

Potash Equity Research Report

November
30th 2011



Independent

Macic 2011/2012



Potash Equity Research Report

Date: 11/30/2011
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Stock Rating:

Buy

Sector Weighting:

Underweight

November 30th, 2011
 Price Target: \$53.00
 Target Price Date: January 24th, 2011

COMPANY MARKET STATISTICS

| | |
|--------------------------|-----------------|
| Ticker: POT | |
| Exchange: Toronto | |
| Fiscal Year End | December 31st |
| 52-week range (Low/High) | \$41.99/\$63.19 |
| Shares Outstanding | 856.48 Million |
| Avg. Daily Trading Vol. | 2,656,030 |
| Market Capitalization | \$36.78 Billion |
| Annual Dividend | \$0.24 |
| Dividend Yield | 0.60% |
| Price/Earnings | 12.95 |
| Price to Book | 4.93 |
| BETA | 1.34 |
| EV/EBITDA | 9.69 |

REVENUE BREAKDOWN

Potash: 46%
 Phosphate: 28%
 Nitrogen: 26%

ANNUAL EARNINGS PER SHARE (EPS)

| Current Year | Report on Jan 25th |
|--------------|--------------------|
| 2010 | \$2.10 |
| 2009 | \$1.11 |
| 2008 | \$3.86 |

HIGHLIGHTS

- World Population is growing and incomes are growing worldwide. Arable land is in decline meaning fertilizers will be demanded to achieve adequate yields
- Strong earnings and revenue growth last eight quarters on volume and price
- Operating Margins and Returns are highest in industry. Forward P/E on the lower end.

OVERVIEW

Potash Corporation of Saskatchewan Inc. produces and sells fertilizers and related industrial and feed products primarily in the United States and Canada. The company mines and produces potash, which is used as fertilizer. It also offers solid and liquid phosphate fertilizers; animal feed supplements; and industrial acids that are used in food products and industrial processes. In addition, the company produces nitrogen fertilizers, as well as nitrogen feed and industrial products, including ammonia, urea, nitrogen solutions, ammonium nitrate, and nitric acid.

Further, it holds the right to mine 785,759 acres of land in Saskatchewan; and 58,263 acres of land in New Brunswick in Canada. The company sells its fertilizers primarily to retailers, dealers, co-operatives, distributors, and other fertilizer producers; industrial products primarily to chemical product manufacturers; and purified phosphoric acid directly to consumers of the product.

Potash Corporation was founded in 1953 and is based in Saskatoon, Canada.

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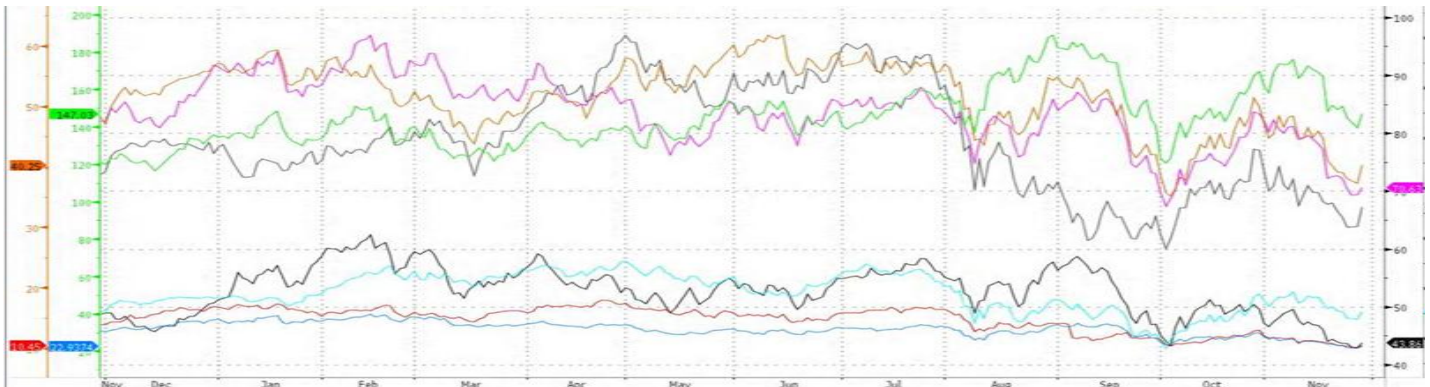


PRICE CHARTS



The major movements in the price of Potash over the past year have been the result of global economic uncertainty even though demand for potash products has widely outstripped supply which has maintained elevated prices.

