

EQUITY

REPORT

10 *Years*

TOGETHER WE GROW

Arab Potash
Company (APOT) –
2008 Update Report

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Arab Potash Company (APOT)

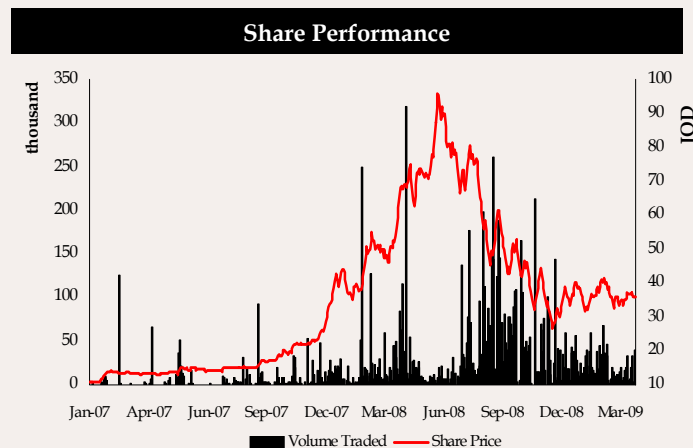
2008 UPDATE

April 2009

Ticker Symbol: APOT.ASE
Listing: ASE-First Market

Fair Value: JOD34.52
Investment Opinion: HOLD

Key Information	
Share Price	35.90 ¹
52-Week High	95.61
52-Week Low	26.66
Av. Daily Value Traded 09	685,821
Av. Daily Volume Traded 09	18,542
Market Capitalization (thousand)	2,991,116
Forecasted EPS (FYE 09)	3.89
P/E (FYE 09)	9.22
Book Value (FYE 09)	10.90
P/BV (FYE 09)	3.29
P/ Sales (FYE 09)	4.43
P/ Cashflow (FYE 09)	6.65



¹Price as of April 15th 2009

Highlights

- It was a stellar year for APOT as rising global potash prices resulted in the bottom line more than doubling. Net income reached JOD311.4 million in 2008, compared to JOD150.2 million in 2007. Excluding one offs, that amounted to JOD52.6 million in 2007, APOT's pre-tax profits tripled from JOD115 million to JOD355.8 million.
- APOT's gross profit margin for its stand alone business reached 69.6% compared to 50.9% in 2007, while the consolidated profit margin increased from 47.1% to 67.4%.
- APOT achieved two milestones in 2008; the first pertains to a new safety record, as APOT's Lost Time Frequency Rate reached 0.48 compared to the previous record of 0.90 registered in 1993. The other record pertains to the Company's production, which crossed the 2 million tonnes mark, whereby production reached 2,005 thousand tonnes in 2008.
- Record high global potash prices drove APOT's profitability ratios to new highs, as ROaA and ROaE surged to 43.9% and 60.4% respectively in 2008 from 31.8% and 45.7% in the previous year.
- Effective September 16th 2008, the government of Jordan raised royalty fees from JOD15/tonne exported to JOD125/tonne. Under the agreement with the government, royalty fees are capped at 25% of APOT's profit for any year. The increased fees will have a material negative impact on APOT's profitability and cash flows.
- Potash prices have remained high going into 2009, as the average spot price for the first quarter rose to USD865.2/tonne compared to an average price for the full year of USD570.1/tonne in 2008. The new contracts with China and India are expected to be finalized in May 2009.
- Since the start of 2009 APOT's shares have been oscillating between JOD31 and JOD41 and recorded a 2% increase YTD.
- We have used a Discounted Cash Flow (DCF) valuation method, alongside a relative valuation based on a PE multiple. We arrived at an estimated fair value of **JOD34.52**, leading to an overall downside potential of 1.79%. Accordingly, we have revised downwards our previous recommendation to a "HOLD".

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1.0 Developments in the Global Potash Industry

Despite recent market turmoil, which saw equity and commodity prices equally taking a bashing, the agricultural sector fundamentals are relatively unchanged. While demand for food may stagnate in the short term, it will not actually contract given the expanding global population. This is further reinforced by tight supply conditions. Available arable land is continuously diminishing and grain inventories are currently low, in addition to the fact that global grain stock-to-use ratio is estimated at 19%, significantly lower than historical levels. Furthermore, potash as a major nutrient is unique in the fact that there are only 12 countries in the world that produce it while 160 countries consume it.

World potash production dropped 7% to approximately 52 million tonnes in 2008 as a result of strikes at three Potash Corp mines and capacity curtailments in Belarus and Germany following the eruption of the financial crisis. More than eight million tonnes of potash production cuts were announced from August 2008 through May 2009, equivalent to just over 15% of global production. Since the financial crisis spread across the globe, demand has dropped significantly which led to stockpiling as buyers preferred to delay their purchases amidst the economic uncertainty. The latest data from the Fertilizer Institute indicate that potash inventories at North American producers are 42% higher than their 5-year average. In February 2009, shipments from North America declined 80% Y-o-Y. This had led to further production cuts by Potash Corp, from the previously announced 2 million tonnes to 3.5 million tonnes.

