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### New Recommendation: **CF Industries** (CF: \$12.16) Oct. 19, 2005

**Position: Buy**

**Target: \$18**

\$000	Q3 05e	Q4 05e	2004	2005E	2006E	2007E
Revs	326,694	478,593	1,650,652	2,067,918	2,162,086	1,990,376
EPS	0.27	0.19	1.40	1.68	1.23	0.90
Y/Y	-5.2%	n/a	250%	11%	-27%	-26%
PE	n/a	n/a	8.7	7.3	9.9	13.5
PSR	n/a	n/a	0.32	0.25	0.24	0.26
Cons.	n/a	n/a	n/a	1.56	1.00	0.71

**Shares Out: 55.1M**

**Market Cap: \$670M**

**FYE: Dec**

Summary: CF Industries (CF) completed its IPO on August 10, 2005, when the company converted from an agricultural cooperative to a publicly traded corporation. CF sold 47.4M new shares at \$16 with all cash proceeds going to the

previous coop/owners. In fact, just two of the eight former owners are holding CF shares today. The company emerged with a debt free balance sheet and has an estimated \$130M in cash at 9/30/05.

We view CF as being significantly undervalued, as the shares trade at just 2.0x 2005 EBITDA compared to 3-5x for its comparables. CF also trades at a substantial discount to our estimated private market value of \$23 which is driven by the company's valuable and scarce phosphate rock reserves as well as its strategically located distribution and marketing system that stretches along the Mississippi River. CF also has \$2.70 per share in net cash and generates substantial free cash flow. We discuss CF's valuation in more detail below.

CF is one of the largest producers of nitrogen fertilizers in North America. It provided 22% of all nitrogen used by commercial farmers in the U.S. in 2004. Its plant in Donaldsonville, LA (the largest in N.A.) produces ammonia, urea and urea ammonium nitrate (UAN) which are used by commercial farmers to promote the health and growth of their crops. CF also operates and owns 66% of the largest nitrogen fertilizer complex in Canada which has access to lower cost natural gas and sells to attractive Western Canadian and Northern U.S. markets.

CF also produces ammonium phosphate fertilizer from an integrated complex in central Florida, where it owns substantial phosphate rock reserves as well as a specialized terminal and warehouse operation at the Port of Tampa. 35% of CF's tonnage is exported to Latin America and Europe. The phosphate business, which accounts for about 20% of CF's EBITDA, is in the midst of a cyclical upturn and we think investors might be overlooking the attractiveness of these operations. We estimate that the phosphate assets may have a strategic value that nearly equals CF's current enterprise value.

As a cooperative that was owned and governed by its customers, CF's mandate was to assure the adequate and timely supply of product at favorable terms and prices. With over 80% of its sales going to these owner/customers, CF was inefficient and typically operated at a loss. However, in 2003 CF hired new management and adopted a business model that established financial profit as the principal objective. Today, nearly half of CF's sales are to unaffiliated customers – many of which it was previously prohibited from serving – and management believes that there are numerous profitable potential customers it has yet to pursue. CF has signed 3-5 year arms-length agreements with all of its former owners and offers the same terms to all new customers. These agreements now account for more than 50% of sales. Headcount has also been reduced by 10% and asset utilization rates have increased markedly.

CF shares have declined along with other domestic fertilizer producers following a recent surge in U.S. natural gas prices to record levels – the current price of about \$13/mmBTU compares to an average price of \$6 in 2004. Since natural gas is the primary feedstock for ammonia, which in turn is the building block of all nitrogen fertilizers, gas prices present the greatest risk to the CF investment case. In fact, at today's price, natural gas comprises about 94% of the cash costs to produce ammonia in North America. This puts U.S. producers such as CF at a huge manufacturing cost disadvantage to many foreign producers that have access to abundant supplies of inexpensive stranded gas. However, as we detail in this report, we think CF has a number of competitive advantages that should allow it to remain profitable regardless of gas prices.

Unlike its days as a co-op, CF now limits its exposure to volatile natural gas prices through forward sales contracts, which are typically signed months in advance of delivery and allows CF to lock in a guaranteed profit. Furthermore, the customer pays 25% of the contract upfront, which creates improved liquidity for CF. Year to date, forward contracts have accounted for about two thirds of CF's nitrogen sales and, while we expect some hesitancy on the part of farmers given the record gas prices, forward contracts should continue to account for a meaningful portion of CF's business.

One of the most attractive attributes of CF is its extensive nitrogen distribution infrastructure, which stretches from its main complex in Louisiana up the Mississippi River and into the heart of the Midwest Corn Belt where its end customers are situated and where a large portion of America's corn is grown. CF's ability to deliver substantial amounts of fertilizer in a matter of days is critical to farmers who need to plant their crops during a very small window of time. Its assets include a deep-water docking facility, dozens of specialized terminals, tankers and barges; specialized handling equipment; access to ammonia and natural gas pipelines; and access to railroads, river and trucking routes. This network acts as a barrier to entry specifically with regard to ammonia and UAN (nearly 50% of CF's revenues combined and sold mostly in the U.S.) which are volatile substances that require specialized storage and transport. As evidence of its value, CF is able to garner a large price premium for fertilizer sold in the Mid Corn Belt compared to product sold in the U.S. Gulf – about \$80/ton on average. Furthermore, this network would be very costly and would require many years to replicate. We think these unique assets could make CF an attractive acquisition target for a large foreign fertilizer producer.

The fertilizer business is highly cyclical and capital intensive. Historically, the industry has added uneconomic capacity near the tops of cycles when prices were high and profits strong which would sow the seeds of the next downturn. However, several long-term trends appear to bode well for CF. Global fertilizer

demand has been steady for the past 40 years, increasing at an annual rate of about 3% over that timeframe. Demand is driven by grain production which is supported by population growth, increased meat consumption, and declining arable land per capita. In fact, since 1970, arable land per capita worldwide has declined by 40%. Increasing use of fertilizers has driven higher crop yields and thus has enabled grain production to keep pace with demand. In addition, since nitrogen does not remain in the soil and must be replaced each year, the demand for nitrogen should continue to increase at a 2-3% pace in line with grain production and the growing populations in China, India and many other emerging countries.

CF's production facilities enable it to produce downstream products such as urea and UAN in addition to ammonia and to seamlessly switch between all three products. CF also has the flexibility to purchase these products on the import market when economics dictate it should. In fact, we think the company is currently purchasing ammonia at the U.S. Gulf price, converting it to UAN and urea, and then selling it at a premium in the Cornbelt. This flexibility should enable CF to maintain profitability during the current difficult environment. Longer term, CF should operate more as a value added distributor than as a manufacturer, although we think the company should eventually be acquired.

Management is currently studying a potential JV with Terra Industries and ANSA McAL to build a world-scale ammonia and UAN facility in Trinidad where it would have access to extremely cheap supplies of stranded natural gas. CF is also studying the use of an alternative feedstock such as petroleum coke which has been proven to deliver at a natural gas equivalent cost of less than \$2/mmBTU. CF might also buy low-cost foreign production capabilities.

