



## Key documents

### Announcement of approach by Sinochem

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<http://www.asx.com.au/asxpdf/20090724/pdf/31jq3951mqzymq.pdf>

### ASX Price query – 27 August 2009

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<http://www.asx.com.au/asxpdf/20090827/pdf/31kcc8h3pqnyjz.pdf>

## Key dates

**Full year (FY2009) results announcement: 28 September 2009**

**AGM: 3 December 2009**

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## Update

### Confirmation of continuing discussions

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On 27 August 2009 Nufarm in a response to ASX query confirmed that the discussions with Sinochem are continuing.

- Nufarm said “No agreement has been reached and there can be no assurance that any agreement will be reached”

### Earnings guidance

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On 27 August 2009 response, Nufarm noted that it expects net operating result excluding material items of ~A\$135m – A\$145m

- Impact on the operating profits were due to
  - Substantial reduction in the selling price of glyphosate in the US market in the months of June and July
  - Lower than forecasted volume sales of glyphosate
- Material write-downs
  - Material write-down for FY2009 will be in the range of ~A\$50m – A\$55m
    - Glyphosate inventory write down: A\$35m to A\$40m
    - The balance of write downs (as reported previously) relates to restructuring of manufacturing operations in Europe and regulatory inquiries relating to the AH Marks acquisition

## Comment

In its interim results statement (31 March 2009) Nufarm estimated operating profit for FY2009 at A\$220m

- On 16 June 2009 Nufarm announced that it will not achieve the previously stated earnings guidance for the FY2009
  - Key reason: decline in demand for glyphosate and increased price competition for fewer sales opportunities in key markets

- Nufarm did not provide any quantitative threshold but the MD of Nufarm stated that “it is not yet possible to accurately estimate the impact on Nufarm’s year end net operating profit but on current projections the company expects to miss the previous guidance of ~A\$220m by about 15%”
- On 24 July 2009, in a response to ASX price query, Nufarm stated that Nufarm’s FY09 net operating profit may be below the revised guidance issued on 16 June 2009 and “it is possible that Nufarm’s net operating profit may be more than 10-15% below the previous guidance”
  - Quantitative estimates were not provided as Nufarm “was not yet in a position to determine whether this will be the case”

The net operating profit estimate provided on 27 August 2009 is ~34% to 38% below the guidance provided in the March interim results.

- Nufarm cited the following reasons for revising down the operating results in the 2<sup>nd</sup> Half 2009
  - Large proportion of sales and earnings occur in the final quarter of 12 month period
  - According to Nufarm ~79.4% of total earnings in 2008 was concentrated in May, June and July period
  - Coinciding with cropping activity in Australia, North America and Europe
  - In this year (FY2009) the buying and cropping patterns were concentrated in final 4-6 weeks of the final quarter

### Monsanto’s comment on glyphosate market condition

According to Nufarm, Monsanto’s announcement on May 27 triggered aggressive price competition in the US markets

- Monsanto is the largest supplier of glyphosate
- Monsanto stated that the application of its Roundup product is “half than compared with product use at the end of May 2008”
  - According to Monsanto Supply of glyphosate is now exceeding demand globally
    - Monsanto noted that “generic and other branded competitors continue to aggressively move larger-than-expected volumes of lower-priced material into the marketplace”
  - Demand side is affected by wetter weather and other glyphosate based products

## Potential bid price for Nufarm

Please refer Appendix 1 for detail discussions on Nufarm valuation

### Potential bid price

Scenarios	Price	Probability	Risk adjusted price	Prem/Dis*
Target bid price	13.2	60%	7.91	-19.2%
Standalone value in the absence of a bid	9.5	40%	3.81	11.9%
<b>Risk adjusted price</b>			<b>11.72</b>	<b>-9.1%</b>
Precedent				
Low			17.19	-38.0%
High			18.80	-43.3%

Source: Internal estimates

Standalone value estimates are based on Nufarm EBITDA estimates made by analyst in the last 28 days