Growth in demand in the first half of 2008 outpaced supply growth leaving major markets short and on allocation. The situation was reversed as the economic crisis took the market by surprise in the last quarter of 2008 and the trend in global commodity prices made a quick turnaround. Potash prices did not fall as much as Phosphate and Nitrogen, as inventories had not reached excessive levels due to tight supply and widespread production cuts. The decline in prices of Nitrogen and Phosphate was exacerbated by the massive fall in raw material costs and rising inventories. By the end of 2008 massive reductions were announced for both Phosphate and Nitrogen production.

Turning to the main potash consumers; China imported lower quantities in 2008 due to the late contract signing, down four million tonnes to around 5.1 million tonnes. China is forecasted to import 25% more in 2009, as nutrients removed from the soil need to be replaced. The Chinese government has doubled agricultural subsidies to increase returns for farmers, leading to larger and more efficient farms. Another factor that could play a pivotal role in raising demand for fertilizers is that three provinces are facing the worst drought in 50 years. This is expected to force farmers to apply more fertilizers to the less damaged fields in order to enhance yield. It is estimated that since 1987 demand for fertilizers in drought years significantly outpaced non-drought years, rising on average by 7.9% compared to 3.2%.

On the other hand, India's potash imports rose around two million tonnes to six million tonnes in 2008, as the government continued to heavily subsidize farmers for their potash application. The subsidies are part of the government's agricultural sector growth target of 4% annually up until 2012. Demand is expected to remain strong in 2009 and going into 2010.

Meanwhile Brazil, which consumed around 6.5 million tonnes in 2008, was severely affected in the last quarter of 2008. The financial crisis struck during its primary planting and fertilizer application season, causing farmers to shy away from buying fertilizers as they saw the prices of its main crops such as soya beans and corn fall dramatically. In response to this, the government took a number of steps to overcome the crisis by providing credit to agricultural producers.

As for Malaysia and Indonesia, due to higher inventories at distributors, demand for potash is expected to be lower in the first half of 2009. The situation is expected to reverse in the second half, as palm oil, which accounts for around 70% of the potash used, is recently starting to show signs of recovery in prices. Palm oil

production in both countries is forecasted to grow by 4% annually over the next ten years due to rising demand in China, India and Southeast Asia, by that intensifying the need for greater fertilizer application.

Potash prices have remained high going into 2009, as the average spot price for the first quarter rose to USD865.2/tonne compared to USD570.1/tonne in 2008. On the other hand, DAP and phosphate rock prices plummeted in the first quarter to USD362.2/tonne and USD193.3/tonne compared to USD967.2/tonne and USD345.6/tonne in 2008. The settlement prices for potash reveal that BPC (Belarusian Potash Corporation) has decreased its spot prices for Brazilian buyers from USD1,000/tonne to USD750/tonne for large customers and USD765/tonne for smaller ones. Contract prices with China are expected to be completed in May and are widely believed to show an increase of USD50-100/tonne over last year's price of USD580/tonne.

Driven by surging global potash prices, mining companies have been attaining record high earnings. The full year results from Potash Corp, the largest potash company, unveiled that their 2008 net income increased more than three-fold to USD3.4 billion up from USD1.1 billion in 2007. Two other major players are Mosaic and Agrium; Mosaic's net income surged to USD2.1 billion from USD419.7 million, while Agrium's bottom line just less than tripled to USD1.2 billion compared to USD426 million in 2007.

Share prices of the major potash producers began to rebound in 2009 after suffering excessive losses in the fourth quarter of 2008. Sell-offs by hedge funds and investors drove down valuation multiples. Potash Corp is currently trading at 8.01 times 2008 earnings, while Agrium and Terra Industries' earnings multiples are at 4.97x and 4.77x respectively. Terra Industries and CF Industries' stock prices have risen the most since the start of 2009, up 77.26% and 51.53% respectively. Meanwhile, Potash Corp's stock rose 20.50% YTD, following a 49% decline in 2008. Though the sector is currently facing a short term downturn, fundamentals for the industry have not changed. Demand is expected to pick up in the second half of 2009 and continuing into 2010, as the need to replenish removed nutrients from the soil and de-stocking intensifies.

