



Mossberg's Investor Digest

Idea Profile

Intrepid Potash (NYSE: IPI)

DESCRIPTION:

Intrepid Potash is the largest producer of potassium chloride in the U.S. Also known as potash, potassium chloride is one of three major nutrients essential to plant formation and growth. The company owns five active potash production facilities—three in New Mexico and two in Utah, which have capacity to produce up to 1.2 million tons of potash annually. The company sells potash into three different markets. Approximately 64% of sales are made to the agricultural market, 25% to industrial and 8% to livestock feed markets. The company completed its initial public offering in April 2008 at \$32 per share, with 85% of the proceeds going to the selling shareholders. The selling shareholders maintain a 53% ownership interest in the new company.

KEY INVESTMENT CONSIDERATIONS:

Pure play on Potash - IPI is a pure play in the potash market, unlike its near comparables, Potash (NYSE: POT) and Mosaic (NYSE: MOS), which only count potash as 33% and 24% of total production, respectively. Despite the recent drop off in commodity prices, potash prices have actually increased 14% since mid summer and have remained relatively unchanged at \$800 per ton since September. Among the reason for this...

- 1. Mature market with disciplined, well capitalized players** – The top 5 producers represent approximately 2/3 of the market. Instead of reacting to a temporary weakness in demand, the major players have been cutting production, using their balance sheets to build inventories, and maintaining pricing discipline.
- 2. Demand is likely to outstrip supply in a few years** – There are only 25 deposits in the world with large deposits of potash and it's not likely that new large sources will be found soon. Given that global production is expected to grow at just 3.5% and demand is expected to grow at 5%, it's likely that demand will outstrip supply during the next several years.

Farmers will have to buy in February - In anticipation that prices will fall just like other commodities, farmers have cut back on buying potash. While this is an effective strategy for the near term, farmers will have to buy come February when the planting season begins.

Agricultural industry fundamentals are quite strong – While crop prices have fallen from record levels, they are at, or near, prices achieved during 2007, a year that was very profitable for farmers. For example, corn prices have fallen from \$5 per

bushel to the around \$3.5, which is well above the 20 year trend. Farmers are also benefiting from lower input costs including fuel and fertilizer. In addition, U.S. farm debt is at very manageable levels. According to the USDA, the debt to equity ratio of U.S. farmers is 10%, a historic low.

Organic Growth Opportunities – The company has two assets under development in New Mexico, that will allow for a 31% increase in production capacity over the next 5 years to 7 years.

People still need to eat...secular trends point to long-term growth in agricultural demand – The world's population grows by 80 million people per year. That's 220,000 new mouths to feed each day. They aren't making more land, and in fact the amount of agricultural land is shrinking due to economic development particularly India, Asia and other emerging economies. The only way to boost food production is to increase yields, which requires more fertilizer.

VALUATION:

Shares are 40% below the April IPO more than 70% below the high set in June, which is consistent with price trends of comparables MOS and POT. However, IPI is a potash pure play and highly leveraged to the price of the commodity. This discrepancy will be corrected in one of two ways....potash prices will fall, or the stock price will rise. It looks like the latter scenario is the most probable.

(NYSE:IPI)	
Investment Data (as of 12/26/08)	
Recent Price	\$18.07
52-Week Range	13.80 - 76.24
Fiscal Year End	December
Dividend	N/A
Shares Outstanding	75 MM
Average Trading Volume (3 mos)	1.7 MM
Market Capitalization	1.5 B
Cash	139 MM
Long Term Debt	0
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	N/A
BV/ Share	8.29
TTM Revenue	359 MM
P/ Revenue	4.2x
TTM EPS (non-GAAP)	1.10
P/ EPS	18.2x
TTM EBITDA	179 MM
EV/ TTM EBITDA	6.7x

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