

# Investors Take Rooting Interest In Fertilizer Business

ENERGY: Shares soar for Westwood's Rentech as IPO for its spinoff nears.

By ALFRED LEE *Staff Reporter*

Fueled by the initial public offering of its spinoff fertilizer company, Westwood parent Rentech Inc.'s shares did some miracle growing of their own last week.

The renewable energy development company was the biggest gainer on the LABJ Stock Index last week, closing up almost 36 percent at \$1.93 for the week ending Nov. 2.

Analysts attributed that to excitement over the IPO of spinoff company Rentech Nitrogen Partners LP, which makes nitrogen fertilizer, a product that's booming. Rentech is keeping a 60 percent stake. Due in part to high demand linked to the rising price of corn and other agricultural commodities, shares of other major nitrogen fertilizer companies are up 50 percent this year. The IPO was scheduled for Nov. 4.

"The increase in the price of Rentech indicates that the market is getting more confident in the value of the fertilizer business," said Pavel Molchanov, an analyst in the Houston office of Raymond James & Associates Inc.

Rentech announced initial pricing of its spinoff at \$20 per

share, valuing its fertilizer business at more than \$700 million – significantly higher than the parent company.

Lloyd Greif, chief executive at downtown L.A. investment banking firm Greif & Co., called separating the two businesses a "slick move."

"When you have an undervalued asset the market's not giving due credit to, and the stock's depressed, one way to unlock that value is to separate that asset out, let the market value it and retain control, as they're doing here," Greif said. "They've effectively adopted a new face."

Rentech's main focus is developing cleaner-burning jet fuel from plant-based biomass, but so far it has struggled to commercialize that strategy.

Instead, a side venture into nitrogen fertilizers has been the company's main source of revenue and biggest asset.

In 2006, the company bought a nitrogen plant in East Dubuque, Ill., in a deal worth \$70 million. It intended to convert the plant into a coal gasification plant that produced materials for synthetic



fuel. But as the fertilizer market took off, Rentech left the plant untouched.

"The company got quite lucky in its acquisition of the fertilizer plant back in 2006 and has benefited as fertilizer margins became really high in recent years," Molchanov said. "The company has no other assets that are cashflow generating."

The outlook for its core business, meanwhile, remains murky.

The company has not built any commercial-scale renewable energy facilities due to trouble in obtaining financing. Until it does, analysts expect shares of Rentech to trade parallel with its nitrogen spinoff.

A company spokeswoman declined to comment, citing a quiet period prior to the IPO.