2.0 FINANCIAL HIGHLIGHTS

Arab Potash Company					
	2004	2005	2006	2007	2008
Key Financial Statement Captions (JOD thousand)					
Total Sales	186,020	224,576	207,256	291,436	667,551
Gross Profit	86,013	113,422	87,129	137,126	449,785
EBITDA	56,984	75,147	67,954	185,377	374,130
Net Profit	26,718	43,053	39,139	150,191	311,390
Total Assets	368,831	414,548	400,421	543,224	873,339
Total Interest Bearing Debt	72,105	59,278	48,735	65,852	54,804
Total Liabilities	137,154	156,695	132,704	154,263	231,388
Capital	83,318	83,318	83,318	83,318	83,318
Shareholders' Equity	231,375	257,852	267,717	388,961	641,951
Share Information					
Share Price (JOD)	10.99	13.00	11.00	34.89	35.15
Market Cap (JOD thousand)	915,665	1,083,134	916,498	2,906,965	2,928,628
EPS	0.32	0.52	0.47	1.80	3.74
Book Value per Share	2.78	3.09	3.21	4.67	7.70
P/E (x)	34.27	25.16	23.42	19.36	9.41
P/BV (x)	3.96	4.20	3.42	7.47	4.56
P/ Sales (x)	4.92	4.82	4.42	9.97	4.39
P/Cash flows (x)	12.61	17.97	22.12	51.17	11.60
Dividend Yield	1.82%	2.69%	3.18%	2.01%	1.99%
Profitability Ratios					
Gross Profit Margin	46.2%	50.5%	42.0%	47.1%	67.4%
EBITDA Margin	30.6%	33.5%	32.8%	63.6%	56.0%
ROaA	7.51%	10.99%	9.61%	31.83%	43.96%
ROaE	11.98%	17.60%	14.89%	45.74%	60.41%
Financing Ratios					
Interest Bearing Debt to Assets	19.55%	14.30%	12.17%	12.12%	6.28%
Total Liabilities to Assets	37.19%	37.80%	33.14%	28.40%	26.49%
Total Debt to Equity	31.16%	22.99%	18.20%	16.93%	8.54%
Equity Multiplier	1.59	1.61	1.50	1.40	1.36
Times Interest Earned	13.62	24.00	19.95	39.16	96.68
Liquidity Ratios					
Current Ratio	3.62	3.70	3.22	3.10	2.93
Acid-Test Ratio	3.58	3.63	3.11	2.96	2.77
Efficiency Ratios					
Asset Turnover	0.52	0.57	0.51	0.62	0.94
Equity Turnover	0.83	0.92	0.79	0.89	1.30
A/R Turnover	7.62	5.24	3.44	3.66	4.16
Inventory Turnover	35.10	32.83	21.27	15.88	10.97
A/P Turnover	9.41	10.46	8.48	6.96	7.45
Cash Conversion Cycle	19.52	45.86	80.23	70.21	71.99
Production and Sales Volume ('000 tonnes)					
Production Volume	1,929	1,830	1,699	1,797	2,005
Sales Volume	1,937	1,806	1,636	1,856	1,894

3.0 PERFORMANCE ANALYSIS

It was a record year for Arab Potash ("APOT" or the "Company") as surging global potash prices resulted in the bottom line more than doubling. Net income reached JOD311.4 million at the end of 2008, compared to JOD150.2 million in 2007. The Company had negotiated higher prices for the contract year starting May 2008 on account of the strong agricultural sector fundamentals including; robust demand, tight supply, diminishing arable land, low grain inventories, record high grain prices in addition to an expanding population with improved dietary requirements. Excluding one offs, that amounted to JOD52.6 million in 2007, APOT's pre-tax profits tripled from JOD115 million to JOD355.8 million.

During 2008, APOT achieved two milestones. The first pertains to a new safety record, as APOT's Lost Time Frequency Rate reached 0.48 compared to the previous record of 0.90 registered in 1993. The other record pertains to the Company's production which crossed the 2 million tonnes mark, whereby production reached 2,005 thousand tonnes in 2008.

Key Income Statement Captions					
JOD thousand	2004	2005	2006	2007	2008
Sales	186,020	224,576	207,256	291,436	667,551
Cost of Sales	100,007	111,154	120,127	154,310	217,766
Gross Profit	86,013	113,422	87,129	137,126	449,785
Profit Margin	46.2%	50.5%	42.0%	47.1%	67.4%
Net Profit	26,718	43,053	39,139	150,191	311,390

Sales

Sales					
JOD thousand	2004	2005	2006	2007	2008
Arab Potash	185,500	223,975	206,733	253,238	595,177
Numeira	520	601	523	368	388
KEMAPCO	0	0	0	37,830	71,986
Total	186,020	224,576	207,256	291,436	667,551

APOT's stand alone sales rose 135% in 2008 to JOD595.2 million compared to JOD253.2 million in 2007, this was slightly lower than our estimate of JOD605.7 million. The increased sales were chiefly attributed to skyrocketing potash prices. The higher contract prices negotiated with India and China significantly contributed to raising the average selling price during 2008 to USD433/tonne compared to USD192/tonne in 2007. As for KEMAPCO, during 2008 the company sold 127,000 tonnes of Potassium Nitrate (NOP) and Dicalcium Phosphate, contributing JOD72.0 million to total sales.

Quantity of potash sold recorded a marginal 2% increase in 2008 to 1.89 million tonnes, in line with our forecast, and compared to 1.86 million tonnes in 2007. India topped the list of export markets with a 43% share of APOT's sales volumes. Conversely, lower sales volumes were recorded to other parts of Asia, such as Malaysia and Indonesia. This was due to lower requirements at the end of the year and APOT's tight supply situation during the first part of 2008. Quantity sold to China reached 0.20 million tonnes compared to 0.32 million tonnes in 2007. China's lower consumption is attributed to the late signing of the contract which was not completed until May, resulting in a shorter contract period. This was further exacerbated by the fact that the first shipment to China did not take place till August. Meanwhile, sales to Europe were also down owing partially to the financial crisis in the last quarter, in addition to the loss of a major client to a competitor following an ownership change.

