



3 Reasons Why BHP May Bid on PotashCorp Again

Description

Back in 2010, Australian mining giant **BHP Billiton** ([NYSE: BHP](#)) did everything it could to acquire **Potash Corporation of Saskatchewan** (TSX: POT)(NYSE: POT) for U.S. \$38.5 billion, but ran into opposition from PotashCorp's management, then the government of Saskatchewan, and finally the government of Canada.

In the end, it was Industry Minister Tony Clement who announced that the government of Canada had blocked BHP's bid. Now the *Globe and Mail* is speculating that BHP could take another run at PotashCorp. Below are three reasons why.

1. The politics have changed

On the surface, it would appear that the politics are very similar. Saskatchewan Premier Brad Wall and Canadian Prime Minister Stephen Harper, who were both instrumental in blocking BHP's bid, still hold their respective positions.

But in late December, PotashCorp eliminated over 1,000 jobs, about 18% of its workforce, including 440 in Saskatchewan. This did not go over well with Mr. Wall, who said that the company should rethink its dividend policy. So Mr. Wall may not feel as much of a need to protect PotashCorp as he once did — especially if BHP promises to hire back the 440 workers if its bid is successful.

Stephen Harper has also since shown that he is willing to approve large foreign takeovers, such as CNOOC's \$15.1 billion takeover of underperforming oil producer Nexen.

2. New personalities

Back in 2010, the CEOs of BHP and PotashCorp were Marius Kloppers and Bill Doyle, respectively. Mr. Kloppers did not endear himself to Mr. Doyle or Premier Wall, but he has since retired. And Mr. Doyle is stepping down as well. His replacement, Jochen Tilk, does not have Mr. Doyle's combative personality, and could be open to merger discussions, if other stakeholders are on board too.

3. The economics work

BHP is currently in the midst of building Jansen, which will be the world's biggest potash mine. The total price tag will be about \$15 billion. Meanwhile PotashCorp, including a takeover premium, would cost about \$40 billion. But PotashCorp has numerous other assets, such as nitrogen and phosphate production, as well as equity stakes in other public companies.

Combined, these other assets could be worth \$20 billion, leaving BHP paying only slightly more than the cost of Jansen. And PotashCorp has far higher production capacity than Jansen ever will.

Furthermore, a takeover would allow BHP to suspend Jansen, which would reduce global supply and help support potash prices.

Foolish bottom line

Despite these changes, a second BHP bid is still far from reality. Premier Brad Wall may be annoyed that PotashCorp cut a bunch of Saskatchewan jobs, but that doesn't mean he will approve a merger he once opposed. And Jochen Tilk is a big change from Bill Doyle, but Mr. Tilk still has a record of defending companies ferociously against takeover attempts. Finally, if BHP wanted to suspend Jansen, that would lead to layoffs, thus increasing the political hurdles.

So PotashCorp still may be a worthwhile addition to your portfolio. Just don't count on a takeover.

CATEGORY

1. Investing

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