Considering that the fertilizer industry is closer to a cycle peak than to a cycle trough, valuing CF is somewhat of a challenge. However, given the recent decline in the share price, CF appears to present an attractive risk-reward investment. First of all, CF has a tangible book value of \$13.50 and has no debt. Net cash per share is \$2.70 and we estimate it could reach \$5 per share by the end of 2006. CF is also a consistent free cash generator as its depreciation/depletion expense is greater than its cap ex requirements. We estimate free cash flow of \$2.81, \$2.83, and \$2.15 in 2005, 2006 and 2007 respectively. Our normalized free cash flow estimate is \$1.80. If we apply a 10 multiple to this estimate, we arrive at a share price of \$18. If we apply a multiple of 4 to our estimated peak EBITDA of \$315M, we arrive at a share price of \$22.50.

We also view CF as being an attractive acquisition candidate due to its multitude of undervalued assets. In fact, our estimate of CF's private market value to a strategic acquirer is \$23 which is derived from the following asset values: The U.S. distribution network and Donaldsonville complex at \$6.25; the phosphate

reserves and integrated complex at \$12; the Canadian facilities at \$2.25; cash and other assets less environmental and pension liabilities at \$2.50. Our initial one year target is \$18 which implies a multiple of 2.4x 2005 EBITDA of \$256M.

#### Background:

CF Industries, based in Long Grove, Illinois was founded in 1946 as a fertilizer brokerage by a group of regional agricultural cooperatives seeking to pool their purchasing power. During the 1960s and 1970s CF expanded its distribution capabilities and diversified into fertilizer manufacturing through numerous acquisitions of existing plants and facilities. In the following decades, CF spent more than \$2B expanding its production and distribution capabilities.

Through the end of 2002, CF operated as a traditional supply cooperative. Its focus was on providing its owners – which are major distributors of fertilizers – with an assured supply of product. Typically, more than 80% of its annual sales volume was to these owners. Though important, financial performance was subordinate to CF's mandated supply objective. However, in late 2002, the owners of CF reassessed its corporate mission and adopted a new business model that established financial performance as the principal objective. The company is now able to pursue markets and customers and make pricing decisions based solely on maximizing profits. One result of this change has been a shift in the customer mix. CF now gets nearly half its revenue from unaffiliated customers compared to just 20% under its former structure.

CF's new focus, combined with a leadership change in 2003, enabled it to capitalize on improving industry conditions that began in late 2003. As result, the company has earned substantial profits over the past two years. With the recent IPO, the majority of the former owners exchanged their equity in CF for cash proceeds at the IPO price of \$16. Just two of the eight owners maintain a current equity stake in CF which amounts to 14% of the outstanding shares.

#### Discussion:

1. In order for plants to grow and survive, they require certain primary nutrients – particularly nitrogen, phosphate and potassium. While all of these nutrients can be obtained in some part from the soil, they need to be supplemented in varying quantities in order to produce strong, healthy, and high-yielding growth. In fact, the world's food production depends upon supplementing plant nutrients with mineral fertilizers. With a limited amount of land and an increasing population, the available arable land per capita is steadily decreasing. In fact, since 1970, land available for agriculture has decreased from 0.38 hectares per capita to 0.23 hectares – a decline of 40% – and it is expected to decrease further. During that

same period, however, grain production has kept pace with the growth in world population and increasing demand for food. This was made possible only by a substantial increase in crop yields which have been driven by the increased application of mineral fertilizers.

The fertilizer market is a large, global market worth approximately \$71B in revenue and approximately 162M in tons consumed. Grains (corn, wheat, rice) are the largest end-market for fertilizers accounting for about 60% of demand, followed by cash crops (fruits, vegetables, flowers) at 25% of demand. Fertilizer products are also used in various industrial applications. Of the three primary nutrient categories, nitrogen-based fertilizer is the most widely used making up about 60% of the global market (in tons) compared to 24% for phosphate and 16% for potassium. One reason for this is that nitrogen does not remain in the soil – it either gets absorbed by the roots or just washes away – and must be replenished each year. This provides a relatively stable agricultural demand. In fact, according to the International Fertilizer Industry Association (IFA), global agricultural demand for nitrogen fertilizer has increased at a 3.1% annual rate since 1970 with the only significant downturn occurring in the early 1990s following the fall of the Soviet Union. There is no cheap substitute for nitrogen – it is an absolutely essential product for farmers. Our research indicates that demand for nitrogen fertilizer should continue to increase at 2-3% for the foreseeable future.

2. CF produces three different types of nitrogen products which it sells exclusively in the U.S. and western Canada: anhydrous ammonia, urea, and urea ammonium nitrate (UAN). Nitrogen fertilizers account for 77% CF's annual revenue.

The basic building block for all nitrogen-based fertilizers is ammonia (NH<sub>3</sub>) which is derived from the synthesis of nitrogen in the air with hydrogen derived from natural gas. One metric ton of ammonia contains 82% nitrogen and is the most concentrated nitrogen product available. Natural gas is by far the largest cost component of ammonia as it accounts for more than 90% of the cash cost at today's prices. For an efficient producer such as CF, it requires about 33MMBtus of natural gas to produce one metric ton of ammonia. Thus, the price of natural gas is probably the most important variable to CF's profitability.

The direct application of ammonia to the soil is practiced primarily in the U.S. and is not a widely used method in other countries. In the U.S., the Midwest accounts for more than 70% of agricultural ammonia usage where farmers apply it using specialized equipment as it must be injected in either liquid or gaseous form under the soil. It also needs to be applied pre planting – preferably in early spring. Ammonia is a gas at room temperature and needs to be cooled and pressurized to be shipped in liquid form. It can also be volatile to handle. Thus, it requires specialized storage and transport infrastructure including cryogenic tanks, pipelines

and offloading equipment. Most of this infrastructure is owned by a handful of domestic producers (including CF) and is tied into the existing distribution network. This creates a barrier to entry for imported ammonia getting into the Midwest end markets. Evidence of this barrier is the long-standing premium for ammonia sold in the Mid Cornbelt compared to ammonia available for sale in the U.S. Gulf at the Port of New Orleans. In fact, the most recent quotes show this premium to be about \$80 per ton delivered or about 20%. On a global basis, almost all of the ammonia produced is upgraded at the production site to other nitrogen products (urea, UAN) or is used as a feedstock for phosphate fertilizers and industrial products. We estimate CF's sales of ammonia for direct application accounts for roughly 16% of annual revenue.

In addition to selling ammonia directly, CF also upgrades ammonia into two derivative products – urea and UAN. CF produces urea by combining ammonia with carbon dioxide to produce small white granules with a nitrogen content of 46%. Urea is produced in the same complex where the ammonia is made. As a solid dry product, it is easy and safe to handle and ship. Urea is traded globally and serves as the commodity reference product with an important influence on most other nitrogen fertilizer prices. As ammonia is the main feedstock used to produce urea, urea is also significantly affected by the price of natural gas (but to a lesser extent than pure ammonia). Moreover, since a number of foreign countries have access to abundant and relatively cheap sources of natural gas, urea can be produced inexpensively and thus poses a threat to U.S. produced product – especially as it can be easily packed and transported into the interior U.S. via barge, truck and rail. Barring a collapse in the price of natural gas, CF is unlikely to remain competitive by making and selling urea. However, we think it can earn a profit by transporting the product to its end customer in the Midwest Corn Belt. We estimate urea accounts for about 32% of CF's revenue.

