

SAL. OPPENHEIM

K+S

Chemicals

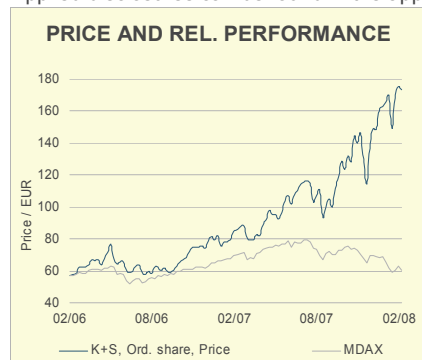
2008-02-11

Applied disclosures can be found in the appendix

Neutral

Fair Value EUR170.00

Price EUR173.74 (Closing price as of 2008-02-08)



12 month high/low € 178.75/76.15
 Rel.% 1m 7.7 3m 36.2 12m 137.4
 Abs.% 1m 1.8 3m 15.4 12m 106.1

MARKET DATA

Reuters SDFG.DE
 Bloomberg SDF GR
 Market cap EURbn 7.2
 Number of shares m 41.3
 Free float % 90.0
 Daily turnover shares 305,568

NEXT EVENTS

Rel. Sector +

POTASH BECOMING THE NEW WHITE GOLD?

After a one-on-one with the company management, we are becoming much more positive on K+S earnings trend in 2008e and the coming years. The main reason is the very favorable supply/demand balance in potash and the high visibility regarding new potash capacity coming on stream in the next few years. Based on 50% higher potash prices on average, and assuming only slightly higher energy and transportation costs, we have upgraded adjusted EPS07e by 14.8%, followed by roughly 70% in FY08e and FY09e. Accordingly, our fair value increased from €130 to €170. However, as the valuation of K+S already achieved demanding levels, e.g. PER09e 14.8 and EV/EBITDA09e 8.5, we maintain our neutral rating.

POTASH PRICES INCREASES IN ALL REGIONS

In our meeting with Joachim Felker, the responsible management board member for the fertilizer business, we discussed the impact of the previously announced price increases as well as the announcements which will come after the finalization of talks between Canpotex and the Chinese fertilizer import authorities. We expect the global price level for potash to increase from US\$250 per t in FY07 to around US\$380 per t in FY08e, and US\$400 per t in FY09e. Given a potash production of 6.3m t p.a. pure potash (8.0 m .t. on a gross basis) and by implying a price increase of €100-€120 per t, the operating profit in the potash division will nearly double in FY08e (from previously €337.7m to €619.1m). In the other divisions, we have applied some minor adjustments to reflect slight changes in business conditions, e.g. milder than expected winter in the de-icing salt business.

NEUTRAL – BULL-BEAR-TRIGGER

Bull: We clearly see the opportunity for further price increases for potash in the coming years, as the tightness in supply caused by strong demand out of Asia, and only limited capacity increases, will continue. However, the question remains as to how far food prices, esp. in emerging countries, can grow. Bear: A global recession as well as strongly rising food prices might change food habits in emerging countries, esp. China, which will lower global fertilizer demand and will put a cap on potash prices.

