Canpotex contracts reaffirm view of transformational change in industry; US\$50 LT KCl price bump prompts material target increases.

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Investment Summary and Outlook

The latest KCl sales to China provide continued evidence of transformational change in the fertilizer market – could the strategic importance of potash stimulate a wave of acquisitions? Yesterday Canpotex announced an agreement with China's Sinofert for potash sales, increasing the contract price to ~US\$575/tonne from US\$175/tonne FOB Vancouver in '07. This price negotiation, which is in-line with the price India recently agreed to in March, coupled with Canpotex's announcement of limiting Sinofert's allocation to 1 million tonnes (versus ~2.3 million tonnes in '07), suggests supplies of KCl are even tighter than most industry analysts anticipated. Given the material price increase China has just agreed to, we submit there is growing strategic importance in securing KCl supply, which is a concept not likely lost on China or the rest of the world. After all, potash minerals represent fertilizer, fertilizer represents food, and food represents political stability at a time when food scarcity has become a concern of governments across the globe. Given China's recent actions to acquire assets in the oilsands, gold and copper markets, we would not be surprised to see similar activity by the global giant in the potash sector, supporting our bullish views on junior potash plays Anglo Potash and Athabasca Potash, as well as other juniors like Potash One (KCL-V) and Western Potash.

We increase our long-term KCl price forecast to US\$450/mt from US\$400/mt on the back of continued strength in pricing fundamentals. We contend potash global capacity utilization (estimated near 90% presently) is unlikely to experience sufficient slack through at least 2015, prompting us to bump up our long-term price forecast to US\$450/tonne FOB Vancouver (from US\$400). Note, however, that this moderate 12.5% price increase remains at a healthy discount to the latest negotiated contract prices with both India and China, suggesting we may revisit our price assumption with an upward bias in the coming months should the supply-demand fundamentals remain robust, or even strengthen.

An assumed higher price-deck for KCl prompts material upward target revisions to the two junior potash stocks we cover. The new US\$450/tonne long-term potash price implies an estimated US\$724 million and US\$393 million of additional project value for Anglo Potash (Exhibit 1) and Athabasca Potash (Exhibit 2), respectively, assuming 10% costs of capital. We estimate Anglo Potash's project could generate ~US\$1.35 billion of EBITDA for the JV at full production capacity (by 2016), implying ~US\$2.36 billion of enterprise value attributed to Anglo Potash and a \$25.00 to \$35.00 AGP share price by 2015. We also estimate Athabasca Potash's project could generate ~US\$700 million of EBITDA at full production capacity (by 2016), implying ~US\$4.84 billion of enterprise value and a \$40.00 to \$50.00 API share price by 2015. In the interim we raise our one-year DCF-based targets, which incorporate assumed equity dilutions along the way. Our AGP target goes to \$11.00 (from \$6.50), implying 0.57x P/NAV, and API target goes to \$16.00 (from \$8.00), implying 0.49x P/NAV.

Exhibit 1: Anglo Potash – JV with an Industry Giant has Project Potential Near US\$2.6B, could represent \$25.00+ Price Target by 2015

		JV NPV (USD, millions)				
		Capex (/MT KCI)				
		\$750	\$1,000	\$1,100	\$1,500	\$1,750
KCI	\$350	\$1,941	\$1,401	\$1,185	\$321	(\$219)
(/MT)	\$400	\$2,665	\$2,125	\$1,909	\$1,045	\$505
(FOB VCR)	\$450	\$3,389	\$2,849	\$2,633	\$1,769	\$1,229
	\$500	\$4,113	\$3,573	\$3,357	\$2,493	\$1,953
	\$550	\$4,837	\$4,297	\$4,081	\$3,217	\$2,676
2015F Target						
2016F EBITDA						\$1,349
Assumed multiple						7.0x
Implied EV						\$9,443
Less assumed debt						\$2,090
Implied equity						\$7,353
Anglo's interest						25% \$1,838
Assumed S/O						63.3
Implied 2015 share price in USD						\$29.02
Implied 2015 share price in CAD						1.00 USD/CAD \$29.02

Source: WWCMM

Exhibit 2: Athabasca Potash – 100% Owner of Project with ~US\$1.3B Value Potential, could represent \$40.00+ Price Target by 2015

		NPV (USD, millions)				
		Capex (/MT KCI)				
		\$750	\$1,000	\$1,250	\$1,500	\$1,750
KCI	\$350	\$423	\$451	\$478	\$506	\$534
(/MT)	\$400	\$816	\$844	\$871	\$899	\$927
(FOB VCR)	\$450	\$1,209	\$1,236	\$1,264	\$1,292	\$1,319
	\$500	\$1,601	\$1,629	\$1,657	\$1,684	\$1,712
	\$550	\$1,994	\$2,022	\$2,049	\$2,077	\$2,105
2015F Target						
2016F EBITDA						\$692
Assumed multiple						7.0x
Implied EV						\$4,842
Less assumed debt						\$1,250
Implied equity						\$3,592
Assumed S/O						81.5
Implied 2015 share price in USD						\$44.07
Implied 2015 share price in CAD						1.00 USD/CAD \$44.07

Source: WWCMM

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Company Name	Ticker Symbol	Applicable Disclosure
Anglo Potash Ltd.	AGP.V	Nil
Athabasca Potash Inc.	API.T	2

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