



A Company To Plant In Your Retirement Account

Description

In an investing world full of uncertainty, it's nice to find themes that you can rely on. People eating is about as reliable as it gets. And as the number of the Earth's inhabitants grow and standards of living slowly rise, more food will be required to satisfy this theme. **Potash Corp. (TSX:POT,NYSE:POT)** is going to help make it possible to feed the expanding appetite.

Saskatchewan based Potash Corp. produces potash, phosphate, and nitrogen. Potash, the commodity, is the company's core and accounted for 73% of sales in 2011. Potash, the company, is the world's largest producer of potash with 20% of global capacity at five low cost mines in Saskatchewan and one in New Brunswick. The company also holds equity interests in offshore potash-related businesses in Jordan, Israel, Chile and China.

Potash is a soil fertilizer. Fertilizer is used to make agricultural land more productive. The world's population is growing at a rate of approximately 75 million people per year. At the same time, the amount of arable land in both the developed and developing world is declining. In 1970, the world had 0.4 hectares of arable land per person. In 2010, this figure had been nearly cut in half. Fertilizers can be expected to play a crucial role ensuring the shrinking amount of arable land is able to support the world's growing population.

Seems like a no brainer

The overarching people eating/growing population/shrinking land supply story that surrounds Potash Corp. is seemingly iron clad. The company's website is loaded with evidence that supports this story and CEO Bill Doyle is a passionate promoter of Potash Corp. and the role it plays in helping to solve global hunger. To be sure, there are far less noble causes to passionately promote.

From an investment perspective though, POT has been a tricky stock to get right for some time now. After a huge run through the middle part of the last decade when the commodity price shot up to a level north of \$1,000/tonne (currently around \$400/tonne), Potash's stock has been parked around the \$40 to \$50 mark for the past five years or so.

There's always a but.....

One of the issues that Potash must deal with is that the application of potash is not required on an annual basis. If the commodity is too expensive, farmers just won't use it. In addition, farming itself is far from a steady state business. Weather, crop prices, and government actions all go into making each and every growing season an adventure. Potash producers must exert significant effort balancing the industry's supply and demand dynamic.

As the global leader, Potash tends to shoulder much of the load when it comes to managing the supply side of the industry. When prices appeal to farmers and demand is strong, Potash produces more potash. If prices drift up and negatively impact demand, Potash cuts back. This ebb and flow brings great variability to Potash's results and makes predicting quarterly and annual figures a tough game for the folks who do that sort of thing. This variability has weighed on the stock.

Cash to the rescue

The industry's ebb and flow is unlikely to change so if you're interested in this story, patience is part of the deal. To help investors get past this short term issue, the company has stepped up its dividend game, big time ([gold companies should take note](#)). In 2011 the company paid out an *annual* dividend that amounted to \$0.28 per share. On January 30 Potash announced that \$0.28 is now the *quarterly* dividend (up from the most recent quarterly level of \$0.21). Potash yields 2.6%, approximately 100bps more than two of its closest competitors, Agrium at 1.8% and Mosaic at 1.6%.

On the most recent conference call, CEO Doyle would not commit to a hard and fast payout rate, however, he did promise to be the industry leader in returning cash to shareholders over the next 5-10 years. Free cash flow could climb by as much as \$1 billion (double current levels) in the coming years as two expansion projects are finalized thus reducing cap ex. Further dividend increases are likely.

The Foolish Bottom Line

Because of the short term variability that surrounds Potash Corp. picking an entry point for the stock is little more than an educated guess. You could very easily buy it today at \$42 and wake up 6 months from now and have it be at \$38 if something falls out of line in the world of farming. The yield is going to help support the stock price however, as will Potash Corp.'s ability to control industry supply, which means the price of the commodity is unlikely to crash. Therefore, a complete washout/lifetime buying opportunity is not something you should hold your breath for.

In my opinion, the short term volatility and sound long term thesis make this a perfect stock to stick in your retirement savings account and more or less ignore. When retirement comes around and it's time to cash in, Potash Corp. is likely to provide you with plenty of bread.....in more ways than one.

[Follow us on Twitter](#) for the latest in Foolish investing.

Fool contributor Iain Butler does not own shares in any of the companies mentioned in this post at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/09/12

Date Created

2013/02/01

Author

tmfohcanada

default watermark

default watermark