KEY CHANGES			
EBT %	07e: -118.6	08e: +56.3	
EPS %	07e: -10.5	08e: +69.0	
FV %		+30.8	

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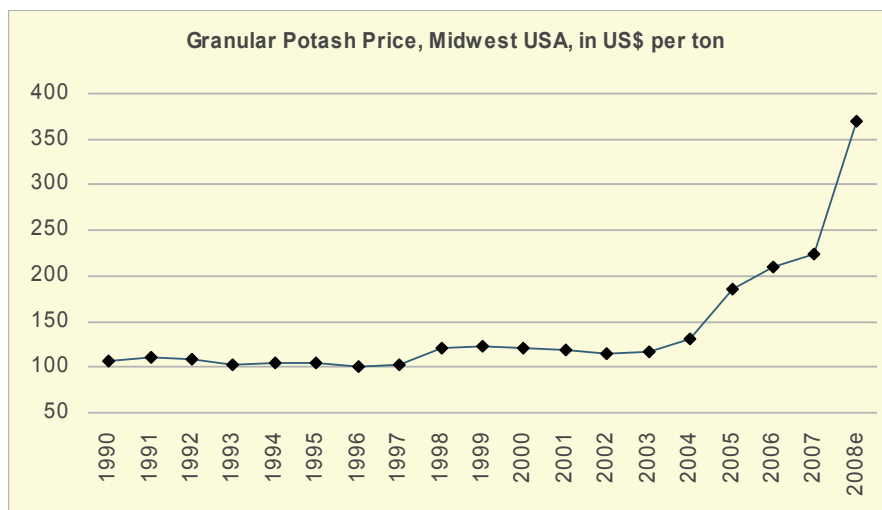
KEY DATA					
€ (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales m	2,815.7	2,957.7	3,272.4	3,897.0	4,122.0
EBIT m	241.8	276.3	280.2	656.3	696.9
Net profit m	174.4	270.8	-36.5	448.8	484.6
Oper. CF m	173.0	107.7	315.1	389.7	562.5
Adj. EPS	3.81	5.29	3.92	10.89	11.75
Dividend	1.80	2.00	2.20	2.40	2.59
PER	12.4	12.2	27.3	16.0	14.8
Div. yield %	2.7	2.8	1.9	1.3	1.4
EV/EBITDA	5.3	7.6	11.5	9.4	8.5
Price to book	2.1	2.4	4.4	5.3	4.1
EBIT margin %	8.6	9.3	8.6	16.8	16.9
ROCE %	16.2	14.2	14.1	31.5	33.2
Sust. FCF yield %	14.2	17.0	9.7	7.3	10.0
EPS CAGR 06-09e: 31 %				ROE: 07e: 15 %	Eq. ratio 07e: 34 %

High visibility in potash in coming years

Since it takes some five years to ramp up a new greenfields plant for potash, we expect escalated earnings levels at K+S to remain at least for a few years. However, the significantly higher profitability in this segment will clearly bring new mining projects, in a mid term view, to the agenda, e.g. the Rio Colorado project of Rio Tinto in Argentina or the Wolgakali project of the Russian company EuroChem. We have, therefore, not changed our terminal value assumptions in our DCF model.

Potash price on the way to the sky.....

After several rounds of price increase announcements, global potash prices have reached new heights. In the Asian market (e.g. Thailand/Taiwan, standard grade, cfr), we see price indications of around US\$500 – 550 per t, up from US\$220 per t one year earlier. Also in Europe, potash prices are strongly rising. At the beginning of January 2008, prices announcements for standard grades of around €100 per t will catapult the price level to around €280 per t. Please keep in mind that this price level is only fixed for 6 months, until end of June 2008, which will provide, under positive circumstances, further upside. The following charts provide an overview of the prices in Asia, Latin America, and Northwest Europe.



Source: Mosaic, Green fields, Oppenheim Research

.....however, energy costs are also rising

Unfortunately, not only the potash price is skyrocketing, but also energy costs and other costs. This means the full impact of higher potash pricing on the EBIT line in the P&L will be slightly lower. K+S assumes that energy prices in FY08e will rise by approx. 20-25%. The negative impact from globally higher freight rates will be somewhat limited, as e.g. K+S negotiated in 2006 a 3 years contract with much lower rates than currently paid on the ship routes to Latin America (main market here for K+S is Brazil, where K+S is benefiting from a logistics advantage compared to the Canadian and US producers, PCs and Mosaic).