CF also produces urea ammonium nitrate (UAN) by combining urea, nitric acid and ammonia. CF is the second largest UAN producer behind Terra Industries. In its final form, UAN is a liquid fertilizer with a nitrogen content of 28-32%. Unlike ammonia, UAN does not need refrigeration or pressurization to be stored and transported. It can also be applied more uniformly and can be mixed with herbicides, pesticides and other nutrients which saves time for the farmer during application. UAN does require specialized equipment for application and is thus used mostly in the U.S. and Europe where the required equipment investments have been made. Furthermore, as the product consists of more than 60% water, it is very expensive to ship on a per ton basis. Thus, any imports of UAN into the U.S. arrive from areas in relatively close proximity such as Latin America. We estimate UAN accounts for 20% of CF's revenue.

3. CF produces its nitrogen-based fertilizers at two facilities. Its main manufacturing complex is located in Donaldsonville, LA and is the largest and most versatile nitrogen facility in North America. It consists of four ammonia plants (2.3M tons capacity), four urea plants (2.6M tons), and two UAN plants (2.7M tons). With multiple plants for each product, CF has the flexibility to vary its product mix and adjust to current market conditions. This is a critical element to CF's profitability in light of the spike in natural gas prices. The LA complex is located near the Henry Hub, the most heavily traded natural gas reference point in North America. It is also served by five gas pipelines ensuring a reliable supply at low transport costs from the Henry Hub. At capacity, the facility consumes more than 80B cubic feet of natural gas per year.

The complex also has three docks capable of loading deep-water vessels with all three nitrogen products and receiving and unloading ocean-going shiploads of product – giving it direct access to global suppliers. The location of the plant at the mouth of the Mississippi River and on the Kaneb ammonia pipeline provides CF with low-cost transportation to its in-market nitrogen terminals and warehouses by barge, pipeline and rail. It also has significant storage capacity which enables CF to withstand temporary shipping disruptions without affecting production. The Donaldsonville, LA facility produces the majority of CF's nitrogen products and serves its core market of ten corn-producing Midwestern states in which CF supplies 30% of the nitrogen fertilizer used by commercial farmers.

The LA facility, which operated at 93% capacity in 2004, operated at just 72% in the recent quarter due largely to scheduled turnarounds. Based on current conditions, however, CF expects this facility to operate at just 50% of capacity on average for the remainder of 2005. To make up the expected gap in production, CF plans to purchase product on the open market, depending on market prices and the relative cost of natural gas. This ability to make or buy gives CF substantial flexibility during periods of high price volatility.

CF also operates and has a 66% economic interest in the largest nitrogen fertilizer complex in Canada. Located in Medicine Hat, Alberta, this facility consists of two world-scale ammonia plants with gross production capacity of 1.3M tons of ammonia and 810,000 tons of urea. It is located near AECO, the main reference point for natural gas in Alberta and has access to two major gas pipelines. The facility also gives CF access to attractive end markets in western Canada and the Northern tier U.S. states. The Canadian facility is owned by Canadian Fertilizers, LTD (CFL), a joint venture between CF (66%) and Westco (34%). Under the JV agreement, CF operates the facility and purchases 66% of its production. Westco has the right to purchase the other 34%. However, CF is obligated to purchase whatever Westco chooses not to buy. Each pays the greater of operating cost or market price for the finished products and profits are

distributed based on the percentage of annual product purchased. CF ships its portion of the Canadian product by truck and rail to its customers and storage facilities in Western Canada and the northern U.S. CF consolidates the Canadian operations with Westco's minority interest appearing on the income statement.

4. Natural gas is the principal feedstock used to produce ammonia, which is the building block for all nitrogen-based fertilizers. CF uses natural gas both as a feedstock and as a fuel to produce ammonia, urea and UAN. Because CF's production is located in the U.S. and Canada, the price of natural gas in North America directly impacts a substantial portion of its operating costs. In fact, in 2004, expenditures on gas comprised 61% of CF's total cost of nitrogen sales and a much higher percentage of its related cash costs.

In recent years, the price of natural gas in North America has been significantly higher than prices in other fertilizer-producing regions, some of which benefit from both abundant supplies and fixed prices. For example, in 2004, the average price of gas at the Henry Hub was \$5.85/mmBTU compared to \$2.30 in Trinidad (off the coast of Venezuela) and about \$1.00 in Russia. Despite this wide price disparity, CF earned record profits in 2004, as global fertilizer demand was strong against a background of tight capacity, and that led to higher product prices. However, since July, gas prices have surged to new record levels and actually passed \$14 in the wake of Hurricane Katrina. The current October contract is trading at \$13.30 with the forward curve not showing much in the way of relief through the important 2005/2006 winter heating season. In table 1, we highlight the implied cash cost to produce ammonia and urea based on the price of natural gas.

Table 1: Implied cash costs

Ammonia cash cost		Urea cash cost	
Natural Gas price/mmBTU	\$13.30	Ammonia price ( \$/mt NH3)	\$467
x gas consumption	33.1	x ammonia use/ton of urea	0.59
gas cost/ ton of ammonia	440	ammonia cost (\$/mt urea)	276
Process gas cost	0	Process gas cost to prod. urea	69
other production costs	27	other production costs	24
Total cash costs/ton	\$467	Total cash costs/ton	\$369
Gas as % of total cash cost	94.2%	Implied gas cost in Urea	260
Transport/terminal costs to Midwest	\$35	+ Process gas cost to prod. urea	69
Total delivered cost	\$502	Total gas cost/ton of urea	329
		Gas as % of total cash cost	89.2%
Current Ammonia Price - U.S. Gulf	\$385	Granular urea price - U.S. Gulf	\$275
		Granular urea price - Mid	
Current Ammonia Price - Cornbelt	\$480	Cornbelt	\$320
Loss per ton	(\$22)	Loss per ton	(\$9)

Since natural gas represents such an overwhelming portion of the cash cost to produce nitrogen fertilizer in North America, it is intuitive that fertilizer prices should have a high correlation to North American gas prices. However, based on the formula for ammonia costs in Table 1 and on historical prices for U.S. natural gas, which tend to be volatile, there are times when the market price for ammonia temporarily falls below the implied cash cost. At today's quoted price for Henry Hub gas, North American producers are losing money on ammonia. However, several factors mitigate this for CF. First, a large percentage of CF's nitrogen sales are based on forward pricing contracts – about 1M tons or 63% of its fertilizer sales in Q3 was booked under its forward program. Moreover, CF receives a large price premium for selling product into the Midwest Cornbelt compared to product that is priced at the U.S. gulf coast. CF's nitrogen infrastructure is also very flexible and enables it to switch between the three end products depending on where relative prices are. More importantly, CF is in a position to constantly analyze a make or buy decision where it could choose to purchase ammonia, UAN and urea on the open market at the port of New Orleans. Given that gas constitutes more than 90% of the cash costs of ammonia production, CF can periodically reduce production without withstanding a substantial deleveraging of fixed costs – especially when compared to the alternative of burning high cost gas to produce unprofitable product.