Company one year chart versus its peers where potash is represented by the black line



Potash vs the TSX where Potash is represented through the black line.



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NEWS AND EVENTS

With the current global population surpassing the 7 billion mark and the rising prosperity in the developing nations, this puts pressure on food supplies worldwide. Potash miners are now looking to expand.

There are obvious signs of nervousness in the market today. But one thing is for certain, the prices for soft commodities are stable and high and nobody is considering postponing deliveries of potash at the moment.

Potash Corp. CEO Bill Doyle indicated that there have been new constraints implemented on the production side which has made the markets a little tight. This will force Potash Corp. to have a price increase in order to continue with their future gains. Even with the price increases, potash producers should still remain happy. Their per-ton earnings on potash are 3 times the historical average.

Potash Corp. estimates that global potash industry shipments will rise to a record 58 million to 60 million tons in 2012, from 57 million tons this year. This seems to be supported by the fact that Potash Corp's net income more than doubled to \$826 million in the third quarter.

Potash Corp. will begin its production in its expanded Cory mine in Saskatchewan in 2012. The company plans of raising its capacity at its current mines to 17.1 million tons by 2015. This is a 5.8 million increase from its capacity this year.

Potash helps plants to grow strong roots, resist disease and withstand drought conditions while improving the taste, texture and color of crops. The future price of potash will be highly dependent on the future demand for the product. The economic conditions may play a role in the months to come, but extreme weather events may also drive its demand up.

COMPANY RISK

Potash Corp is viewed as a strong company and receives a positive outlook from Moody's as a result of growing demand and increased pricing.

Price movements have been relatively volatile which is in line with the rest of the industry and the economy as a whole but is expected to decline in the coming months as reflected through the implied volatility.

Operationally, Potash has sales across the globe that are predominantly focused in Canada and the United States. They face a growing issue of local producers starting companies in their growing markets. Potash must move to ensure that they secure contracts and develop relationships and become the lowest cost producers to avoid losing revenues.

Credit Rating
Baa1

Moody's Recommendation
Positive

Volatility
42.22%

Implied Volatility
38.23%

WACC
15.33

BETA
1.34

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PEER COMPARISON

| Ticker | Market Cap | Div. Yield | Trailing P/E | Forward P/E | Annual Revenue | ROA | ROE | Operating Margin |
|---------------|---------------|------------|--------------|--------------|----------------|---------------|---------------|------------------|
| AGU.TO | 11.08B | 0.15% | 8.35 | 8.13 | 14.74B | 10.43% | 23.53% | 12.86% |
| POT.TO | 37.45B | N/A | 13.19 | 10.39 | 8.14B | 15.55% | 38.35% | 46.40% |
| MOS | 22.44B | 0.40% | 8.21 | N/A | 10.83B | 12.75% | 25.74% | 27.53% |
| MON | 37.61B | 1.80% | 23.7 | 17.45 | 11.82B | 8.31% | 15.18% | 21.19% |
| DD | 41.79B | 3.70% | 12.28 | 10.38 | 37.59B | 6.92% | 32.40% | 12.91% |
| IPI | 1.70B | N/A | 16.63 | 12.56 | 392.24M | 11.29% | 12.96% | 39.71% |
| DOW | 30.63B | 4.10% | 10.61 | 8.97 | 59.66B | 4.23% | 13.46% | 7.55% |

REVENUE AND EARNINGS

Revenues at Potash are relatively consistent across all time periods. 2010 and 2009 displayed weakness in Potash revenues as the company suffered from a decline in the price of all three of its major products. For 2011 as prices have rebounded and volumes have grown significantly, Potash revenues are near record levels.