China pricing negotiations of high importance for the global potash market

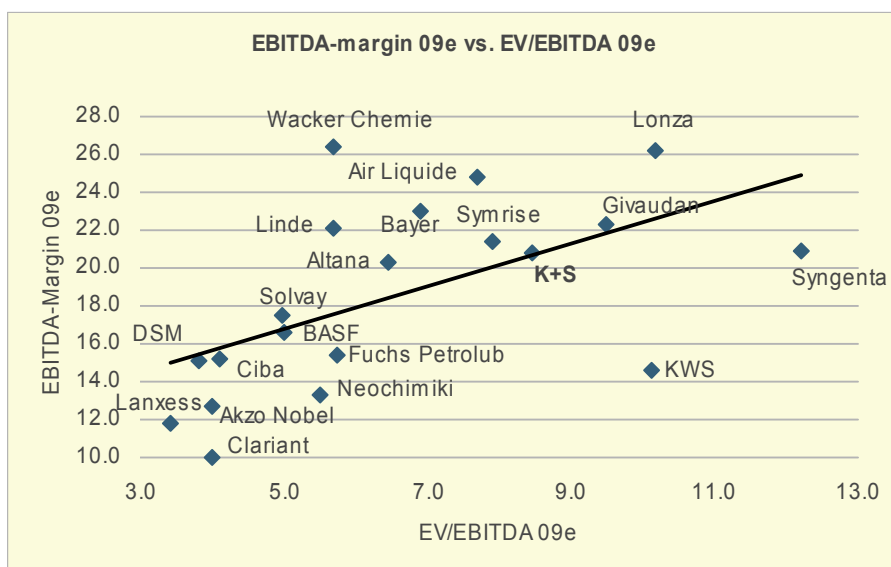
As a result of favorable freight rates, which can be negotiated for container supplies from Europe to China, K+S is currently delivering around 1 m t. potash per annum to China. So roughly speaking, China is not a very important market for K+S (only 12% of K+S potash production is geared towards China), but there is a strong signaling function of the price negotiations between the Chinese fertilizer import authorities, like Sinofert or Sinochem, and the potash suppliers from Canada (Canpotex being the main export association) and Russia (IPC and BPC as main exporting associations), as well as increases and global pricing levels. We see the current level of US\$500-550 per m.t. for Chinese imports as very favourable. In China, we do not expect further price increases for contracts between Canpotex, IPC, etc. and the Chinese import authorities, as these contracts normally last one year. But favorable pricing in Asia could result in further price increases in H2 2008 for supplies to Latin America, where K+S should benefit.

Valuation of K+S providing only limited upside

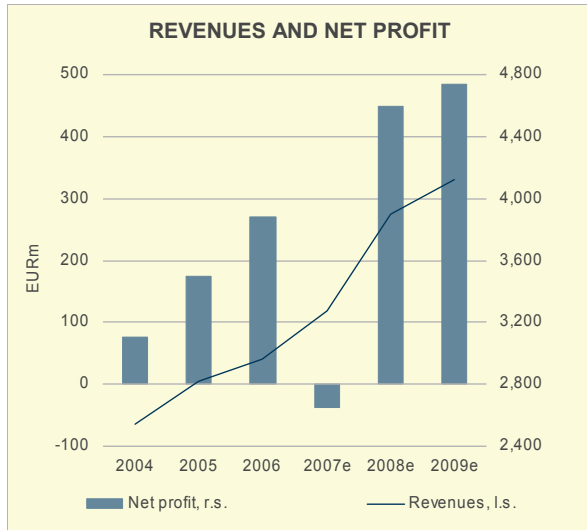
Despite a significant valuation discount of K+S (PER09e: 27%, EV/EBITDA09e: 23%) to other agro peers such as Syngenta and KWS, we are somewhat cautious, especially in the long run, as to whether the temporarily high operating margins of K+S (nearly a doubling of the level of previous years) are sustainable. We therefore rate current valuation level of K+S as fair.