Cost of Sales

	Cost of Sales				
	2004	2005	2006	2007	2008
APOT Cost of Sales (JOD thousand)	99,725	110,833	119,821	132,561	190,439
Potash Production (thousand metric tonnes)	1,929	1,830	1,699	1,797	2,005
COS/ tonne	51.70	60.56	70.52	73.77	94.98

APOT's cost of sales for its stand alone business increased 44% in 2008, reaching JOD190.4 million, up from JOD132.6 million in 2007. The figure was 7% below our forecast of JOD205.5 million. The cost of sales on a per tonne basis rose 29% to JOD94.98 compared to JOD73.77 in 2007. The increase came as a result of higher freight and energy prices in the first half of 2008, accompanied by increased salaries.

The Company was able to offset the increased costs as the sales price of Potash skyrocketed during the year. Gross profit reached JOD449.8 million compared to JOD137.1 million in 2007, while APOT's gross profit for its stand alone business soared to JOD414.5 million. KEMAPCO's contribution reached JOD35.4 million.

The gross profit margin for APOT rose to 67.4% in 2008 compared to 47.1% in 2007 and 63.5% in 9M 2008. The gross profit margin for KEMAPO saw a similar improvement, rising to 49.2% from 21.1% in 2007, meanwhile APOT's gross profit margin for its stand alone business reached 69.6%; slightly higher than our estimate of 66% due to lower cost of sales.

Operating Expenses

	Breakdown of Expenses				
JOD thousand	2004	2005	2006	2007	2008
Selling and Distribution Expenses	8,416	8,263	6,351	12,587	12,383
Administrative Expenses	4,225	4,051	5,287	7,177	10,284
Jordanian Government Royalty Fees	14,580	14,392	12,364	13,933	67,777
Total Expenses	27,221	26,706	24,002	33,697	90,444

APOT's total expenses rose 168.4% in 2008 to JOD90.4 million compared to JOD33.7 million in 2007. The largest increase was attributed to the Jordanian government royalty fees, which comprised 75% of total expenses.

Royalty fees rose nearly four-fold to JOD67.8 million in 2008 compared to JOD13.9 million in 2007. The government raised these fees on two occasions in 2008, the first of which came into effect in March and saw it increase from JOD8/tonne exported to JOD15/tonne. On the second occasion; the fees were revised so as to allow the government to collect the maximum allowable amount as per the agreement, which is capped at 25% of net income. Accordingly, royalty fees were raised to JOD125/tonne exported effective September 16th 2008.

Selling and distribution expenses dropped a marginal 1.6% in 2008 to JOD12.4 million compared to JOD12.6 million in 2007, as the increased selling expenses were offset by the decrease in port handling fees which dropped 26% to JOD5.7 million. As for administrative fees, this caption rose 43% to JOD10.3 million due to higher professional and consulting fees which reached JOD2.5 million compared to JOD1.4 million in 2007.

Finance Expenses

Finance expenses dropped 13.5% in 2008 to JOD3.6 million from JOD4.2 million in 2007. It is worth mentioning that finance expenses had significantly increased in 2007, due to the consolidation with KEMAPCO; rising by 86% to JOD4.2 million, compared to JOD2.3 million in 2006.

Gains/Losses from Associates

The Company's share of profits from associates rose 32% to JOD12 million compared to JOD9.1 million in 2007. The bulk pertains to APOT's investment in Jordan Bromine, which contributed JOD10.1 million, up 18% from JOD8.6 million in 2007.

Profitability Ratios

The record high global potash prices drove APOT's profitability ratios to new highs, as ROaA and ROaE surged to 44.0% and 60.4% respectively in 2008 from 31.8% and 45.7% in the previous year.

Balance Sheet

APOT's total assets rose significantly, up 60.8% to JOD873.3 million compared to JOD543.2 million in 2007. The highest growth was recorded by accounts receivable, rising 128% to JOD223 million from JOD97.9 million in 2007, and constituting 25.5% of total assets. The expansion plan which is currently underway to raise capacity by 0.5 million tonnes to 2.4 million tonnes by Q1 2010, added JOD89 million to projects under progress, up 116% to JOD165 million.

Cash Conversion Cycle

Cash Conversion Cycle					
	2004	2005	2006	2007	2008
Average Receivables Collection Period	47.90	69.63	106.13	99.64	87.73
Average Inventory Processing Period	10.40	11.12	17.16	22.99	33.27
Payables Payment Period	38.78	34.88	43.05	52.42	49.01
Cash Conversion Cycle	19.52	45.86	80.23	70.21	71.99

Accounts Receivable

The higher potash prices alongside the marginal increase in quantities sold drove accounts receivable to JOD223 million, marking a 128% increase from 2007. The increase in receivables was also attributed to higher advances to contractors, which rose more than three-fold to JOD34.4 million compared to JOD9.7 million in 2007.