Although revenues were down substantially, the company was able to still generate a profit and also to stay positive in operating cashflows, a strong sign of management ability.

Looking at 2011 and beyond, Potash is expected to be the benefactor of significant growth in the world population and middle income class. With more people demanding more food and arable land in decline, potash and fertilizers will play a key role in ensuring yields are where they need to be.

Potash Corp must be diligent in capturing this market share as countries like China and Brazil, who currently import vast quantities, will look to more local sources. This would be a strain on revenues and profits but is not a concern for the near future.

Revenue

| | Q1 | Q2 | Q3 | Q4 | Total |
|-------------|-------------|-------------|-------------|--------------|--------------|
| 2011 | \$ 2,172.85 | \$ 2,250.82 | \$ 2,275.11 | January 25th | January 25th |
| 2010 | \$ 1,783.04 | \$ 1,477.25 | \$ 1,637.10 | \$ 1,835.07 | \$ 6,734.85 |
| 2009 | \$ 1,148.53 | \$ 999.79 | \$ 1,207.08 | \$ 1,160.65 | \$ 4,537.09 |
| 2008 | \$ 1,899.06 | \$ 2,647.19 | \$ 3,191.33 | \$ 2,265.41 | \$ 10,081.31 |

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HORIZONS
EXCHANGE TRADED FUNDS



Russell
Investments



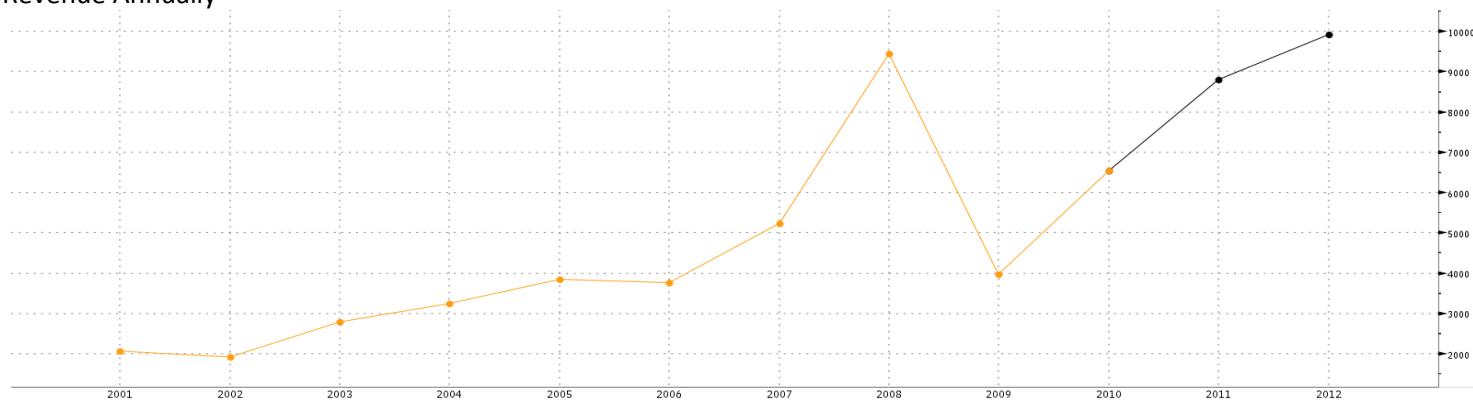
Net Income

| | Q1 | Q2 | Q3 | Q4 | Annual Total |
|-------------|-----------|-----------|-------------|--------------|--------------|
| 2011 | \$ 721.66 | \$ 813.20 | \$ 809.67 | January 25th | January 25th |
| 2010 | \$ 461.88 | \$ 493.44 | \$ 356.52 | \$ 488.39 | \$ 1,860.41 |
| 2009 | \$ 382.72 | \$ 217.48 | \$ 272.25 | \$ 252.60 | \$ 1,118.90 |
| 2008 | \$ 568.53 | \$ 914.14 | \$ 1,287.34 | \$ 954.32 | \$ 3,730.08 |