		Price on	EPS	EV/	PER	EBIT	EV/	EBITDA	Dividend	PEG	EV/	
		02/08/2008	CAGR	EBITDA	adj.	Margin	Sales	Margin	yield (%)		EBIT	
			04-08e	09e	09e	09e	09e	09e	09e	04-09e	09e	
Base Chemicals & Hybrids	Akzo Nobel	€	47.79	13.7%	4.0	14.5	8.7	0.5	12.7	2.6	-222.4	5.9
	BASF	€	83.95	4.6%	5.0	11.5	11.7	0.8	16.6	3.8	0.8	7.1
	Bayer	€	54.64	15.1%	6.9	12.8	15.6	1.6	23.0	3.1	0.4	10.1
	Lanxess	€	23.08	n.a.	3.4	7.3	7.4	0.4	11.8	2.6	0.1	5.5
	Solvay	€	80.83	26.5%	5.0	8.4	11.7	0.9	17.5	2.8	0.8	12.6
Average			15.0%	4.9	10.9	11.0	0.8	16.3	3.0	0.5	8.2	
Industrial Gases	Air Liquide	€	90.02	11.7%	7.7	15.5	15.4	1.9	24.8	2.6	1.2	12.4
	Linde	€	83.80	14.1%	5.7	12.9	13.0	1.3	22.1	2.0	0.5	9.6
Average			12.9%	6.7	14.2	14.2	1.6	23.5	2.3	0.9	11.0	
Specialty Chemicals	Altana	€	15.46	3.0%	6.5	14.2	14.6	1.3	20.3	2.1	-0.8	9.0
	CibaSC	CHF	42.64	11.7%	3.8	6.6	10.1	0.6	15.1	7.0	1.6	5.8
	Clariant	CHF	8.25	10.0%	4.0	5.0	6.9	0.4	10.0	3.0	0.4	5.8
	DSM	€	26.94	5.7%	4.1	8.3	9.8	0.6	15.2	3.9	0.5	6.4
	Fuchs Petrolub	€	54.60	15.6%	5.7	10.6	13.7	0.9	15.4	2.2	0.6	6.4
	Givaudan	CHF	993.50	8.3%	9.5	11.8	14.1	2.1	22.3	2.2	0.9	15.0
	Lonza	CHF	138.80	20.6%	10.2	16.2	17.5	2.7	26.2	1.6	0.7	15.3
	Neochimiki	€	17.44	15.6%	5.5	8.5	10.8	0.7	13.3	1.9	0.1	6.8
	Symrise	€	16.20	15.6%	7.9	12.3	16.4	1.7	21.4	0.0	0.2	10.3
	Wacker Chemie	€	131.00	27.7%	5.7	11.8	17.5	1.5	26.4	2.2	0.1	8.6
Average			13.4%	6.3	10.5	13.1	1.3	18.5	2.6	0.4	8.9	
Agrochemicals & Fertilizers	K+S	€	173.74	17.1%	8.5	14.8	16.9	1.8	20.8	1.4	0.3	10.5
	KWS	€	138.74	4.7%	10.1	20.5	11.9	1.5	14.6	1.2	2.1	12.4
	Syngenta	US\$	255.15	12.6%	12.0	18.8	16.8	2.5	20.9	1.7	1.0	14.9
Average			11.5%	10.2	18.0	15.2	1.9	18.8	1.4	1.2	12.6	
Chemical Sector Average				13.2%	7.0	13.4	13.4	1.4	19.3	2.3	0.8	10.2