Judging by our discussions with numerous industry contacts, it appears that CF is purchasing (rather than producing) most of its ammonia from foreign producers at the port of New Orleans, which is not surprising in light of record gas prices. We suspect that CF might be using its Donaldsonville, LA complex to produce urea and UAN and also using a combination of imported ammonia and its Canadian production to sell to farmers for direct application. CF sold 1.4M tons of direct ammonia in 2004, or about 26% of the Midwest market for direct application. We estimate it can get roughly 700,000 tons of ammonia out of its Canadian plant (where gas is typically about \$0.80/ton cheaper) and purchase the remainder on the import market. At current gas prices, we expect CF to purchase most of its total ammonia needs and produce little or none at Donaldsonville. In fact, we question the long-term viability of the LA facility.

In table 1, we showed that the total delivered cost of domestically produced ammonia is uneconomic at today's price of natural gas. However, in table 2, we delineate how CF could purchase ammonia and make a profit. It is only able to accomplish this because of its extensive distribution infrastructure which gives it a substantial competitive advantage in the Midwest Cornbelt. Presently, CF could purchase ammonia from a foreign producer for approximately \$375 per ton at the Port of New Orleans where CF owns one of the deep water ports. We estimate it costs an additional \$10/ton to load it into the terminal. From there, CF has three options by which it could transport the ammonia up the Mississippi River into its core Midwest market: barge, pipeline, or rail. Although the cost of using a barge or pipeline might vary a bit, they are quite similar all else being equal and we assume CF uses a barge in this example. Rail is the most expensive option but it provides added flexibility in case of pipeline or river disruptions. We estimate it would cost CF \$25-\$35 per ton to move the product upriver with an end terminal cost of \$10. Thus the total delivered cost of product would be \$425 per ton compared to the \$502 it would cost CF to make it and deliver it. According to Green Markets, a widely used publication for fertilizer prices and market information, the current quoted price for ammonia in the Midwest Cornbelt is \$480 per ton. This premium over the gulf price is what enables CF to earn a profit on purchased ammonia in its core market for direct application.

Table 2: Economics of CF purchasing ammonia

Current imported ammonia - gulf price (\$/st)	\$375
Terminal cost	10
Transport cost - barge	30
Terminal cost- offload	10
Total cost delivered to Midwest terminal	\$425
Ammonia - current price Mid Cornbelt	\$480
CF profit margin	\$55
% margin	11.5%

In fact, we think this example might be a good indication of CF's future where it will be paid mostly for its ability to store and move product rather than its ability to manufacture nitrogen domestically. In the long run, we think its Donaldsonville complex will serve only to convert purchased ammonia into downstream UAN and perhaps urea. However, at some point it will require rationalization and we think management understands this. In fact, CF is planning a JV in Trinidad with Terra Industries and a local Trinidad company, ANSA McAl. This would include a world scale ammonia and UAN complex capable of sourcing low cost natural gas that could come online by late 2008.

In Trinidad, where there is a massive amount of underwater stranded natural gas, the government keeps the price at an extremely low level in order to spur investment on the island. There are currently ten nitrogen plants in Trinidad and according to our contacts the government is going to approve just three more plants over the next five years. One consultant we contacted showed us plans for a new plant that would use just 29 BTUs of gas per ton of ammonia produced. With access to \$2.00/ton gas and assuming \$30 per ton of non-gas costs and another \$30 for transportation to the U.S. Gulf, the result would be a delivered cost of about \$118/ton. Assuming a construction cost of \$375M and financing at LIBOR +200bp and construction interest – which could add roughly \$70/ton in finance costs – the all in cost would be \$190/ton. That product could be sold to CF today at \$375 for a very attractive profit. Moreover, if CF could own similar production, it would stand to earn a profit far greater than it is earning now. When one compares that \$190 cost to the current cost of \$500/ton to produce ammonia at Donaldsonville it becomes clear that U.S. ammonia production could gradually disappear.

CF is also assessing the feasibility of using alternative feedstock (petroleum coke) at its North American nitrogen facilities. Although we have seen examples of this process resulting in gas-equivalent costs below \$2.00/ton, CF remains in the early planning stages. Furthermore, a switch to petroleum coke would require

expensive process retrofits but this option certainly bears watching. Finally alliances with major importers to use CF's marketing and distribution system are another option for CF to maximize its near term profits.

5. Looking at the demand side, an investor must wonder at what price farmers might begin to reduce fertilizer usage. Particularly in the developed world, the fertilizer cost is quite small compared to the total production cost of grain. We estimate the cost of nitrogen fertilizer to be about 12-15% of the cost to produce a bushel of corn in CF's core Midwest market. This, in addition to the high return on investment of using fertilizer explain why fertilizer is relatively price inelastic and less dependent on the farm economy than other farm inputs such as labor, machinery and energy. That being said, there is still a psychological factor at work in which rapid price spikes could be met with initial hesitancy especially considering that the spring planting season is 4-6 months away. Farmers are also being affected by rising prices for diesel fuel, seeds, herbicides and equipment financing against what are generally low prices for U.S. corn. Thus, farmers could be expected to react to rising nitrogen fertilizer prices in a number of ways. They could cut back on equipment purchases; they could rotate corn crops into soybeans or wheat which use far less nitrogen; they could try to use less fertilizer which would hurt their crop yield; and they could delay their fertilizer purchases late into the winter before deciding to lock in prices. There is evidence that farmers are doing a bit of all of those things. What is most obvious is that they are initially delaying purchases. In fact, for 2006, CF's forward price bookings as of Sept. 30, 2005 stood at just 220,000 tons compared to nearly 900,000 tons at the same time last year. However with fertilizer inventories at very low levels, the farmer may not be able to delay his purchases for too long. We have factored a 12% cutback in nitrogen use into our 2006 forecasts.

Longer term, demand should be driven by grain production which should continue to increase at a 2-3% rate due to the increasing world population and the resulting protein demand in places such as China, India and the rest of the developing world. The increasing use of corn for ethanol production (estimated at 15% of the crop) should also keep the supply/demand equation somewhat tight. World inventories of grain remain at very low levels despite a record crop in 2004/2005 and a near record crop expected for the current year. In fact, the USDA expects the global stocks-to-use ratio to decline to 17.7% of consumption in the summer of 2006. This equates to a 64 day supply and would be the lowest in 35 years. Furthermore, although the large harvests of recent years have kept crop prices low, they are providing the farmer with substantial cash flow and we get the sense that U.S. farmers might be in better shape than is being reported.

6. One of the most attractive parts of the CF story, in our view, is the company's nitrogen distribution infrastructure. CF operates one of the most extensive systems

of nitrogen terminals and warehouses in the U.S. consisting of 20 ammonia terminals, 21 UAN terminals, and 7 dry product warehouses. These facilities are located in the heart of the richest agricultural market in the world – the major grain-producing, fertilizer-consuming region of the Midwestern U.S. These states typically account for nearly 50% of the nitrogen and phosphate fertilizers used by domestic commercial farmers. CF's terminals utilize high-volume handling equipment to maintain short loading times and low product loss rates. For example, its ammonia terminals have been designed to load out their full capacity into trucks in just 10 days, which is important for serving customers during the short time period during which they must fertilize their crops each spring and fall. CF's network is also ideally situated for efficient inbound sourcing via barge, pipeline or rail from its principal supply points. It is located on the Kanab ammonia pipeline – a 2,000 mile long pipeline that transports a large amount of ammonia into the Midwest. CF also owns 6 ammonia river barges and contracts 10 UAN barges and hundreds of rail tank cars. It also has access to major natural gas pipelines.

