



Why Fertilizer Stocks Still Have Room to Grow

Description

PotashCorp (TSX: POT)(NYSE: POT) recently revealed key insights into the present situation of the fertilizer market and the shape of things to come in its Q2 market analysis report. Those valuable updates could give you a great idea about where fertilizer stocks like PotashCorp, **Agrium** (TSX: AGU)(NYSE: AGU), and **Mosaic** ([NYSE: MOS](#)) are headed in the near future. Here are three key takeaways from PotashCorp's report that you must know.

1. The potash market is turning around

After a lull that lasted several quarters, global potash markets are finally showing signs of recovery. There's no better evidence than PotashCorp's latest move to cancel some of its previously announced layoffs.

Strong demand for granular potash has prompted PotashCorp to continue production at its Penobscis mine in New Brunswick, which was previously scheduled for closure by the second quarter of this year. This is big news, because granular potash not only commands a premium over standard potash, but is also the preferred form in North America and Brazil.

Interestingly, despite these industry headwinds, PotashCorp projects *record* global potash shipments for the first half of the year and higher second-half shipments versus the past two years. For the full year, PotashCorp foresees a 4%-7% improvement in potash shipments versus 2013. The graph below provides a complete picture.

[POT shipments](#) Image not found. Image is unknown

Source: PotashCorp Q2 Market Analysis Report

Contrary to what the market believes, demand for potash remains as strong as ever. If there's anything that's hurting potash producers, it's the low prices for this nutrient. Fortunately, things are looking better on that front too. In a surprising move, Russia's Uralkali has decided to slash potash production by 8% this year to support prices. Investors may recall that Uralkali broke away from its marketing group with Belaruskali last year to pursue a volume-over-price strategy [in a bid to gain greater market share](#).

Uralkali's latest move almost ensures that potash prices are unlikely to fall further.

Potash producers may have to wait years to see the kind of prices that existed in 2008-2009, when potash prices had crossed \$800 then as compared to \$350 today, but any recovery will help restore stability in the market, and hence in sales and profits of PotashCorp, Agrium, and Mosaic. Going by PotashCorp's report, these companies should end this financial year on a better note compared to 2013.

2. The nitrogen market is losing its resilience

Unfortunately, the nitrogen market appears to be losing its charm even as the potash market rebounds. An influx of Chinese urea and greater production in the Middle East are both putting downward pressure on the demand for and price of urea in the U.S. PotashCorp projects 2014 to be a record year for Chinese urea exports, which bodes ill for itself and Agrium. To top that, improving natural gas prices will add to these companies' costs, since natural gas is the key input for nitrogen fertilizer.

PotashCorp projects nitrogen markets to "exhibit seasonal trends" for the rest of the year. In other words, persisting challenges will likely keep the market under pressure. While PotashCorp gets a third of its total revenue from nitrogen, the nutrient [forms the bulk](#) of Agrium's wholesale division's sales and profits. Thus, both companies are at risk if nitrogen markets weaken.

3. The phosphate market is gaining strength

Things have started to look better for the third important nutrient, phosphate. PotashCorp sees the phosphate market recovering this year, backed by improving demand from a key market, India, and healthy levels of spot purchases from other markets like North America and Latin America. Phosphate exports from the U.S. jumped 46% sequentially in May, indicating active international markets. Phosphate prices have also remained relatively stable so far this year after bottoming out late last year.

All of this is good news, especially for PotashCorp and Mosaic, which derive big portions of their revenue from phosphate. Agrium isn't affected as much since it has little exposure to the nutrient.

Better days ahead

This year will not be an easy one for fertilizer companies, but it should turn out to be a little better than last year. India, with a new government at the helm, may especially [have a key role to play](#) in the industry's turnaround since it counts as one of the top fertilizer-consuming nations in the world. Therefore, any positive news from India could push fertilizer stocks higher. Even if this doesn't happen, the worst is evidently over for PotashCorp and peers, and investors can remain hopeful.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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