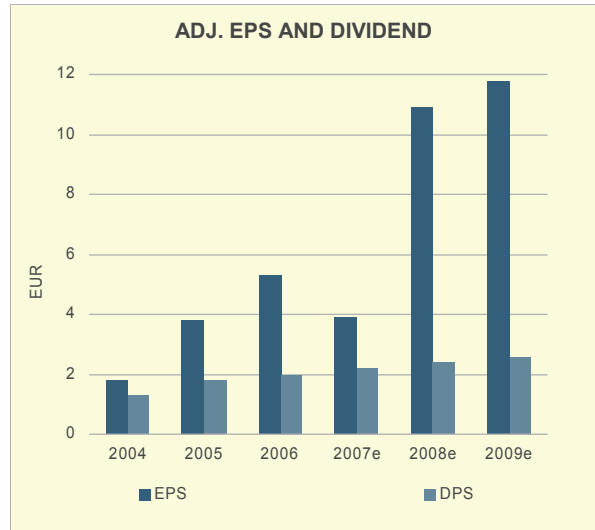
Source: Oppenheim Research



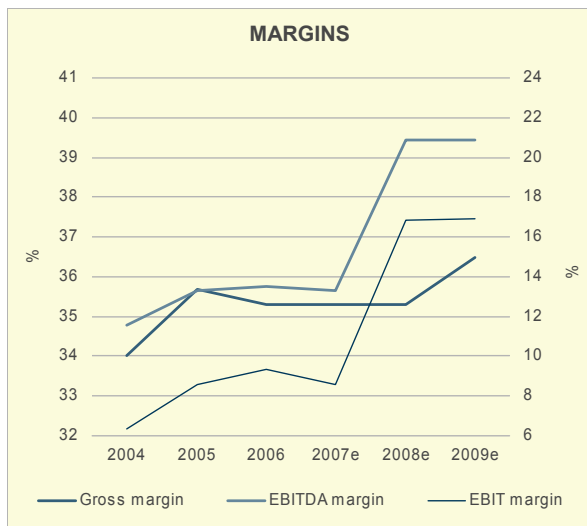
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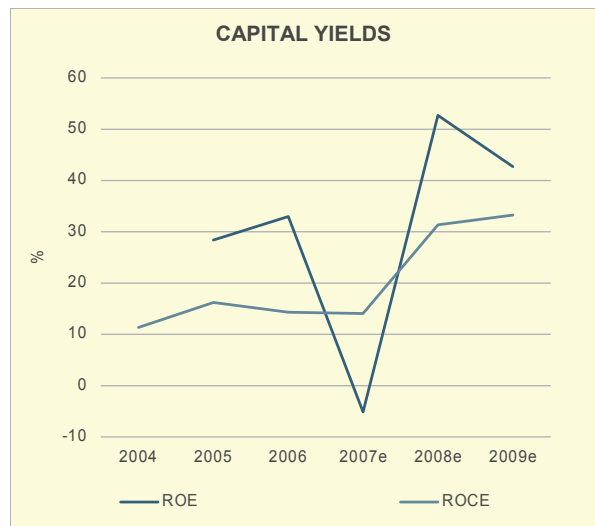
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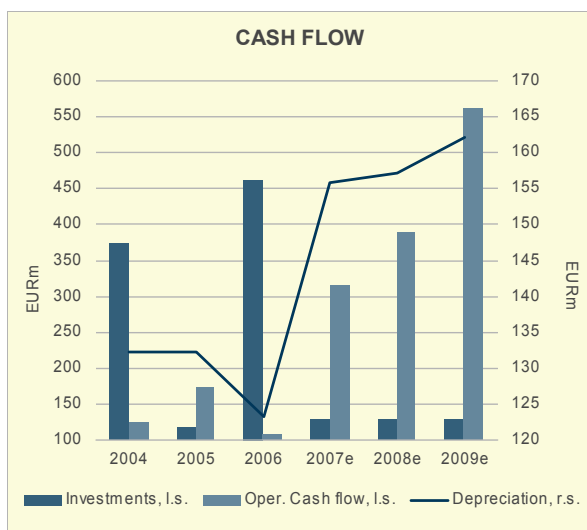
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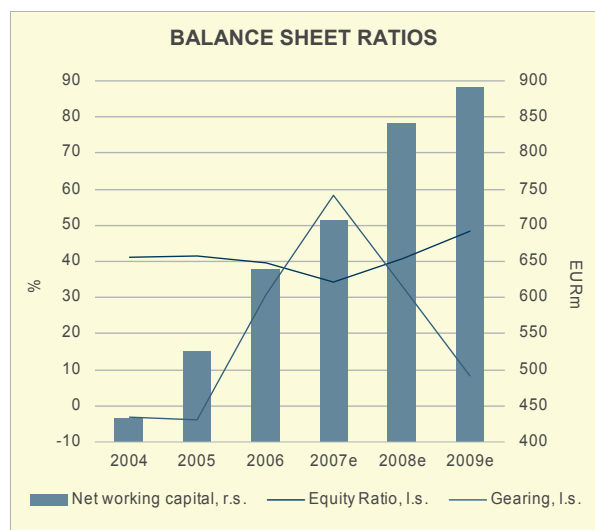
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Source: Oppenheim Research