Inventory

Inventories rose 117.5% in 2008 to JOD27.2 million from JOD12.5 million due to rising commodity prices. The inventory processing period rose to 33 days from 23 days registered in 2007 as inventories piled up towards the end of the year.

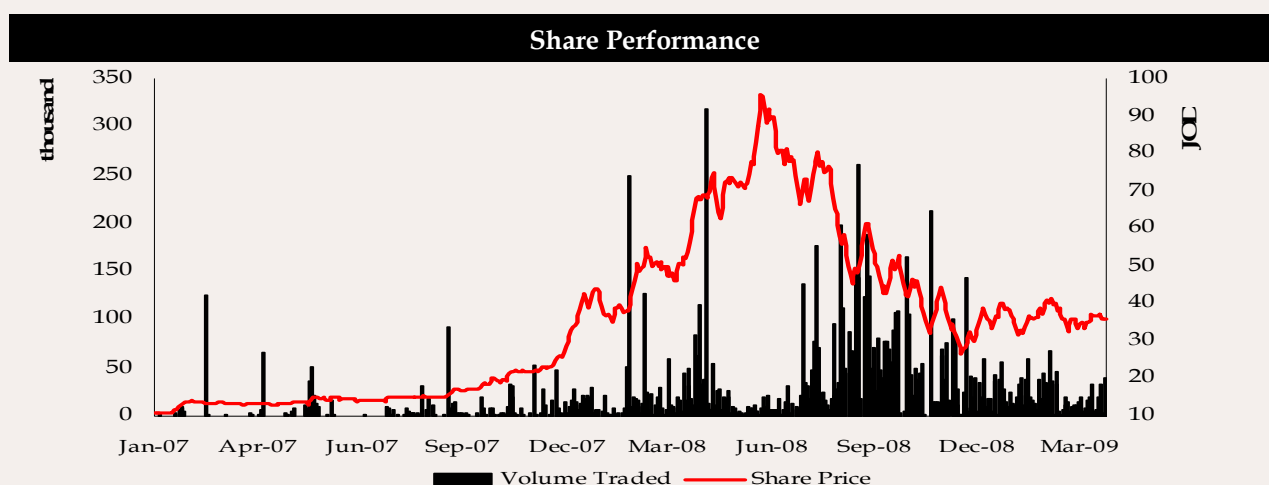
Accounts Payable

Accounts payable stood at JOD30.8 million at the end of 2008, marking an 11% increase from 2007. The lower growth in accounts payable compared to the cost of sales, which rose 41%, led to lowering the payables payment period to 49 days compared to 52.4 days in 2007.

4.0 SHARE PERFORMANCE

APOT's share price was extremely volatile in 2008 as evidenced by its 2008 range of JOD26.66 to JOD95.61. The global financial crisis had its toll on the ASE driving it to record low levels caused by wide panic selling. The ASE shed 32% in the final quarter of 2008 to end the year down 25%. APOT's decline closely matched that of the market with a 34% drop in the final quarter of 2008, wiping out all previous gains and ending the year relatively unchanged from 2007, at JOD35.15.

Since the start of 2009 APOT's share price has been oscillating between JOD31 to JOD41 and recorded a 2% YTD increase. The Company's peers on the other hand have shown sign of recovery in 2009 after suffering significant losses in Q4 2008, ending the year with an average drop of around 60%. Share prices of Terra Industries and CF Industries have risen the most since the beginning of 2009, up 77.26% and 51.53% respectively. Meanwhile, the largest player, Potash Corp's stock rose 20.50% YTD, following a 49% decline in 2008.



Trading activity on APOT's shares picked up momentum in August and September of 2008 when the average daily volume traded reached 66 thousand and 71 thousand shares respectively. Subsequent to the financial crisis, trading volumes dropped significantly, with the average daily volume traded falling close to 33 thousand shares in Q4. Though trading activity fell in the last quarter, trading on the stock has risen by just under seven fold compared to 2007 to reach 32.4 thousand shares, equivalent to JOD1.7 million. Since the start of 2009, trading on APOT contracted further falling 43% to 18.54 thousand shares, equivalent to JOD0.69 million.

Share Information			
	2007	2008	2009 ²
Closing Price	34.89	35.15	35.90
High Price	34.89	95.61	41.49
Low Price	11.00	26.66	31.76
YTD Change in Share Price	217.18%	0.75%	2.13%
EPS (JOD)	1.80	3.74	3.89
Price to Earnings (x)	19.36	9.41	9.22
Book Value per Share	4.67	7.70	10.90
Price to Book Value (x)	7.47	4.56	3.29
Price to Sales (x)	9.97	4.39	4.43
Price to Cashflow (x)	51.17	11.60	6.65
Daily Average Trading Volume	4,819	32,419	18,542
Daily Average Trading Value	92,582	1,727,376	685,821

² Price as of April 15th 2009

Earnings per Share (EPS)

The Company's EPS reached JOD3.74 in 2008. Based on our projections we forecast EPS for the year ended December 31st, 2009 to reach JOD3.89.

