



Stepping into Fertilizer Stocks

Description

The markets often get it wrong when they push the price of quality companies lower due to short-term events in the marketplace. This very phenomenon may be happening in the fertilizer industry as a weak pricing environment and negative news have sent shares lower this year. The market's reaction to news often creates brief opportunity for investors seeking value, but is it time to step in or time to be patient and let the markets take their course?

Short-term concerns

One of the biggest stories to hit the fertilizer market was the announcement by Russian-based **Uralkali** that it will end its cooperation with its Belarusian partner Belaruskali through which both companies exported potash via Belarusian Potash Company. Uralkali will instead direct all exports through its own Uralkali Trading and abandon limits on potash production which could send potash prices reeling.

This news put pressure on the entire fertilizer industry, but the selling in purer potash players was certainly more severe. The reaction was not entirely unwarranted as potash prices could be negatively impacted by the increased production from Uralkali which is already the world's number one producer by output and controls a global market share of approximately 20%.

Long-term prospects

We live in a world of growing populations, changing appetites, and potentially shrinking arable lands. According to the [United Nations World Population Prospects 2012 Revision](#), the population is estimated to currently be just under 7.2 billion and increase by nearly 1.0 billion over the next twelve years reaching 8.1 billion and grow another 1.5 billion reaching 9.6 billion by 2050. That is a lot more hungry mouths to feed over just the next 12 years. According to the Food and Agriculture Organization of the United Nations, agricultural production will need to increase by 70% globally and by 100% in developing countries to meet the demand for the estimated 2050 population.

The diets of developing countries around the world are changing with the onset of rising incomes and continued urbanization. Typically the result is increased meat consumption and lower consumption of cereal. However, the increased meat consumption will drive the demand for feed cereal higher and the

requirements for grazing land will be greater.

The argument over arable land takes both sides and would be difficult to solve here. However, it is known that much of the higher quality arable land is in use and the remaining land suitable for crops is not in areas where the population is growing the fastest. As farmers attempt to grow crops on less fertile land near population growth, the use of fertilizers will increase in order to maintain desirable yields. In addition, crop land will have to compete with grazing land as demand for meat products worldwide continues to increase.

How to play it

Canada is home to another one of the world's largest producers of potash and when combined with capacity for producing phosphate and nitrogen, **Potash Corporation of Saskatchewan Inc.** (TSX: POT), is the largest fertilizer company in the world. The stock of Potash Corp. was crushed on the day of the Uralkali announcement falling 16% that day and even further the following day. The stock has recovered slightly from lows, but is still trading at prices not seen since 2010.

Another large player in the fertilizer space is **Agrium Inc.** (TSX: AGU). Shares of Agrium were not as impacted by the Uralkali announcement, but have been weak since mid-February. Agrium offers the investor a more diversified way to play the fertilizer markets. The company distributes products similar to Potash Corp., but also has a retail unit that distributes seed, crop protections and nutrients directly to the grower. In addition its technology unit offers controlled-release fertilizers to golf courses, lawn care providers, nurseries, horticulturists and other specialty agricultural customers.

For a more speculative play, an investor might take a look at **MBAC Fertilizer Corp.** (TSX: MBC). MBAC has had a tough go of it during 2013 as it watched its shares fall by over 66%. The shares are now off the lows, but still remain depressed.

The company has four phosphate projects and one potash project all of which are located in Brazil. However, the company has yet to produce any material revenues and only last month saw its first production of Single Super Phosphate powder from its Itafos Arraias SSP Project. However, the location of the projects in the agriculturally focused Brazil may make MBAC an interesting long-term investment prospect.

Final thoughts

Due to the potential impact of the Uralkali decision, it may be a little early to touch a more pure play such as Potash Corp. While the stock price tumbled hard on the news, if the predicted price drops follow, shares of Potash Corp. will most likely find lower ground.

The long-term prospects for the Brazilian properties of MBAC may present a significant value at current levels, but the lack of revenues from this company in a time of pricing uncertainty might make this too risky for more conservative investors. The recent production is a positive sign, but patience with MBAC would seem prudent.

That leaves us with the more diversified Agrium. The retail sales drive revenue at this company and Agrium reported that sales from this unit increased by 7% over the second quarter of 2012. The much smaller technology unit saw an increase of 16% while the wholesale revenue from the distribution of

nutrients fell by 9%. The retail and technology units should provide a cushion for the wholesale unit which may see further pricing pressure making Agrium the more conservative pick.

Stepping lightly around fertilizer stocks until the markets sort out the recent announcement by Uralkali may allow patient investors to take advantage short-term concerns and reap the rewards of the long-term prospects.

Another resource that we are rich in

Potash is currently out of favour, but its long-term prospects are solid. Another out of favour Canadian resource is uranium – the key ingredient for nuclear power. Uranium has the potential to be *the* energy source of the next 100 years.

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