We would target a potential bid price at ~A\$13.2 per share

- This is based on the premium (to pre-bid price level) paid for ABB by Viterra
  - We believe that ABB/Viterra transaction could be a good comparable to proposed Nufarm – Sinochem
    - ABB is essentially a agricultural company with some exposure to fertilizers
    - We believe that the key driver of the transaction is the strategic value of ABB to Viterra
    - Similar rationale drives a bid for Nufarm by Sinochem in our view
    - Limited synergies due to non-overlapping assets
  - Viterra's offer implied a premium in the range of ~30% to ~34% to the pre-announcement price
    - We have not adjusted the above premium to factor in ~23% rise in markets since the ABB-Viterra transaction to counter the demand situation faced by Nufarm in its glyphosate market

We believe that in the absence of a bid, Nufarm is likely to trade around A\$9.53 per share

- Based on peer multiples
  - However the risk to the above price are further write downs in operating profits due to further deterioration in the demand conditions and increased price competition

On this basis we estimate a risk adjusted price of ~A\$11.72 for Nufarm assuming

- 60% probability of a bid at A\$13.20
- 40% probability of a bid not materialising for Nufarm

### Counter bidders

We believe that the most logical buyers of Nufarm are Makhteshim –Agan and United Phosphorous given the scope for synergies and increased geographic diversification.

- However we believe that both companies could struggle to fund a bid in cash if they were to compete with Sinochem
  - As a reference, in terms of ,market cap, both Nufarm and Makhteshim-Agan are of equal size and United Phosphorous is ~73% of the market cap of Nufarm
  - We also rule out a possible scrip bid
- We believe that a private equity bid is unlikely given current credit market conditions
  - Although Monsanto and Syngenta could afford a bid for Nufarm we believe that they could be dissuaded by scenario of a potential bidding war with Sinochem and the down cycle in the herbicide/ glyphosate market

### Potential bid price in a competitive bid situation

In a competitive bid environment we believe that the final takeout price (based on precedents) for Nufarm could be as high as A\$17.19 per share is possible but not certain

- Most recent precedent in the sector took place in 2007 and imply a price in the range of A\$17.19 to A\$18.80 for Nufarm
  - However several factors could make bids in this range hard to achieve

- Fall in equity markets by more than 28% since 2007
- Downgrade to Nufarm's operating profit since March 2009.
- Uncertainties in the glyphosate market

## Potential bid timetable

We believe that the outcome of the negotiations between Sinochem and Nufarm is likely to be known on or after FY2009 results announcement

- It appears to us that Nufarm is still in the process of assessing the impact of the slowdown in glyphosate demand and a clear view on this market is essential to finalise a price for Nufarm, in our view

We believe that the most likely transaction structure would be a Scheme of Arrangement as a bid, if finalised, will have Nufarm's management support

- Assuming a formal announcement is made by end Sep/early Nov 2009 we project a Scheme timetable based on the following assumptions
  - Despatch of Scheme documents: ~2 months after the formal announcement
  - Scheme EGM to approve the transaction: ~1 month from despatch of the Scheme documents
  - Scheme effective: ~1 week from the Scheme EGM
  - Settlement: standard settlement period is 21 days in Australia

## ***Potential bid timetable***

Event	Date
<i>Announcement of approach</i>	<i>24 July 2009</i>
<i>Response to ASX query – earnings update</i>	<i>27 August 2009</i>
FY 2009 results	28 September 2009
Formal announcement of a bid	~end Sep/early Oct 2009
Despatch of Scheme documents	~end Nov 2009
Scheme EGM	~end Dec 2009/ early Jan 2010
Scheme effective	~mid Jan 2010
Settlement	~end Jan 2010

Source: *Internal estimates*

## Appendix 1: Valuation

### Peer valuation

We believe that Makhteshim-Agan and United Phosphorous are the two most comparable companies to Nufarm