In a sense, CF literally controls the “last mile” to the end customer which enables it to charge a substantial premium over U.S. Gulf Coast ammonia prices. While this extensive distribution infrastructure gives CF a competitive advantage in the U.S market, it could also make the company an attractive acquisition target. To replicate such a network would be prohibitively costly and would likely take years requiring extensive permitting and construction barriers. Yet here is CF, a publicly traded debt-free company with a depressed valuation and a massive established footprint in the heart of the U.S. Corn Belt – but with no foreign production capacity. Considering that the fertilizer business is a truly global industry and that there are substantial cost advantages to producing nitrogen-based fertilizer in many foreign locations, it would seem logical that a large foreign nitrogen fertilizer producer would be attracted to CF's domestic infrastructure. One logical strategic buyer, in our opinion, would be Yara, the largest fertilizer company in the world. Yara, based in Norway, was spun out of Norsk Hydro and has nitrogen production in a number of regions including Trinidad, Qatar and Europe. Since Yara has a minimal presence in the U.S., it could acquire CF and gain an instant access to and control of a lucrative market for nitrogen fertilizer. (The Midwest accounts for 70% of agricultural ammonia consumption and 40-50% of total nitrogen and phosphate fertilizer consumed in the U.S.). Furthermore, Yara could monetize the phosphate operations which could be extremely valuable to a company such as Mosaic, the recent combination of IMC Global and Cargill Crop Nutrition, and which is the largest producer of phosphate fertilizer.

We estimate the replacement value of CF's nitrogen distribution assets to be \$250M-\$300M or about \$5 per CF share based on established costs of similar assets. However, to a strategic buyer looking for access to the valuable Midwest corn markets, we think the value would be in the range of \$300M-\$400M or \$6-\$7

per share. This by itself represents more than 70% of CF's current enterprise value. Of course, this is an estimate and it assumes that the distribution assets could be easily separated from CF. We are simply attempting to highlight the intrinsic value of the company relative to its current market valuation.

7. CF also produces the two principal phosphate fertilizers, diammonium phosphate (DAP) and to a lesser extent monoammonium phosphate (MAP). Phosphate helps plants use water efficiently and aids in photosynthesis. The base raw material for phosphate production is phosphate rock, a soft ore that is mined in deposits that are typically close to the surface. The rock is then reacted with sulfuric acid (made from sulfur) to produce phosphoric acid (wet acid) which is ultimately reacted with ammonia to produce a granular fertilizer (DAP/MAP). CF purchases ammonia and sulfur on the open market for use in its phosphate operation. Because it takes roughly 3.5 tons of phosphate rock to produce 1 ton of phosphoric acid, the major phosphate fertilizer producers are located in countries that have large, high-quality phosphate rock deposits of which there are relatively few. The U.S. is the world's largest producer of phosphoric acid, accounting for 27% of capacity. Not surprisingly, it is also the largest exporter of DAP/MAP – 45% of all U.S. production was exported in 2004.

CF's phosphate fertilizer operations are based in central Florida, where it owns one of the largest integrated ammonium phosphate complexes in the U.S. This complex, based in Plant City, can produce up to 2M tons of ammonium phosphate (DAP & MAP) per year. CF also owns the most recently constructed phosphate rock mine and associated beneficiation plant in the U.S., which can supply its fertilizer complex with all of its rock needs. CF's mine, which stretches nearly 34 square miles, has an estimated 17 years of fully permitted recoverable reserves and an additional 10 years of reserves assuming a planned expansion of the property. Due to onerous regulatory and environmental requirements, it has become increasingly difficult to develop new phosphate rock mines. Those without captive supplies are expected to be at an increasing disadvantage with respect to cost and availability. Thus, as with its nitrogen distribution network, we think CF's phosphate reserves and integrated production complex carry substantial intrinsic value. In fact, after recent consolidation activity, CF is one of just two remaining phosphate suppliers in central Florida. Industry contacts and a number of consultants we spoke with estimated the replacement cost of CF's phosphate mine, reserves and integrated complex and storage facilities at nearly \$1B. Using just 75% of this estimate and subtracting \$100M for our estimate of the present value of future environmental expenditures, we arrive at an intrinsic value of the phosphate business of \$650M or about \$12 per share. If this estimate is accurate, then investors today would be getting the rest of CF (including its cash) for free.

CF's phosphate operations also include an ammonia terminal and storage facility located at the Port of Tampa which includes a 38,000 ton ammonia storage tank and access to a deep-water dock. This facility allows CF to purchase ammonia from international suppliers for use at its Plant City phosphate complex and for resale to other phosphate producers. It is also the only terminal in Tampa that can accommodate the largest fully-loaded ammonia vessels. CF also has a warehouse in Tampa with a deep-water dock and the capacity to store 75,000 tons of phosphate fertilizer. Most of CF's phosphate fertilizer is shipped by truck or rail to its Tampa warehouse where it is loaded on vessels for sale in the export market, to domestic customers, or for transport across the Gulf of Mexico to the Mississippi River and onto barges. CF's DAP/MAP sales were \$377M in 2004 and are on track to do about \$430M this year. We estimate phosphate EBITDA to be about \$61M or 22% of CF's total 2005 adjusted EBITDA.

The phosphate market has been picking up steam in 2005 after lagging the nitrogen market for the past two years. More specifically, DAP has entered a cyclical upturn that could last for the next 2 years, in our opinion. Years of stable supply combined with strong export demand from India, Pakistan and Latin America have absorbed excess capacity. Benchmark selling prices have reached 20-year highs while cash margins are at levels not seen since 1990. We think CF's phosphate business will remain a stable profit generator for at least the next 1-2 years.

8. In 2003, in order to mitigate the increasing volatility of natural gas, CF implemented a forward purchasing program (FPP). Basically, CF books orders with customers at an agreed upon price (set by CF) and within a day it purchases gas futures that expire during the planned production period. Thus, it essentially locks in a profit for virtually all of the contracted tons. In addition, CF receives 25% of the contracted dollar amount upfront which serves to improve the company's liquidity. Management reported that 1M tons, or 63% of CF's fertilizer volume was booked via the FPP in Q3 05 compared to 700,000 tons, or 40% in Q3 04. Furthermore, as of 9/30/05, FPP bookings for Q4 05 stood at 1.1M tons compared to 1.2M in Q4 04. However, current FPP bookings for 2006 are just 220,000 tons compared to 900,000 tons at the same point last year. This is the result of the spike in gas prices which have caused farmers to adopt a wait and see approach to ordering for their spring planting needs. Although this limits visibility for 2006, we expect that as the spring draws closer, farmers should increasingly lock in contracts, especially if there is a temporary decline in gas prices. Should gas prices remain elevated and farmers decide to reduce fertilizer purchases, CF's earnings for 2006 could be at risk of declining more than we forecast.