K+S - P&L (Cost of Sales)					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	2,815.7	2,957.7	3,272.4	3,897.0	4,122.0
Cost of goods sold	-1,811.2	-1,913.9	-2,117.5	-2,521.7	-2,617.5
Gross profit	1,004.5	1,043.8	1,154.9	1,375.3	1,504.5
Selling costs	-673.0	-728.1	-805.6	-959.4	-1,014.7
Administrative costs	-71.7	-82.1	-90.8	-108.1	-114.4
R&D costs	-13.0	-13.8	-15.3	-18.2	-19.2
Other operating income/expenses (net)	-5.0	56.4	37.0	366.7	340.7
EBITDA	374.0	399.4	435.9	813.5	859.0
EBIT	241.8	276.3	280.2	656.3	696.9
Interest result	6.4	-5.5	-39.2	-36.0	-36.0
Other Financial income / expenses	2.3	69.0	-304.1	-8.3	-8.3
Financial result	17.8	65.2	-334.5	-32.8	-32.8
Participation result	9.1	1.8	8.8	11.5	11.5
Profit or loss on ordinary activities	259.6	341.5	-54.3	623.5	664.1
EBT	259.6	341.5	-54.3	623.5	664.1
Taxes	-85.1	-70.3	17.9	-174.6	-179.3
Profit / loss for the year (cont. operations)	174.5	271.2	-36.4	448.9	484.8
Minority	-0.0	-0.4	-0.1	-0.2	-0.2
Net profit	174.4	270.8	-36.5	448.8	484.6
+ /- Net profit adjustments	-13.1	-52.7	198.2	0.0	0.0
Adjusted net profit	161.3	218.1	161.7	448.8	484.6
Key ratios and numbers					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	12.4	12.2	27.3	16.0	14.8
P/BV	2.1	2.4	4.4	5.3	4.1
Dividend yield %	2.7	2.8	1.9	1.3	1.4
EV/Sales	0.7	1.0	1.5	2.0	1.8
EV/EBITDA	5.3	7.6	11.5	9.4	8.5
Sustainable FCF yield %	14.2	17.0	9.7	7.3	10.0
Data per share					
Weighted avg. number of shares	42.31	41.24	41.25	41.23	41.23
EPS (reported)	4.12	6.57	-0.89	10.89	11.75
adj. EPS	3.81	5.29	3.92	10.89	11.75
Dividend	1.80	2.00	2.20	2.40	2.59
Book value per share	22.27	27.25	24.36	33.06	42.41
Sustainable FCFPS	7.0	14.0	3.6	12.8	17.0
Growth rates %					
Sales	10.9	5.0	10.6	19.1	5.8
EBITDA	27.7	6.8	9.1	86.6	5.6
EBIT	50.6	14.2	1.4	134.2	6.2
Net profit	126.1	55.2	nm	nm	8.0
adj. EPS	110.1	38.7	-25.9	177.8	8.0
Margins %					
Gross	35.7	35.3	35.3	35.3	36.5
EBITDA	13.3	13.5	13.3	20.9	20.8
EBIT	8.6	9.3	8.6	16.8	16.9
Net profit	6.2	9.2	-1.1	11.5	11.8
Expense ratios %					
Personnel cost to sales	23.8	22.4	22.4	22.4	22.4
Cost of material to sales	49.3	48.0	48.0	48.0	48.0
R&D to sales	0.5	0.5	0.5	0.5	0.5
Depreciation to sales (Cost of sales)	4.7	4.2	4.8	4.0	3.9
Tax rate	32.8	20.6	33.0	28.0	27.0
Other ratios					
EVA @ SOP	88.6	53.7	111.8	0.0	0.0
Interest cover	-75.6	-25.9	-4.0	-8.1	-8.6