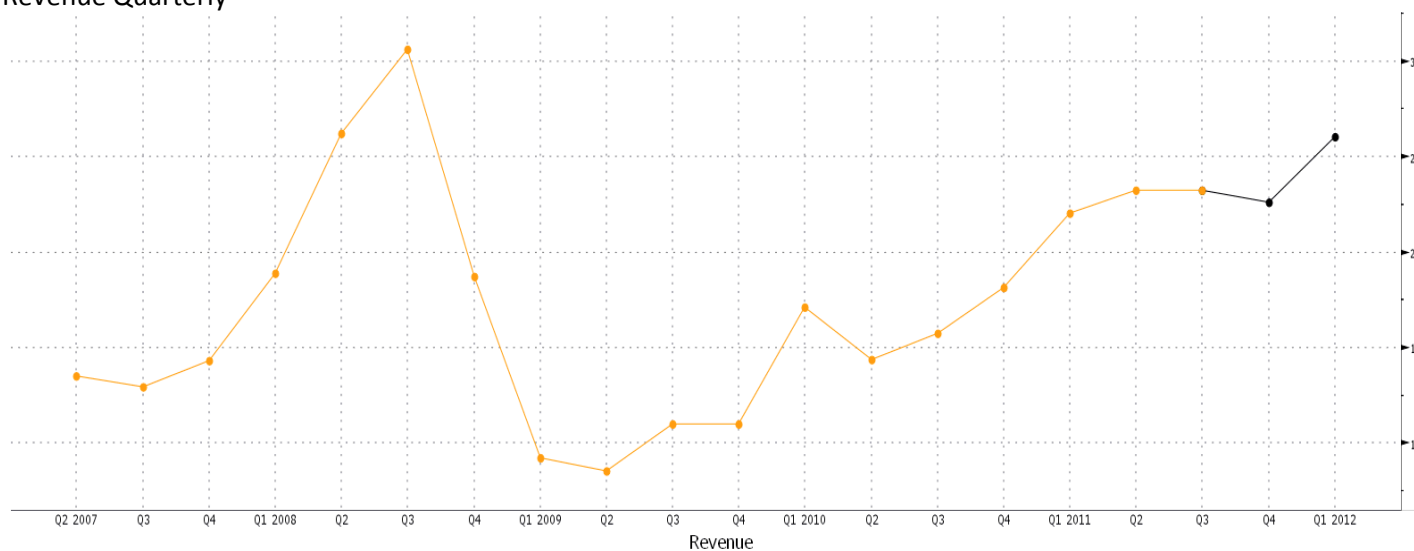
EPS

| | Q1 | Q2 | Q3 | Q4 | Total |
|-------------|---------|---------|---------|--------------|--------------|
| 2011 | \$ 0.85 | \$ 0.93 | \$ 0.92 | January 25th | January 25th |
| 2010 | \$ 0.54 | \$ 0.55 | \$ 0.40 | \$ 0.59 | \$ 2.10 |
| 2009 | \$ 0.19 | \$ 0.16 | \$ 0.30 | \$ 0.28 | \$ 1.11 |
| 2008 | \$ 0.55 | \$ 0.95 | \$ 1.37 | \$ 1.05 | \$ 3.87 |