9. Since 2002, rebounding demand from industry and agriculture combined with limited net capacity additions led to operating rates above 85%, a level that

approaches the scarcity threshold for the global nitrogen market. This resulted in very strong profitability for fertilizer producers in 2004 and the first half of 2005. As a result of high gas prices, many marginal producers have shut down capacity in the U.S. where CF sells more than 85% of its nitrogen fertilizer. In fact, since 1999, an estimated 5M tons or about 30% of U.S. ammonia capacity has been mothballed. U.S. producers are considered to be swing producers due to their relatively unfavorable gas costs. However, in an industry where demand grows annually at 2-3%, such capacity reductions provide somewhat of a floor on global pricing. There is also the perception that prevailing high U.S. gas prices will force U.S. producers to shut down further capacity if new capacity entering the global market exceeds increases in demand. If this occurs, and we expect it will, then nitrogen fertilizer prices could remain at elevated levels for an extended period of time. This would be positive for CF whose end markets are primarily located inland and are somewhat sheltered from import competition at the U.S. Gulf coast ports. Moreover, if CF is being compensated for its storage and distribution capabilities, then higher prices should result in higher dollar profit margins which could be leveraged against its fixed costs.

Barring an unusually large decline in gas prices (say to \$7/mmBTU), it is increasingly likely that U.S. nitrogen production will gradually vanish. This lost capacity should be replaced by new plants in the Middle East, India, Iran, Trinidad and Venezuela. However, this could take time because adding a new plant can take 3-5 years on average and most planning began in the 2002-2003 period. Also global utilization rates are still very high. In fact, the current estimated operating rate of 85% is in reality closer to 100% if one takes into consideration the obsolete and run-down plants. And foreign producers must still meet the rapidly growing demand from Asia. However, with bankers promoting projects to convert cheap stranded gas into urea, we think the foreign supply will continue to at least keep pace with and most likely exceed demand growth over the next 5 years. Also, if global spreads in relative gas prices remain anywhere near today's level, we would expect a substantial amount of urea to find its way to the U.S.

Despite what some fertilizer companies might be hoping for, a new capacity cycle is imminent. That is why it is called a cycle – high prices attract new capacity which leads to lower prices and so on. What is unknown is just how deep the next down cycle will be and also how much of it has already been discounted into CF's market valuation. Judging from the continued tight markets and the likely shuttering of additional North American nitrogen capacity, we think that the next cycle could be far shallower than previous ones. Our forecasts assume annual industry capacity grows at 0.5% - 1.0% above demand growth for the 2006-2008 periods, which could lead to price declines in the latter part of 2006 and early 2007, although prices should then stabilize given the still tight supply/demand situation. If there are any major delays in new projects, which is not an uncommon

occurrence, it could actually cause prices to increase further. In such an environment, CF should be able to remain profitable even at the worst part of the cycle given its strong cash position and flexible manufacturing position. The last industry cycle trough occurred in 2001, when which CF reported EBITDA of negative 14M. However, there were several factors that need to be considered when analyzing those results. In 2001, CF was still a pure co-op and was being run inefficiently. According to management, there has been \$50M in permanent annual cost savings since the last trough resulting from the transition to the new business model. There were also intentional business decisions that penalized EBITDA by another \$25-50M in 2001 alone. Adjusting for these factors, it is easy to see how EBITDA could be comfortably positive during the next cycle trough, which could occur sometime in the 2008-2010 period. Our forecast for trough EBITDA is \$75-\$95M.

10. Before the August IPO, CF was owned by eight separate agricultural entities organized as a cooperative. All but two of these owners sold their entire equity stakes in the IPO as this was likely their only chance for liquidity after decades of ownership. As a co-op, CF's mandate was to assure that the owners had a sufficient supply of fertilizer; profits were a secondary concern. Not surprisingly, CF typically operated at a loss and was run very inefficiently. However, in 2003, the owners replaced the management team and decided to operate the company in a way that would maximize profits. In the past two years, new management has been striving to control operating costs, manage working capital, develop business systems and maximize free cash flow. Headcount has decreased by 10%, asset utilization rates are up significantly and inventory turns have gone from 6.8 in 2002 to 9.1 in 2004.

CF management has also been incentivized to produce a higher share price. Upon the IPO, management received options for 2.7M shares at a price of \$16, and an additional 5M shares have been set aside for future incentive programs. As a public company, CF is now free to sell product to anyone, whereas before it was prohibited from targeting certain customers. For example, before 2003, CF supplied fertilizer to its owners without consideration as to geography. However, since then, it has focused on increasing sales to customers located near its plants and distribution facilities where CF believes it has a natural competitive advantage. Today, more than half its sales are to unaffiliated customers.

11. Although CF is in a highly cyclical industry, we are attracted to its unusually strong balance sheet and its ability to generate substantial free cash. Although other co-op structures that have transitioned to public entities have been saddled with debt, CF emerged not only debt free but with a large cash position. As of the end of Q3, CF had a net cash position of \$126M, or about \$2.30 per share. However, we think this might be understated since it purchased large quantities of ammonia on

the open market in Q3 which should generate substantial cash flow as the product is sold. We estimate that net cash at the end of 2005 (net of customer advances) will be \$150M, or \$2.70 per share. CF's tangible book value is \$13.50 per share, 12% above the current share price. Over the 2006-2007 periods, we estimate that CF will generate combined free cash flow of \$260M and could end 2007 with more than \$400M in net cash, or about \$7 per share. Excluding customer advances, we estimate free cash flow per share of \$2.53 and \$2.18 in 2006 and 2007 respectively. Without any pressing capital needs in the near term (aside from the \$55M we estimate it will spend on the Trinidad venture), CF could decide to repurchase a large percentage of its shares, especially considering the depressed valuation. Although a buyback is probably not on the top of its list at present, we believe management should strongly consider that option. CF management has stated that it wants to be prepared for opportunities that could arise in the near future. Whether that means acquisitions or new ventures is uncertain at this point. In our view, the free cash flow and net cash holdings should provide substantial downside protection for investors from the current share price of \$12.

12. There are a number of key risks to owning CF shares. The biggest risk, in our opinion, is the general cycle risk. Should capacity increase at faster rates than we forecast, prices could decline even without a commensurate decline in the price of natural gas. However, CF's balance sheet should enable it to withstand a cyclical downturn and perhaps even capitalize on such a decline. The other major risk is that natural gas prices could remain at elevated levels or spike even further which would drive fertilizer prices even higher. That could trigger a reaction from farmers by which they could cut back significantly on their fertilizer purchases by either rotating into other crops, or simply attempting to get by with less nitrogen. There is also a risk that CF could make a large dilutive acquisition that proves to be unwise, although we think this is an unlikely probability.

