



3 Reasons to Buy Potash Corporation of Saskatchewan

Description

Whenever a new CEO takes over, it's always nice to lay out a big welcome mat. And that is exactly what **PotashCorp** (TSX: POT)(NYSE: POT) did on Thursday morning, with earnings above expectations for the first quarter of 2014.

It was the last earnings release under longtime CEO and industry legend Bill Doyle – on July 1st, Jochen Tilk will take his place. And it was a great quarter too. Thanks to strong demand, earnings came in at 40 cents per share, well above guidance of 30-35 cents per share. Mr. Tilk will thus have some nice momentum to work with once he assumes his new role.

The company's shareholders will certainly be celebrating these results too. Below are three reasons why you should become one of them.

1. Strong and consistent demand

It's easy to forget that PotashCorp is a miner. Because when one typically thinks of mining companies, one thinks of extreme cyclicalities, wildly fluctuating prices, and China's slowing growth. But the story is different when it comes to potash.

While potash demand will fluctuate slightly depending on farm incomes and planting seasons, in the end it is dependent on people's need for food, something that doesn't swing wildly. In fact with rising populations and increasing meat consumption – which requires more fertilizer – potash will see steadily increasing demand in the coming decades, no matter what happens in China.

2. Industry supply issues

While many metals can be mined all over the world, there are very few known potash deposits. And while Canada is the world's largest potash producer, second place goes to Russia. But with all the turmoil going on in Ukraine, and the threat of further sanctions against Russia, the country's contribution to global supply is up in the air.

3. A beaten-up price

The past few years have not been very good for PotashCorp or its shareholders. The company's shares have returned -9.5% per year over the past three years, resulting in a stock price that seems very depressed. By comparison, shares of **Agrium** (TSX: AGU)(NYSE: AGU) have returned 7.6% per year over the same time period.

It is true that potash prices are down, which has contributed to the depressed share price. But there is a strong argument, based on supply and demand fundamentals, that it will be difficult for potash prices to go much lower. So for PotashCorp shareholders, it's just a matter of waiting for a rebound.

Foolish bottom line

The most important thing to remember about PotashCorp is that it is not like other mining stocks. It does not face the same risks, and thus is a safer option for your portfolio. And as Mr. Tilk gets set to take over, the company has some nice positive momentum too. He is certainly hoping this will continue.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/07/06

Date Created

2014/04/24

Author

bensinclair

default watermark

default watermark