K+S - Cash Flow Statement					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Cash flow from operating activities					
EBIT	241.8	276.3	280.2	656.3	696.9
Depreciation / amortization	132.2	123.2	155.7	157.2	162.2
Change in other provisions	30.3	-33.1	-33.0	-39.3	-41.6
Non Cash Items	38.1	71.3	0.0	0.0	0.0
Cash taxes	-85.1	-70.3	17.9	-174.6	-179.3
Change in other assets & liabilities	-92.1	-146.3	-37.8	-75.0	-27.0
Change in Working Capital	-92.2	-113.4	-68.0	-134.9	-48.6
Total	173.0	107.7	315.1	389.7	562.5
Cash flow from investing activities					
Investments in tangible assets	-107.2	-405.8	-170.0	-170.0	-170.0
Investments in intangible assets	-15.7	-114.5	-15.8	-15.8	-15.8
Investments in financial assets	5.2	58.3	58.3	58.3	58.3
Changes in other L.T. assets / acquisitions	-0.2	-0.4	-0.4	-0.4	-0.4
Total	-117.8	-462.4	-127.8	-127.8	-127.8
Cash flow from financing activities					
Net financial result / income from associates	17.8	65.2	-334.5	-32.8	-32.8
Change in financial liabilities	-28.2	341.2	229.9	-2.6	-82.8
Change in shareholders Equity	-57.7	-13.4	-0.1	-0.2	-0.2
Dividend payments	-55.3	-76.2	-82.5	-90.8	-98.9
Other/consolidation/currency	12.2	8.9	0.0	0.0	0.0
Total	-111.2	325.8	-187.2	-126.3	-214.7
Change in cash and cash equivalents					
	-56.0	-28.9	0.0	135.6	220.0
Cash and cash equivalents (begin. of period)	91.5	74.0	64.4	64.4	200.0
Cash and cash equivalents (end of period)	74.0	64.4	64.4	200.0	420.0
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Free cash flow EURm					
Free cash flow to entity	67.4	-345.8	187.2	261.8	434.7
Sustainable free cash flow to entity	280.2	513.6	485.1	559.7	732.5
Sustainable free cash flow to shareholder	297.9	578.8	150.6	526.9	699.7
Data per share					
FCFPS	1.6	-8.4	4.5	6.4	10.5
Sustainable FCFPS	7.0	14.0	3.6	12.8	17.0
Yields %					
Free cash flow yield	4.3	-9.3	-2.9	3.0	5.5
Sustainable FCF yield %	14.2	17.0	9.7	7.3	10.0
Ratios					
Operating cash flow / capex	161.4	26.5	185.3	229.2	330.9
Operating cash flow / avg. net financial pos.	-0.1	0.7	0.7	0.7	0.3
Maintenance capex / revenues	-3.8	-13.7	-5.2	-4.4	-4.1
Depreciation / capex %	107.6	23.7	83.8	84.6	87.3
Net working capital / sales	18.7	21.6	21.6	21.6	21.6