### 13. Recent results

The latest reported results are the first half of 2005, which were disclosed in the company's IPO filing. For the 2005 period, net sales increased 29% to \$1.1B due to a 10% increase in tons sold, a 20% increase in nitrogen prices, and a 10% increase in phosphate prices. Gross profit margins increased to 13.9% from 11.9%. Nitrogen margins increased to 15.7% from 13.2% while phosphate margins declined slightly to 7.1% from 7.5% in the 2004 period. SG&A expense increased 25% to \$25.3M due to higher administrative costs in relation to the public offering as well as higher incentive compensation and expenses related to the preparation for the Trinidad project. Net interest expense decreased 71% in the first half of 2005 to \$2.8M as a result of higher cash balances and lower debt outstanding. After subtracting minority interest for the Canadian operations, pretax income was \$107.5M compared to \$56M in 2004. After subtracting income tax expense of 38%

and dividing by 55M shares, EPS was \$1.18 in the first half of 2005 – nearly double the \$0.64 earned in the prior year period. Net cash at 6/30/05 was \$94M. CF is scheduled to report its Q3 results on November 10 2005.

#### 14. Financial assumptions

In developing our assumptions for CF's revenue and earnings, we forecast that peak selling prices and margins in the nitrogen segment will occur in the late 2005 to mid 2006 period. Following that, we expect a decline in nitrogen prices in late 2006 and 2007. However, we expect the market to remain relatively tight compared to the past few cycles as we estimate that significant North American capacity will be shuttered. Thus, while we estimate CF's earnings should decline in 2006 and again in 2007, we don't think the decline will be very severe. We also expect CF to generate substantial free cash flow in 2005, 2006, and 2007. For the phosphate operations, we expect strong pricing of DAP and MAP to continue into 2006 and into the first part of 2007. We think the current cyclical upturn can continue at least through 2007 due to healthy industry supply/demand dynamics.

For Q3 05, we estimate nitrogen and phosphate revenue of \$291M and \$94M respectively for total revenue of \$385M. Our gross margin estimate is 10.7% which is down from the first half margin of 13.9%. This reflects seasonal weakness following the spring planting season as well as the unprecedented spike in natural gas prices during the latter part of the quarter. Our EPS estimate for Q3 05 is \$0.27. For Q4 05, we forecast nitrogen and phosphate revenue of \$482M and \$114M respectively for total revenue of \$596M. This reflects our assumption that farmers will begin to purchase product for the early spring pre-planting period. However, we estimate that farmers will hesitate more than usual to enter into forward pricing contracts and that should hurt CF's near term margins. As a result, our Q4 gross margin declines to 5.9%, reflecting the weak nitrogen environment offset by strong phosphate margins. Thus, EPS drops to \$0.19 in Q4 despite the higher revenue. We do however expect CF to make much of this up in Q1 06 as the planting season approaches.

For 2005, our estimated revenue is approximately \$2B with a gross margin of 11.0%. SG&A expense should come in at 51.8M and other operating expense at \$6M. With \$106M in depreciation and amortization, EBITDA before minority interest should be \$275M. Subtracting interest expense of \$1M and minority interest of \$20M, and applying a 38% tax rate, we arrive at net income of \$92M for 2005 or \$1.68 per share on 55M shares. Our free cash flow estimate net of customer advances is \$2.81 per share.

For 2006, we estimate nitrogen revenue to increase by 3.9% to \$1.7B based on 5% growth in tons sold and a small decline in average selling prices. Our

forecast for nitrogen gross margin is 8.5% or \$143M – a decline from the 2005 margin of \$190M or 11.7%. This reflects our expectation of continued high natural gas prices and a 10-12% reduction in nitrogen usage by farmers. It also reflects a smaller percentage of first half sales under the forward pricing program. Our estimate for 2006 phosphate revenue is \$442M, a 6.8% increase from 2005. This reflects continued strong pricing and increased export demand for DAP and MAP fertilizer. We forecast phosphate gross margin at \$40M or 8.5% of revenue compared to \$39.8M or 9.0% in 2005. This could prove to be conservative depending on how strong the second half of 2006 proves to be.

Our total revenue for 2006 is \$2.16B, an increase of 4.6% from 2005. Total gross margin is \$177.3M or 8.2% of revenue compared to 11.0% in 2005. SG&A expense should decline slightly in 2006 to \$49.6M or 2.3% of revenue compared to \$51.8M in 2005 which included expenses related to the IPO. We estimate other operating expense at \$6M and depreciation and amortization of \$106M. This results in EBITDA of \$227M or 10.5% of sales. This compares to our estimated 2005 EBITDA of \$275M or 13.3% of sales. Next we estimate net interest income of \$2M and minority interest of \$13.5M. Using a 38% tax rate, we arrive at net income of \$63.3M or \$1.23 based on 55.7M shares. This is down from our estimated 2005 EPS of \$1.68 which we believe represents the near term peak for CF. We estimate 2006 operating cash flow at \$225.8M which includes \$30M in customer advances. Subtracting these advances and capital expenditures of \$55M, we arrive at a net free cash flow estimate of \$140.8M or \$2.53 per share. Assuming no dividends or share repurchases, this should result in an ending cash balance of \$290M or \$5.20 per share.

For 2007, we estimate total revenue declines 7.9% to \$1.99B, driven by a 9% decline in nitrogen revenue and flat phosphate revenue. Our gross margin declines to 7.3% as we expect both nitrogen and phosphate prices to decline. Our EBITDA estimate is \$196M or 9.9% of revenue. EPS for 2007 is \$0.90 based on 56M shares. However, our free cash flow estimate is \$122M or \$2.19 per share. This should result in a net cash balance of \$410M or \$7.15 per share at the end of 2007. This excludes any potential expenditures for a proposed JV in Trinidad which we estimate could cost CF \$55M over a two year period.

15. Valuation: CF shares have declined 25% from the August IPO over concerns that record natural gas prices will render North American nitrogen production uneconomic for the foreseeable future. However, we think investors have over reacted to the current negative environment and might be overlooking CF's ability to earn profits based on its flexible production and marketing capabilities, its opportunistic importing and its forward purchasing program. More importantly, CF's underlying asset value, which we think would be attractive to several potential acquirers, combined with its substantial net cash holdings and expected

free cash flow generation, should provide investors with substantial downside protection from the current valuation. There are a number of ways to attempt to value CF shares and we believe using a combination of methods is the proper way to do so. CF shares are currently trading at 2.1x estimated 2005 EBITDA. This compares with respective multiples of 3.2 and 4.5 for comps Terra and Agrium.

Based on a multiple of 4x our estimated peak EBITDA (in a normal cost environment) of \$315M, we arrive at a valuation of \$22.50. Similarly, using a multiple of 9x our estimated trough EBITDA of \$95M, we arrive at a value of \$17.50. At 10x estimated normalized free cash flow of \$1.80 we value CF at \$18.00. Lastly, we estimate the private market value of CF using a sum of the parts analysis from which we arrive at a range of values between \$19 and \$25. Our consolidated PMV analysis is highlighted in table 3 below.

For longer term value investors, we view CF as a compelling investment from a risk reward standpoint. The downside appears to be limited by the substantial underlying asset values of CF's phosphate rock reserves and its extensive sourcing, storage and distribution network. Furthermore, with more than \$130M in net cash and an estimated \$290M, or \$5/share in cash at the end of 2006, CF could repurchase a large percentage of the outstanding shares, which, at the current share price, would be extremely accretive over the next cycle. Should the share price remain depressed, however, a strategic buyer might be willing to pay a large premium for the company's valuable assets and operations. We are initiating coverage of CF with a buy recommendation and a 12 month target of \$18.

