

Better 1Q11 results - BUY

Solid 1Q11 results; EBITDA margin expands 420bp QoQ

Vale Fertilizantes reported better than expected 1Q11 results, with Net Revenues 16% above our estimates on higher average prices, mainly of low concentrate phosphate (SSP) and nitrogen. EBITDA of R\$237mn was 11% higher than expected, implying an EBITDA margin of 25%, slightly lower than ours at 26%. Although Vale Fosfatados' products usually have lower margins, consolidated EBITDA margin expanded 420bp from the 4Q10 as: 1) SG&A remained largely flat, although revenues rose 19% QoQ; and 2) synergies from the merger with Vale Fosfatados started to be captured. EPS of R\$0.20 was slightly below our R\$0.21, improving from R\$0.15 last quarter.

Vale Fosfatados is incorporated; synergies kicking-in

The results for Vale Fosfatados were incorporated for 2 months in the quarter (Feb-Mar). The assets consist of: 1) Two phosphate rock mines, with capacity of nearly 2.2mt, 2) Three chemical plants, which produce low concentrate phosphate (SSP), and a premium phosphate product (DCP) used mainly in nutrition. The reorganization already started to generate synergies with Vale Fertilizantes, as margins were not diluted by much. According to management, synergies are mostly related to logistics for phosphate rock between mines, as well as the port logistics; plants and administrative staff integration, procurement and tax savings.

Phosphate waiting on China exp., wet US fields and India

DAP prices have stabilized internationally in recent weeks near the US\$620/mt FOB level in the US, and trade reports apparently have shown some demand slowdown in the last few weeks. Despite a fundamentally tight market, buyers are stepping down of the market in anticipation of: 1) a slowdown in the US as a result of wet weather and flooding, which will likely impact applications, 2) DAP exports out of China during the June-Sep shipping window, which vary from 2-3mn tons, and 3) India imports, which are crucial to maintain the market firm.

Maintain Buy: limited downside risk if FFTL is de-listed

Although we believe the uncertainty regarding the final decision of the corporate reorganization should continue to weigh on the shares, we maintain our Buy rating on Vale Fertilizantes as: 1) in a scenario where Vale decides to de-list Vale Fertilizantes, we believe there is limited downside risk to current levels whether Vale decides to use Vale's shares or pay with cash; and 2) earnings momentum remains positive despite the increase in raw materials prices (sulfur & ammonia), as phosphate prices remain supported on firm global S&D balance.

Equity | Brazil | Fertilizers
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Stock Data

Price	BRL16.25
Price Objective	BRL23.00
Date Established	20-Dec-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
BofAML Ticker / Exchange	FEUOF / SAO
Bloomberg / Reuters	FFTL4 BZ / FFTL4.SA

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Refer to important disclosures on page 4 to 7. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11048029

Vale Fertilizantes 1Q11 results

Table 1: Vale Fertilizantes 1Q11 results

R\$m	1Q11A	1Q11E	A/E	4Q10A	QoQ	1Q10A	YoY
Net revenues	946	814	16.2%	792	19.4%	558	69.4%
Gross Profit	168	209	-19.5%	137	22.6%	96	74.6%
Gross Margin	17.8%	25.6%	-7. pp	17.3%	0.4 pp	17.2%	0.5 pp
EBITDA	237	213	11.1%	165	43.6%	101	134.7%
EBITDA Margin	25.1%	26.2%	-1. pp	20.8%	4.2 pp	18.1%	6.9 pp
Net Income	114	117	-2.8%	62	83.9%	41	179.3%
EPS (R\$/share)	0.20	0.21	-2.8%	0.15	37.3%	0.10	108.3%

Source: BofA Merrill Lynch Global Research estimates, Company Data

Price objective basis & risk

Vale Fertilizantes (FEUOF)

Our price objective of R\$23/share is based on a DCF valuation approach, based on a WACC of 9.9% in BRL, 120bps for Brazilian country risk, and 4% growth in perpetuity. We estimate that Vale Fertilizantes will expand its phosphate rock capacity by 2.0mn tons, and final product (DAP) by 1.42mn tons. We do not assume any other expansion on nitrogen and chemicals. We assume DAP US fob prices to average US\$478/ton in 2010 and US\$530/ton in 2011. We also assume the incorporation of Vale Fosfatados with a total equity of R\$3.0bn.

The risks to our price objective are: 1) Fertilizer prices decline in the near term, 2) Grain prices decline, lowering margins for the Brazilian farmers, which are among the highest cost producers. The upside risks to our price objective are: 1) Strong fertilizer demand leading to stronger than expected prices, 2) The BRL reaches above the 1.8 level for the foreseeable future, leading to higher margins for the company, and 3) sulfur prices start to decline.

Link to Definitions

Basic Materials

Click [here](#) for definitions of commonly used terms.

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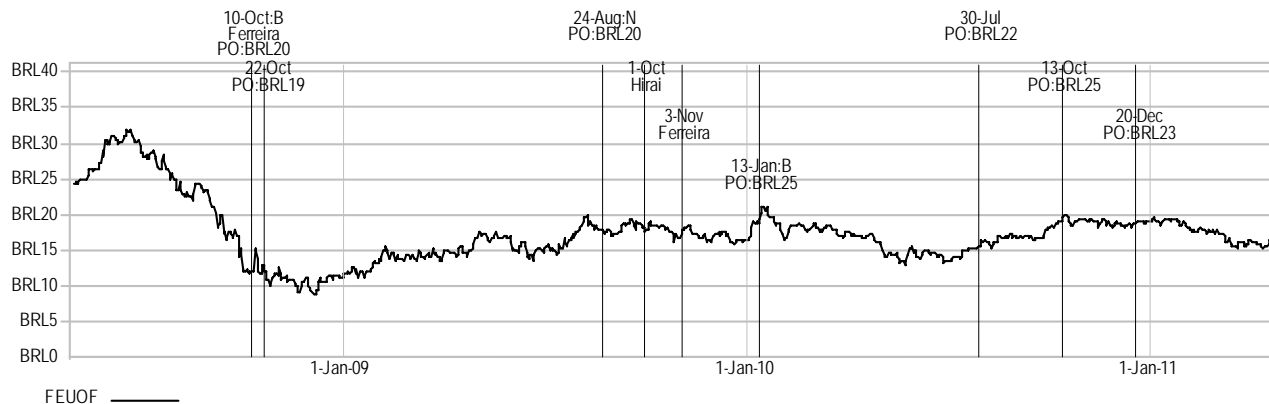
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FEUOF Price Chart



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Investment Rating Distribution: Chemicals Group (as of 01 Apr 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	64	58.72%	Buy	30	54.55%
Neutral	22	20.18%	Neutral	9	45.00%
Sell	23	21.10%	Sell	7	31.82%

Investment Rating Distribution: Global Group (as of 01 Apr 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2009	53.66%	Buy	912	49.89%
Neutral	955	25.51%	Neutral	439	50.93%
Sell	780	20.83%	Sell	257	35.11%

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