K+S - Balance sheet					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Assets					
Current assets	1,238.2	1,476.4	1,620.6	2,042.2	2,365.3
Cash and cash equivalents	74.0	64.4	64.4	200.0	420.0
Marketable securities	76.0	57.3	57.3	57.3	57.3
Trade receivable	598.1	629.5	696.5	829.4	877.3
Other receivables	208.7	355.0	392.8	467.8	494.8
Inventories	281.3	370.2	409.5	487.7	515.9
Fixed assets	962.7	1,301.9	1,274.0	1,244.6	1,210.2
Tangible assets	791.9	1,082.6	1,107.3	1,129.9	1,149.1
thereof Property, plant + equipment (PPE)	791.9	1,082.6	1,107.7	1,129.9	1,149.5
Intangible assets	82.2	189.0	194.8	201.2	206.0
thereof goodwill	13.9	102.9	103.4	103.9	104.4
Financial assets	88.5	30.2	-28.1	-86.5	-144.8
Prepaid expenses , deferred taxes	58.1	52.6	52.6	52.6	52.6
Total assets	2,259.1	2,830.9	2,947.2	3,339.4	3,628.1
Liabilities and Shareholders' Equity					
Total liabilities	1,316.9	1,706.6	1,941.8	1,976.1	1,879.1
Short-term liabilities	401.1	601.2	784.7	859.3	834.5
Trade payables	354.0	360.8	399.2	475.4	502.8
Short-term financial debt	23.5	234.0	379.0	377.4	325.2
Other short-term liabilities	23.6	6.5	6.5	6.5	6.5
Long-term liabilities	915.8	1,105.4	1,157.1	1,116.8	1,044.7
Long-term financial debt	6.0	136.8	221.6	220.6	190.1
Provisions	836.8	803.8	770.7	731.4	689.8
thereof pension provisions	171.7	128.2	80.1	22.7	-37.9
Deferred income & deferred tax liabilities	13.7	79.5	79.5	79.5	79.5
Other long-term liabilities	59.3	85.3	85.3	85.3	85.3
Minority interest	0.0	0.6	0.6	0.6	0.6
Shareholders' equity	942.1	1,123.7	1,004.7	1,362.7	1,748.4
Capital subscribed	108.8	108.8	105.5	105.4	105.4
Reserves	833.3	1,014.9	899.3	1,257.3	1,643.0
thereof retained earnings	833.3	1,014.9	899.3	1,257.3	1,643.0
Total equity , liabilities	2,259.1	2,830.9	2,947.2	3,339.4	3,628.1
Ratios and Key Figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Balance sheet structure					
Net working capital	525.5	638.9	706.9	841.8	890.4
Net financial debt	-37.3	347.0	587.1	449.9	144.8
Capital employed (CE)	1,488.2	1,940.8	1,980.8	2,086.4	2,100.6
Enterprise value (EV)	1,968.1	3,022.3	5,006.5	7,614.9	7,309.8
Ratios					
Current assets %	54.8	52.2	55.0	61.2	65.2
Long-term assets %	42.6	46.0	43.2	37.3	33.4
Equity ratio %	41.7	39.7	34.1	40.8	48.2
Gearing %	-4.0	30.9	58.4	33.0	8.3
Net financial debt / EBITDA	-0.1	0.9	1.3	0.6	0.2
EV / CE	1.3	1.6	2.5	3.6	3.5
ROCE %	16.2	14.2	14.1	31.5	33.2
ROE %	17.7	21.1	15.2	37.9	31.2

K+S - Divisional Breakdown					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	2,815.7	2,957.7	3,272.4	3,897.0	4,122.0
Potash and Magnesium Products	1,197.2	1,238.9	1,371.7	1,905.0	2,070.0
COMPO	541.7	552.4	614.9	625.0	645.0
fertiva	568.3	556.2	628.5	650.0	660.0
Salt	398.0	485.8	531.2	585.0	610.0
Waste Management	56.0	69.4	71.9	73.0	76.0
Services and Trading	54.5	55.0	54.2	59.0	61.0
Growth %					
Potash and Magnesium Products	11.5	3.5	10.7	38.9	8.7
COMPO	3.0	2.0	11.3	1.6	3.2
fertiva	10.7	-2.1	13.0	3.4	1.5
Salt	11.2	22.1	9.3	10.1	4.3
Waste Management	-5.4	23.9	3.6	1.5	4.1
Services and Trading	5.8	0.9	-1.5	8.9	3.4
EBITDA	374.0	399.4	435.9	813.5	859.0
Potash and Magnesium Products		235.7	254.2	619.1	621.0
COMPO		39.4	42.0	42.7	51.0
fertiva		17.1	21.8	24.4	20.5
Salt		92.0	72.7	96.5	129.9
Waste Management		16.7	14.7	14.4	16.0
Services and Trading		31.3	34.5	34.5	35.8
Others		-31.1	-35.3	-40.0	-40.0
EBITDA Margin %					
Potash and Magnesium Products		19.0	18.5	32.5	30.0
COMPO		7.1	6.8	6.8	7.9
fertiva		3.1	3.5	3.7	3.1
Salt		18.9	13.7	16.5	21.3
Waste Management		24.1	20.4	19.8	21.0
Services and Trading		56.9	63.7	58.4	58.6

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