Price to Earnings Ratio (P/E)

Based on our forecasted EPS of JOD3.89 for 2009, APOT's stock currently trades at a forward multiple of 9.22 times earnings.

Price to Book Value Ratio (P/BV)

APOT currently trades at a forward P/BV of 3.29x, based on our end of year forecast.

Price to Sales Ratio (P/S)

Based on our forecasted sales figures the forward P/S ratio stands at 4.43x.

Price to Cashflow (P/CF)

Based on our 2009 year end estimates, APOT is currently trading at a forward P/CF of around 6.65 times.

PEER COMPARISON

The table below compares some of the key share performance indicators for APOT relative to other potash companies. We have also included in this comparison a number of other financial indicators.

	Peers					
	CF Industries Holdings	Terra Industries	Agrium Inc.	Potash Corp.	Mosaic Co.	APOT ³
Price as of April 15 th 2009	74.49	29.55	41.28	88.23	44.62	35.90
YTD Change	51.53%	77.26%	20.95%	20.50%	28.96%	2.13%
Trailing P/E	6.14	4.77	4.97	8.01	5.65	9.61
Forward P/E (FYE 09)	9.41	8.72	6.67	8.74	8.05	9.22
P/BV (2008)	2.69	2.77	1.57	5.68	2.52	4.66
P/Sales (2008)	1.05	0.96	0.65	3.02	1.53	4.48
P/Cashflows (2008)	6.63	6.24	6.27	8.85	7.90	11.85
EPS (2008)	12.14	6.20	8.31	11.01	7.90	3.74
BVPS (2008)	27.74	10.66	26.22	15.55	17.67	7.70
Capital (million)	56.86	102.08	158.00	301.85	444.24	83.3
ROA (2008)	32.78%	24.76%	16.85%	26.79%	22.98%	43.96%
ROE (2008)	54.22%	70.43%	36.73%	65.90%	54.10%	60.41%

Source: Yahoo Finance

³Figures for APOT are based on prices as of April 15th

5.0 FORECAST ASSUMPTIONS

5.1 Income Statement

Sales

In light of the current financial turmoil we have made a slight downward revision to potash prices. Nevertheless, we still believe the fundamentals for the industry are sound, as strong global demand for fertilizers is ensured by the population growth and improved dietary requirements. In addition,

government mandates for bio-fuel production, and higher urbanization and deforestation rates contributed to boosting demand.

We have projected that the new contracts with China and India, which are expected to be finalized in May 2009 to be USD50/tonne higher than their current levels of USD600/tonne. Thus, we have assumed an average price of USD628/tonne for 2009. Prices are expected to stabilize at the new contract level for the rest of the forecast period.

In terms of production quantity, APOT's existing capacity allows it to produce 1.9 million tonnes of potash, and it currently operates at full capacity. We have revised our forecasted sales volume for 2009 to 1.5 million tonnes, based on lower demand caused by the recent economic mayhem. Additional capacity of 500 thousand tonnes was originally scheduled to come in during the third quarter of 2009, but due to delays is now expected to be operational in the first quarter of 2010. This would raise total production capacity to 2.4 million tonnes. Accordingly, we have estimated that production will increase to 2.1 million tonnes in 2010 and to reach full capacity of 2.4 million tonnes in 2011. The feasibility study for a new expansion plan raising capacity by another 0.5 million tonnes is expected to be completed in May 2009, this is still in the tentative stage and so we have not factored it into our forecast. We have also assumed given the growing demand for potash, that APOT will sell all its production in each year from 2011 onwards.

Cost of Sales

Cost of sales are roughly equally divided between salaries and wages, fuel expenses, maintenance (which includes depreciation) and other miscellaneous expenses. These grew by 41% in 2008, largely driven by skyrocketing oil prices during the first half of 2008. Given the easing oil prices since July 2008 we have forecasted that the cost of goods sold will drop by 10% in 2009. In 2010 we assumed cost of sales to grow by 20% and then by 30% from 2011 onwards.

Based on the above assumptions and given the forecasted rise in potash prices in 2009, in tandem with lower oil prices, the gross profit margin is expected to rise from 68% in 2008 to reach 74% in 2009. We have forecasted a gross profit margin of 79% in 2010, before gradually declining to reach 59% in 2013.

KEMAPCO

We have projected results for KEMAPCO and included them in our forecast for the first six months of 2009 based on expectations that the sale of the company is expected to be completed by then. Based on DOS data regarding exports of NOP and DCP in January 2009, sales appear to have been subjected to a significant decline. This is due to the shut down of production in the first two months of 2009.

Operating Expenses

To forecast selling and distribution expenses we have looked at the historical relationship with sales and noted that this stood at around 15% in 2008. We have accordingly grown selling expenses while maintaining this relationship with sales.

The main captions in general and administrative (G&A) expenses are salaries and wages and consulting expenses, these combined constitute close to 50% of the total. We have used a growth rate of 10% for 2009 and then the by 15% from 2010 onwards.