Table 3: Private Market Valuation

\$millions	
Donaldsonville complex	50
US nitrogen distribution system	320
Canadian nitrogen complex	125
Trinidad option	50
Phosphate mine and complex @ 75% of est. replacement	705
Subtotal	1,250
+ cash	150
- debt	(5)
- environmental/other liabilities	(100)
option cash	43
Total private market value	\$1,338
Shares outstanding	58
PMV/share	\$23.07

## 16. Financial Models

a. Annual projections	2002	2003	2004	2005E	2006E	2007E
Nitrogen revenue	730,360	1,058,246	1,273,885	1,626,617	1,689,885	1,526,897
Phosphate revenue	281,848	309,798	376,767	442,301	472,201	469,479
Total revenue	1,014,071	1,369,915	1,650,652	2,067,918	2,162,086	1,990,376
Cost of goods	986,295	1,335,508	1,434,545	1,840,557	1,984,795	1,845,078
Gross Profit	27,776	34,407	216,107	227,361	177,291	145,297
SG&A	37,317	38,455	41,830	51,800	49,600	49,000
Other oper. expense	9,294	1,557	11,043	6,000	6,000	6,000
Operating profit	(18,835)	(5,605)	163,234	169,561	121,691	90,297
Depr., depletion & amort	108,471	105,014	108,642	106,000	106,000	106,000
EBITDA	89,636	99,409	271,876	275,561	227,691	196,297
Interest, net	21,356	21,610	16,795	1,000	(2,000)	(2,000)
Other	(174)	(676)	(778)	0	0	0
Minority Interest	6,409	6,031	23,145	19,700	13,500	10,700
Pretax Income	(46,426)	(32,570)	124,072	148,861	110,191	81,597
Tax provision	(16,600)	(12,600)	41,400	56,567	41,873	31,007
Net Income	(29,826)	(19,970)	82,672	92,294	68,318	50,590
EPS	(\$0.54)	(\$0.36)	\$1.50	\$1.68	\$1.23	\$0.90
Average shares	55,000	55,000	55,000	55,100	55,700	56,000
% of revenue	2002	2003	2004	2005E	2006E	2007E
Gross Profit	2.7%	2.5%	13.1%	11.0%	8.2%	7.3%
SG&A	3.7%	2.8%	2.5%	2.5%	2.3%	2.5%
Other oper. expense	0.9%	0.1%	0.7%	0.3%	0.3%	0.3%
Operating profit	-1.9%	-0.4%	9.9%	8.2%	5.6%	4.5%
Depr., depletion & amort	10.7%	7.7%	6.6%	5.1%	4.9%	5.3%
EBITDA	8.8%	7.3%	16.5%	13.3%	10.5%	9.9%
Interest, net	2.1%	1.6%	1.0%	0.0%	-0.1%	-0.1%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest	0.6%	0.4%	1.4%	1.0%	0.6%	0.5%
Pretax Income	-4.6%	-2.4%	7.5%	7.2%	5.1%	4.1%
Tax provision	35.8%	38.7%	33.4%	38.0%	38.0%	38.0%
Net Income	-2.9%	-1.5%	5.0%	4.5%	3.2%	2.5%

y/y % change	2003	2004	2005E	2006E	2007E
Nitrogen revenue	44.9%	20.4%	27.7%	3.9%	-9.6%
Phosphate revenue	9.9%	21.6%	17.4%	6.8%	-0.6%
Revenue	35.1%	20.5%	25.3%	4.6%	-7.9%
Gross Profit	23.9%	528.1%	5.2%	-22.0%	-18.0%
SG&A	3.0%	8.8%	23.8%	-4.2%	-1.2%
EBITDA	10.9%	173.5%	1.4%	-17.4%	-13.8%
Pretax income			20.0%	-26.0%	-25.9%
EPS			11.4%	-26.8%	-26.3%

<b>CASH FLOW ANALYSIS</b>	2002	2003	2004	2005E	2006E	2007E
Net income	(29,826)	(19,970)	82,672	92,294	68,318	50,590
Minority interest	6,409	6,031	23,145	19,700	13,500	10,700
Depr., depletion & amort	108,471	105,014	108,642	106,000	106,000	106,000
Deferred income tax	(15,800)	(13,500)	33,800	10,000	0	0
receivables	(6,866)	(16,629)	41,396	0	0	0
Inventories	(7,118)	(13,557)	(26,429)	10,000	5,000	0
Accounts payable & accrued	2,172	1,089	44,080	(10,000)	3,000	0
Margin deposits	(7,234)	(21,085)	(4,051)	5,000	0	0
Customer advances, net	29,747	126,050	45,479	40,000	30,000	30,000
Other	(3,076)	(16,525)	10,579	0	0	0
Operating cash flow	76,879	136,918	359,313	272,994	225,818	197,290
Capital expenditures	26,303	28,684	33,709	78,000	55,000	45,000
Free cash flow	50,576	108,234	325,604	194,994	170,818	152,290
Free cash flow - ex advances	20,829	(17,816)	280,125	154,994	140,818	122,290
FCF per share		\$1.97	\$5.92	\$3.54	\$3.07	\$2.72
FCF per share - ex advances		(\$0.32)	\$5.09	\$2.81	\$2.53	\$2.18
Beg Cash - net of advances					150,000	290,818
End Cash - net of advances				150,000	290,818	413,109
Net cash / share				2.72	5.22	7.38

b. Quarterly projections	Q1 05	Q2 05	Q3 05e	Q4 05e
Nitrogen revenue	360,500	492,750	291,000	482,367
Phosphate revenue	98,500	134,250	94,000	114,551
Total revenue	459,000	627,000	385,000	596,918
Cost of goods	403,920	531,132	343,805	561,700
Gross Profit	55,080	95,868	41,195	35,218
SG&A	11,800	14,000	12,800	13,200
Other oper. expense	1,100	2,000	1,500	1,400
Operating profit	42,180	79,868	26,895	20,618
Depr., depletion & amort	26,400	26,400	26,500	26,700
EBITDA	68,580	106,268	53,395	47,318
Interest, net	1,000	1,000	(1,000)	0
Other	0	0	0	0
Minority Interest	5,000	7,000	4,200	3,500
Pretax Income	36,180	71,868	23,695	17,118
Tax provision	13,748	27,310	9,004	6,505
Net Income	22,432	44,558	14,691	10,613
EPS	\$0.41	\$0.81	\$0.27	\$0.19
Average shares	55,000	55,000	55,000	55,100

% of revenue

Gross Profit	12.0%	15.3%	10.7%	5.9%
SG&A	2.6%	2.2%	3.3%	2.2%
Other oper. expense	0.2%	0.3%	0.4%	0.2%
Operating profit	9.2%	12.7%	7.0%	3.5%
Depr., depletion & amort	5.8%	4.2%	6.9%	4.5%
EBITDA	14.9%	16.9%	13.9%	7.9%
Interest, net	0.2%	0.2%	-0.3%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
Minority Interest	1.1%	1.1%	1.1%	0.6%
Pretax Income	7.9%	11.5%	6.2%	2.9%
Tax provision	38.0%	38.0%	38.0%	38.0%
Net Income	4.9%	7.1%	3.8%	1.8%