



Here's Why I Finally Bought Shares in PotashCorp

Description

I have wanted to add shares of **PotashCorp** (TSX: POT)(NYSE: POT) to my portfolio for a while now. While I've been vocal that I thought its [stock was a buy](#), I simply didn't have a spot open for it in my personal portfolio. Now that I have some excess capacity, I'm finally adding this fertilizer stock to my holdings.

PotashCorp is a stock I can see holding for a long time, as it has the three critical characteristics I look for in a core stock holding. It has visible organic growth, pays a very compelling dividend, and is strategically positioned to profit from a very long-term trend.

Visible organic growth

A company will talk about its growth prospects all the time. What I want to see in a core holding is a company that's putting its money behind those words. In PotashCorp's case, it's investing \$8.3 billion to expand its potash capacity. This investment is firming up its position as a low-cost supplier to meet near-term demand, which is expected to grow 4% annually through 2018. Furthermore, these investments in capacity are also providing the company with the flexibility to grow its sale volumes as demand grows.

Compelling dividend yield

The second critical characteristic I look for in a company I plan to hold for a long time is a compelling dividend yield. At a current yield of nearly 4%, PotashCorp pays a dividend that certainly caught my eye. Its dividend is already higher than **Agrium's** (TSX: AGU)(NYSE: AGU) 3.5% payout and is nearly twice as high as **Mosaic's** ([NYSE: MOS](#)) 2.1% payout. One reason PotashCorp's payout is higher than its peers is because the company has really committed to its dividend, as evidenced by the fact that it has rocketed 950% higher in recent years.

As substantial as its past growth has been, this is a payout that should continue to grow in the future as the company is 93% complete with its \$8.3 billion capital spending plan. Because the plan is nearly complete, PotashCorp's cash flow should grow substantially over the next few years from both the reduction in this spending and the added cash flow from the additional capacity.

The mega-trend of agriculture

The third thing I love about PotashCorp is its exposure to the mega-trend of agriculture. Explosive population growth and a surge in the middle class will create massive demand for food in the years ahead. By some accounts, farmers will need to produce more food in the next 50 years than they've produced over the past 10,000 years. What's rather startling to realize is that all of this food must be produced while the arable land base is shrinking. Needless to say, this is a recipe that calls for a heavy dose of fertilizers.

While Agrium and Mosaic are both positioned to profit from this trend, I view PotashCorp as the best of the three. Its strength lies in potash, which is the fastest-growing fertilizer and also the most costly to develop. PotashCorp already has the capacity in place to profit from demand growth, with plenty of room to add capacity at the lowest cost when the need arises.

PotashCorp has everything I want in a long-term stock holding. It has clearly visible organic growth, already pays a compelling dividend that's expected to get a lot bigger, and is well positioned to keep growing in the future thanks to the mega-trend in agriculture. While it took me a while to find some extra capacity in my portfolio, I'm glad I found room for PotashCorp.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

Category

1. Investing

Date

2025/07/28

Date Created

2014/07/15

Author

mdilallo

default watermark