As part of its establishment law, Arab Potash used to pay the Jordanian government JOD8 per tonne of export sales in the form of royalty fees. The royalty fees were raised on two occasions in 2008; on March 17th 2008 the fees were raised to JOD15/tonne of export sales and then in September the fees were significantly hiked to JOD125/tonne. The final revision was made so as to allow the government to collect the maximum

allowable amount as per the agreement, capped at 25% of net income. Export sales have historically constituted 90% of total sales and so we kept with this premise for the forecast period.

Other Expenses

APOT has four existing loans with maturities that extend to 2014. We have forecasted financing expenses, as well as the balance of debt, based on the settlement terms and interest rates of each of these loans. We have assumed no new loans are obtained for the duration of the forecast period.

The 'other expenses' caption on the income statement mainly constitutes appropriations that include 1% for Jordan University fees, 1% for scientific research fees and 0.8% for the educational, vocational and technical training support fund. We have also included in this account JOD15 million that is to be paid from May 2008 to May 2010 as per the agreement with the General Jordanian Trade Union for Mines and Metal Industries regarding salary restructuring.

The income tax expense was calculated based on a 15% tax rate.

Other Income

Interest income was calculated based on the average forecasted cash balance and expected interest rates.

The only investment in an associate that has an impact on Arab Potash's net income is Jordan Bromine (JBC). APOT's management expects Jordan Bromine to record marginal year-on-year growth. JBC contributed JOD10 million to the Company's bottom line in 2008. We have forecasted an annual 5% growth during the forecast period.

Fixed Assets, Projects under Progress and Spare Parts

The 'projects under progress' account pertains to the expansion work that APOT is undertaking to enhance the solar evaporation system and raise capacity to 2.4 million tonnes. We have revised our previous estimates for this figure as more CAPEX will be needed due to the delays in the expansion plan and higher estimated costs for the intake pumping station. The total CAPEX for 2009 is estimated at around JOD190 million. In addition, APOT will incur JOD17.5 million in each of 2010 and 2011 representing the Company's share in the rehabilitation of the industrial port in Aqaba. The JOD70 million project will be equally split between APOT and Jordan Phosphate Mines. For the rest of the forecast period we have assumed a growth of 5% in fixed assets.

Strategic spare parts have been relatively stable at around 19% of fixed assets. We have maintained this relationship for the forecast period.

Cash Conversion Cycle

We have assumed an average collection period of 100 days for the forecast period and estimated the receivables balance based on this assumption. Accounts payable were estimated based on a 50 day payment period and inventory processing at 25 days. This results in a cash conversion cycle period for the duration of the forecast period of 75 days.

6.0 VALUATION

We have applied a discounted cash flow (DCF) valuation based on our five-year forecast of APOT's financial performance, in addition to a relative valuation based on a P/E multiple. We gave an 80% weighting to the DCF and 20% to the P/E multiple. Accordingly, we arrived at an estimated fair value for Arab Potash of JOD34.52 per share, leading to an overall downside potential of 1.79%, and accordingly we issue a 'HOLD' recommendation. This does not represent a guarantee that this value is achievable within a 12-month time frame, as a wide range of variables and market dynamics affect the market price of an asset.

Estimated Fair Value		
Method	Weighting	Target Fair Value
DCF	80%	35.06
Price to Earnings	20%	32.38
Weighted Average Estimated Fair Value		34.52

Discounted Cash Flow Valuation

Discounted Cashflow					
JOD thousand	2009	2010	2011	2012	2013
EBIT	369,498	576,868	631,319	562,220	473,916
Taxes	57,229	90,217	101,253	93,617	82,728
EBI	312,269	486,651	530,066	468,603	391,188
Depreciation & Amortization	21,742	36,729	39,266	41,229	43,291
Change in Working Capital	46,830	(222,807)	(124,078)	(111,928)	(107,831)
Capital Expenditure	(190,884)	(44,678)	(63,412)	(49,082)	(51,536)
Free Cash flow	189,958	255,895	381,842	348,821	275,111

Inputs for DCF Analysis	
Cost of Debt	We used a cost of debt of 6.22% representing the after-tax weighted average interest rates on the loans.
Risk-Free Rate	We used a risk-free rate of 2.89% representing the interest rate on the 10 year US Treasury Bond.
Equity Market Risk Premium	We used an equity market risk premium of 8.90%.
Cost of Equity	We have applied a cost of equity of 12.65%.
WACC	Based on a 7.9% and 92.1% debt and equity structure respectively, we arrive at a WACC of 12.07%.
Cash Flow Growth Rate	We used a cash flow growth rate of 3%.
NPV for Five Years ('000)	1,021,269
NPV of Terminal Value ('000)	1,767,222
Outstanding Debt ('000)	54,976
Cash & Cash Equivalents ('000)	187,358
Equity Value ('000)	2,920,873
Outstanding Number of Shares ('000)	83,318
Estimated Fair value (JOD)	35.06