Revenue Annually



Revenue Quarterly



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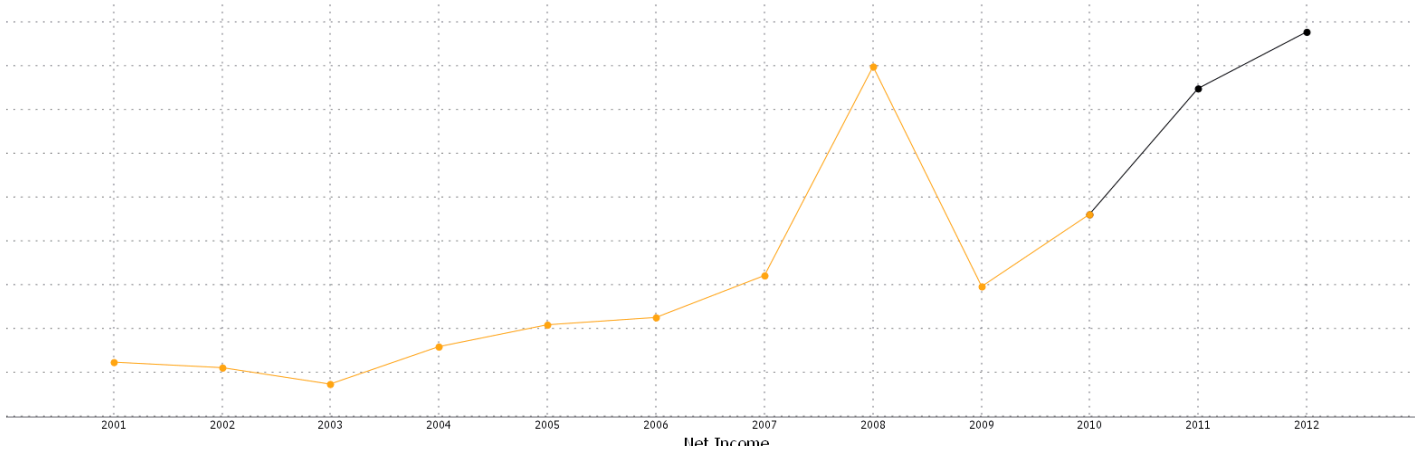
HORIZONS
EXCHANGE TRADED FUNDS



