



Yara International ASA

GICS : Fertilizers & Agricultural Chemicals

Company Update

BUY

January 14, 2011

Previous update: January 14, 2010

Next earnings release: February 15, 2011

Major Increases in Nitrate Prices – Stout Fundamentals

Yara Raises Nitrate Prices By Further €28-40pt

Just after having released our company update today following the bullish January WASDE report, Yara announces further major increases in nitrate prices. AN is raised from €315pt to €355pt CPT France (+€40pt), while CAN is raised from €243-247pt to €271-275pt CIF Germany/Benelux (+€28pt). The nitrate price increases were well above our expected range of €10-15pt. Earlier this month OCI Agro announced a CAN price of €252pt CIF Germany/Netherlands, up €10pt on December. There is no question that fertilizer fundamentals are stout. Urea and European nitrate prices have increased \$100-110pt (+35%) and €100-135pt (+60%), respectively, since August. The nitrate (CAN) premium vs granular urea (FOB Egypt) has now increased from below 20% to 30%, and there is thus room for higher urea prices. The new nitrate prices support urea prices at ~\$410pt FOB Yuzhnyy (currently ~\$377pt FOB) and ~\$440pt FOB Egypt (currently ~\$425pt FOB). Moreover, the granular-to-prilled urea premium has increased from \$40pt to \$50pt vs the 2010 average of ~\$30pt, which should lend support to prilled urea. Thus, urea prices lag both nitrate and crop prices. Based on a historical ratio of urea prices relative to CBOT corn prices, current corn futures prices support much higher urea prices. The average 2004-2010 ratio indicates urea at \$490pt FOB Yuzhnyy based on current 2011-2013 corn futures prices, i.e. up ~\$110pt FOB (+30%) on current prilled prices (cf our company update earlier today for more details).

Estimate Changes, Our 2011E EPS Raised By Further 7%

Earlier today we raised our 2011E-2013E EBITDA on average 2% and urea prices 2.5% based on the recent bullish WASDE report (cf our company update earlier today for more details). On the back of the major nitrate prices in Europe announced today, we raise our 2011E-2013E urea prices on average by further 2.5% and nitrate prices (in Euro) on average 4%, resulting in an average increase in our 2011E-2013E EBITDA by further 3% and EPS by 3.5%. Our 2011E EPS and EBITDA are raised by further 7% (~NOK3) and 6%, respectively.

Investment Recommendation – Raise TP Further to NOK385, BUY

Low nitrogen fertilizer stocks, full capacity utilization, limited and delayed new capacity, booming crop prices, Chinese production/export cutbacks and strong demand will continue to bolster fertilizer prices forward. We see the global nitrogen fertilizer balance tightness prevailing onward and hence expect further upward revisions to consensus estimates, triggering positive momentum in the Yara share price. On the back of the newly announced nitrate prices in Europe, **we raise our end-2011 DCF-derived 12-month target price to NOK385 (NOK380) and reiterate our BUY rating for Yara.** Earlier today we raised our target price to NOK380 (NOK360) based on the recent bullish WASDE report. **Yara is attractively priced at 8.44x/8.01x our 2011E/2012E earnings, a discount of ~33% relative to its closest peers.**

Yara : Key Figures (NOK m)	2007	2008	2009	2010E	2011E	2012E	2013E
Revenue and other income	57 486	88 776	61 418	66 512	77 212	79 857	86 267
Operating income	4 987	12 282	1 271	8 498	13 091	12 940	13 401
EBIT	6 936	15 718	3 058	13 901	16 210	16 173	16 886
EBITDA	8 442	17 918	5 549	16 387	18 834	19 053	20 111
PTP	7 337	10 905	3 477	12 228	15 484	15 572	16 381
Net income	6 075	8 241	3 814	9 462	11 894	11 985	12 627
EPS (diluted)	20.60	28.27	13.08	32.43	40.71	41.01	43.19
EPS adj (diluted)	15.91	36.28	8.82	22.58	40.71	41.01	43.19
DPS (for the year)	4.00	4.50	4.50	5.50	6.50	7.50	8.00
EV/EBITDA	9.77	3.80	20.96	6.76	5.88	5.81	5.50
P/E	12.21	5.26	26.45	10.67	8.50	8.44	8.01
P/E adj	15.81	4.10	39.23	15.32	8.50	8.44	8.01
P/B	3.46	1.42	3.46	2.79	2.17	1.78	1.50
ROE	32.6%	32.0%	12.9%	29.3%	29.1%	23.5%	20.6%
ROA	14.2%	18.5%	4.3%	16.9%	17.9%	16.0%	14.9%
ROIC	19.4%	24.3%	5.4%	21.0%	22.8%	20.4%	19.0%
CROGI	23.6%	27.7%	9.7%	24.8%	26.5%	24.0%	22.7%
CFPS	14.69	13.69	41.24	24.49	37.52	41.47	45.08

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Agilis Securities

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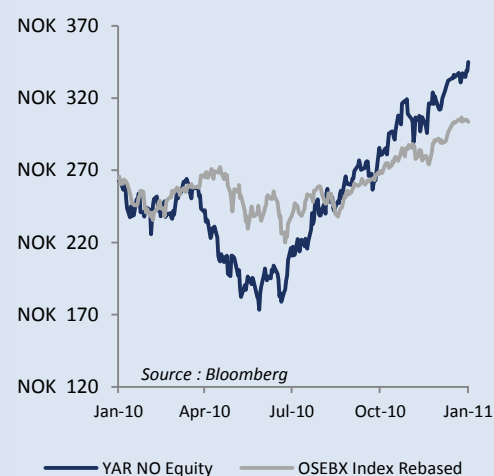
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Target Price & Risk

Target price	NOK385.00
Share price (last close)	NOK346.00
Horizon (months)	12
Risk	Medium

Performance



Total return 5D/YTD/1Y (%)	4.8/3.9/36.4
Volatility 30D/90D/200D (%)	18.3/29.5/39.9
High/Low 1Y (NOK)	352.3/172.4
Avg d turn 30D/90D (NOK m)	548.8/698
Market Cap (NOK m)	99 797
Net IB Debt (NOK m)	10 752
Enterprise value (NOK m)	110 698

Company Information

ISIN	NO0010208051
Country	Norway
Exchange/List	Oslo Børs/OBX
Ticker/RIC/Bloomberg	YAR/YAR.OL/YAR NO
No. outstanding shares	288 431 251
Weight OBX (%)	9.52
Free float (%)	57.35
Institutional stake of float (%)	62.85



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in a speedy, able, swift and prompt manner"***