Potash Corp./Saskatchewan Inc. Still Has Plenty of Upside Potential

Description

For some companies, profits are near ridiculous levels.

Last year, I highlighted two turnaround stories in the Canadian resource sector. Since then, both of those stocks have soared. Investors who took my advice and got in early are up double-digits today.

Now I have identified a similar turnaround situation. Several indicators suggest that this stock has enormous upside potential. Double-digit gains could be ahead for investors who get in on the ground floor.

Let me explain.

Explosive stock gains don't happen by accident. The biggest stock winners are often the result of a *new* product, a *new* management team, or *new* industry conditions that propel shares to breathtaking heights. That's why when you're hunting for the next multibagger, it's important to look for a new angle on the company.

Take **Encana Corporation** (TSX: ECA)(NYSE: ECA), for example, which I highlighted as my favourite stock of 2014 to paid subscribers back in January. Over the past year, the company's new head honcho, Doug Suttles, has slashed costs, sold or spun off non-core assets, and transitioned towards a more profitable oil-rich production mix. Since that original report, Encana's shares are up over 25%.

It's almost the same story at **Suncor Energy Inc.** (TSX: SU)(NYSE: SU). Since Chief Executive Steve Williams took over at the oil sands giant in late 2011, he has dialed back the company's expansion plans, sold off low-returning assets, and more than doubled the size of the company's dividend. Over that time Suncor's shares have rallied 60%, handily outperforming the rest of the Canadian energy industry.

Now I believe the exact same situation is in play at another commodity giant: **Potash Corp./Saskatchewan Inc.** (TSX: POT)(NYSE: POT).

Former Chief Executive Bill Doyle headed the company for over 15 years. He was a permanent bull on fertilizer prices, constantly pushing for expansion. However, since potash demand has remained flat since 2007, Doyle's U.S.$8.3 billion expansion strategy has left the company with massive amounts of unused production capacity.

New Chief Executive Jochen Tilk could not be more different from his predecessor. Unlike the promotional Doyle, Tilk has a quiet, conservative demeanour. For most of his career he has dodged the media spotlight.

Tilk built a reputation as a solid mine operator as the former head of Inmet Mining Corp. His focus has been on reducing costs and running mines as efficiently as possible. His experience in the copper industry should be an asset, as the introduction of new ideas should boost performance.

This is exactly the type of leader the company needs right now. Although it may sound counter-intuitive, dialing back expansion plans and cutting costs would unlock an enormous amount of value for shareholders. Returning more capital to investors in the form of dividends and buybacks would intimately endear Mr. Tilk to the investment community.

Wall Street is investing its money in Tilk. SEC filings have revealed that a number of hedge fund managers, including Paul Tudor Jones, Steven Cohen, and D.E. Shaw, increased the size of their stakes in the company last quarter. Over the past few months, investing legend Jean-Marie Eveillard has built a massive $668 million position in the stock.

Of course, Tilk has only been on the job for a few weeks. It will take him a little while to wrap his head around the company's extensive operations. However, over the next few quarters, management will start to detail its new strategy to investors. If the company continues its cost-cutting initiatives and returns more capital to shareholders, it could be a huge catalyst for the stock.

CATEGORY

1. Investing

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Date
2025/07/05
Date Created
2014/08/07
Author
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