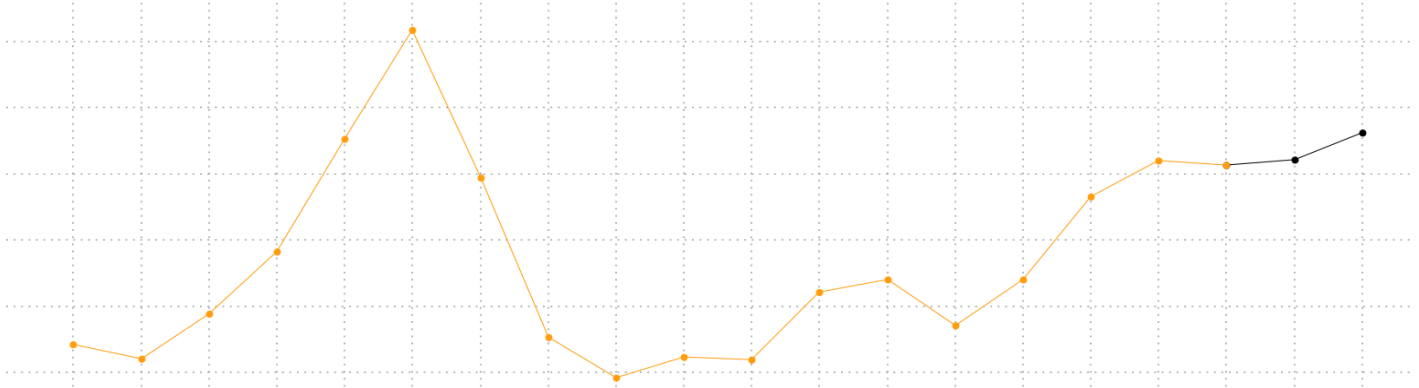
Russell
Investments



Income Annually



Income Quarterly



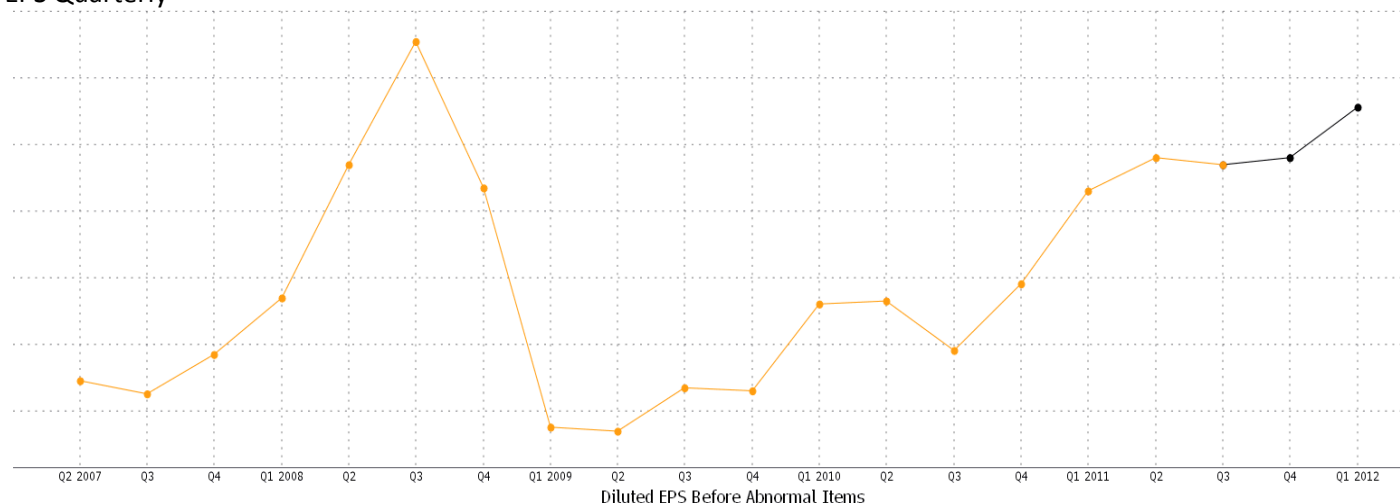
EPS Annually



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EPS Quarterly



FUNDAMENTAL RATIO ANALYSIS

The ratios below are measured based on the last year period. Potash has demonstrated strong revenue growth showing a lot of promise as they continue to dominate their industry. Their returns on equity and assets are greater than the industry average, demonstrating that they are utilizing their resources effectively to generate net income. Their price earnings ratio is slightly below the industry average. Since Potash is such a dominant player in its industry, its P/E ratio reveals that they are undervalued. Their price to book ratio is far above the industry average of 1.76, signalling great future growth potential. Its current ratio is above one, revealing that it is able to meet its short-term obligations. All in all, the fundamental ratios indicate that Potash is fundamentally strong and is currently undervalued in the struggling economy.

Revenue Growth

64.42%

ROE

26.55%

Current Ratio

1.08

Price to Book

5.246

Gross Margin

40.15%

ROA

12.66%

Quick Ratio

0.81

Profit Margin

27.62%

P/E

12.449

Debt/Capital

45.05%

CASH FLOW ANALYSIS

Potash has increased its dividend substantially over the years with a 5 year growth rate of 312%. The company's cash flow from investing activities is at an all time high with fixed asset purchases of almost \$2 billion on 2010. Cash flow from financing activities was negative in 2010 at \$532 million. The capital expenditures for 2012 are expected to be \$1.3

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billion, a decline of 350 million from 2011. The company should have sufficient cash flow from operations to fund operating activity and investing activity. The firm's limited cash position right now may force the company to seek short term financing if immediate operating income cannot meet current obligations.

| | | | |
|-----------------------------------|---------------------------------|--------------------------------------------------------|--------------------------------|
| Net Cash Position \$78m | Dividend \$.28 | Div. Growth Rate 311.80% (5 years) | Price/Cash Flow 12.3 |
| FCF Per Share \$1.20 | Dividend Yield .0065% | Cash from Operation \$2,999m year ended 2010 | |
| FCF Yield 2.77% | Dividend Payout 0.07 | | |

TECHNICAL ANALYSIS

MACD



A downwards cross between the MACD and signal have shown a bearish move, however there seems to be a move towards a reversal in the near future indicating upwards momentum and an attractive entry point.

Bollinger Bands

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The price has touched the lower band support level which suggests the price could experience an upward movement in the near future, and indicates a strong buy signal.

SELECTION METHODOLOGY

The stock was picked on the basis of irrational price depreciation over the last six months mostly related to poor economic conditions. Potash is a highly profitable company with minimal short interest that should see strong growth in both pricing and volume. Potash is well aligned with conditions across the globe that will lead it to further prosperity.

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