7.0 APPENDIX

7.1 Balance Sheet

APOT BALANCE SHEET					
JOD thousand	2004	2005	2006	2007	2008
Property, Plant & Equipment	101,034	98,091	98,393	109,397	106,393
Projects under Progress	7,153	17,308	36,138	76,268	164,999
Strategic Spare Parts	19,643	17,594	18,275	20,966	23,111
Loan Granted to Jordan Bromine Co.	0	4,254	4,254	4,254	4,254
Due from Jordan Safi Salt Co.	7,801	0	0	0	0
Investments in Associates	25,667	29,712	33,575	34,699	38,323
Available-for-Sale Investments	943	1,002	885	1,048	971
Deferred Tax Assets	3,488	4,635	2,190	2,006	2,102
Other Assets	12,393	12,859	13,653	15,060	17,407
Total Non Current Assets	178,122	185,455	207,363	263,698	357,560
Accounts Receivable	26,348	59,336	61,190	97,928	222,973
Inventories	2,412	4,359	6,934	12,504	27,190
Spare Parts	13,863	17,072	16,298	18,751	20,005
Other Assets	11,773	11,498	16,562	47,959	58,253
Cash and Short Term Deposits	136,313	136,828	92,074	102,384	187,358
Total Current Assets	190,709	229,093	193,058	279,526	515,779
Total Assets	368,831	414,548	400,421	543,224	873,339
Interest Bearing Loans and Borrowings	61,067	47,768	38,503	53,351	42,853
Contingent Liability Reserve	9,148	24,387	27,526	4,004	4,104
Other Reserves	14,329	22,567	6,802	6,707	8,274
Total Non-Current Liabilities	84,544	94,722	72,831	64,062	55,231
Due to Banks	4,284	172	172	172	172
Interest Bearing Loans and Borrowings	11,038	11,510	10,232	12,501	11,951
Trade and Other Payables	9,518	11,729	16,610	27,711	30,765
Other Liabilities	27,770	38,562	32,859	49,817	133,269
Total Current Liabilities	52,610	61,973	59,873	90,201	176,157
Total Liabilities	137,154	156,695	132,704	154,263	231,388
Issued Capital	83,318	83,318	83,318	83,318	83,318
Statutory Reserve	50,464	50,464	50,464	50,464	50,464
Voluntary Reserve	80,699	80,699	80,699	80,699	80,699
Cumulative Changes in Fair Value	172	260	147	361	284
Retained Earnings	16,722	43,111	53,089	174,119	427,186
Total Shareholders' Equity	231,375	257,852	267,717	388,961	641,951
Minority Interest	302	0	0	0	0
Total Liabilities & Shareholders' Equity	368,831	414,548	400,421	543,224	873,339

7.2 Income Statement

APOT INCOME STATEMENT					
JOD thousand	2004	2005	2006	2007	2008
Sales	186,020	224,576	207,256	291,436	667,551
Cost of Sales	100,007	111,154	120,127	154,310	217,766
Gross Profit	86,013	113,422	87,129	137,126	449,785
Selling & Distribution Expenses	-8,416	-8,263	-6,351	-12,587	-12,383
Administrative Expenses	-4,225	-4,051	-5,287	-7,177	-10,284
Jordanian Govt Royalty Fees	-14,580	-14,392	-12,364	-13,933	-67,777
Total Expenses	-27,221	-26,706	-24,002	-33,697	-90,444
Operating Profit	58,792	86,716	63,127	103,429	359,341
Finance Revenue	2,297	4,650	6,271	7,403	8,107
Finance Costs	-2,567	-2,197	-2,259	-4,199	-3,634
Other Income	3,168	645	2,516	5,495	4,970
Other Expenses	-1,722	-2,465	-6,671	-7,427	-18,369
Net Foreign Currency Exchange Differences	2,279	-4,513	1,947	2,276	-6,615
End of Service Indemnity	0	-8,617	-1,225	0	0
Profit before Gains (Losses) from Associates and Tax	62,247	74,219	63,706	106,977	343,800
Share of Profit of Associates	-8,069	4,193	5,630	9,051	11,962
Proceeds from Law Suits	9,359	0	0	0	0
(Loss) from Jordan Salt	-1,392	-930	0	0	0
Gain (Loss) from Jordan Magnesia	-14,719	-5,227	-8,092	21,689	0
Gain (Loss) from Revaluation of Islamic Development Bank Loan for Jordan Magnesia Company	0	2,621	-1,379	-1,020	34
Excess from Acquisition of KEMAPCO	0	0	0	8,747	0
Reversal of Provisions (KEMAPCO)	0	0	0	22,200	0
Losses from KEMAPCO	-12,732	-19,700	-10,784	0	
Profit before Tax	34,694	55,176	49,081	167,644	355,796
Income Tax Expense	-7,969	-12,122	-9,942	-17,453	-44,406
Net Income before Minority Interest	26,725	43,054	39,139	150,191	311,390
Minority Interest	-7	-1	0	0	0
Net Income	26,718	43,053	39,139	150,191	311,390

Guide to Analyst Recommendation

- **Buy**
Reflects potential estimated total return of +10% within the next 12 months for a stock.
- **Hold**
Reflects potential estimated total return of +/-10% within the next 12 months for a stock.
- **Sell**
Reflects potential estimated total return of -10% or more within the next 12 months for a stock.

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