- Both companies compete directly with Nufarm in the generic pesticide product space
- Similar revenue profile
  - Both companies generate significant portions of their revenue from herbicides (Makhteshim: ~50%; United Phos: ~20%) and insecticides (Makhteshim: ~20%; United Phos: ~30%)
  - Nufarm generates ~80% of its revenue from herbicides and ~10% from insecticides
- Other companies with significant herbicide revenue such as Monsanto and Syngenta typically compete in the patented product space and incurs significant research and development costs

Peer multiples (2010 EV/EBITDA) would imply a price of A\$9.53 for Nufarm

- Nufarm is currently trading at a 9% premium to the peer 2010 EV/EBITDA multiples
- We have used consensus Nufarm EBITDA that was published after 27 August earnings estimates for Nufarm

### Peer valuation

	Ticker	Share Price	Market Cap	P/E	EV/Sales	EV/EBITDA	EBITDA margin
		local curr	USDm	2010	2010	2010	2010
Makhteshim-Agan	MAIN IT	17.9	2,065	11.9	1.2	6.9	17%
United Phosphoru	UNTP IN	169.7	1,544	11.4	1.6	7.7	20%
<b>Average</b>				<b>11.7</b>	<b>1.4</b>	<b>7.3</b>	<b>18%</b>
Nufarm Ltd	NUF AU	10.7	2,029	14.0	1.1	8.0	14%
<b>Premium/Discount</b>				<b>19%</b>	<b>-20%</b>	<b>9%</b>	
Monsanto Co	MON US	79.8	43,559	22.4	3.7	13.4	28%
Syngenta Ag-Reg	SYNN VX	255.5	23,945	15.0	2.4	10.5	23%

Source: Bloomberg

### Precedent transactions

We believe that the most recent transactions (see table below) in the herbicide space took place in late 2007

- Both transactions took place at 11.6x- 12.5x EV/EBITDA multiples implying a price in the range of A\$17.19 to A\$18.80 for Nufarm
- However since late 2007 we believe that industry has been in a down cycle due to deteriorating economic conditions
  - Equity markets(ASX200 Index) has fallen ~28% since Nov 2007
  - Nufarm has downgraded its earnings as much as ~30% due to more than expected slow down in demand for its products

### Precedent transaction multiples

Date	Target	Bidder	Status	Forward EV/EBITDA	Implied price
Oct-07	Arysta LifeScience	Permira	Completed	12.5	18.80
Nov-07	Nufarm	ChemChina	Failed	11.6	17.19

Source: Press reports, company Announcements, internal estimates.

## Rationale for a bid by SinoChem

### Benefits to SinoChem

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We believe that Nufarm is an attractive target for SinoChem to substantially expand in to the global crop protection market

- Nufarm is one of the three largest players (other players are United Phosphorous and Makhteshim) that compete in the generic herbicide market segment
  - Nufarm is the second largest global producer of generic crop protection products and the eighth largest in the overall crop protection industry
    - We understand that Nufarm's overall market share is between 4%-5%
    - In Australia Nufarm appears to have a market share of ~45% in the crop protection market
    - Nufarm is the #1 player in Phenoxy herbicides and #2 in the glyphosate herbicide (where?)
- The acquisition of Nufarm will provide SinoChem exposure to the American and European markets through Nufarm's production and distribution facilities
  - Nufarm has a well diversified revenue base and generates significant revenue in America and Europe
- Further we believe that Nufarm's expertise and know-how in the production of herbicides could be of strategic value to SinoChem

### Benefits to Nufarm in accepting SinoChem's bid

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We believe that the main benefit for Nufarm is that it could improve its competitiveness over supplies by merging with SinoChem

- SinoChem is currently a supplier of intermediates/inputs to Nufarm's products and a low-cost manufacturer of glyphosate
- In addition, we believe that Nufarm could achieve revenue synergies through cross marketing of its products in China with the help of SinoChem
- However we believe that cost synergies are likely to be limited given the limited overlap between SinoChem's and Nufarm's operations

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European Research Ltd  
6 Duke Street St. James's  
London SW1Y 6BN

Tel: +44 (0)20 7484 6501  
Fax: +44 (0)20 7484 6556

[www.europeanresearch.uk.com](http://www.europeanresearch.uk.com)

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