



Why Potash Corp./Saskatchewan Inc. Should Be in Your Portfolio

Description

North American producers of fertilizers currently have levels of inventory that are below the previous five-year average. This is big news for **Potash Corp./Saskatchewan Inc.** (TSX: POT)(NYSE: POT), considering it is the largest producer of potash fertilizer in North America and also the company with the lowest price per tonne.

This is a big advantage for the company as it can significantly move the supply in the market — Potash Corp owns 22% of worldwide production — and benefit immensely from any rise in price given its low cost of production.

I liked Potash Corp. because of its low-cost structure earlier this year, but now that the current crop yield reports are out, I like the economic factors for this sector even more.

Strong sales overseas

Potash Corp., along with **Mosaic Co** ([NYSE: MOS](#)) and **Agrium Inc.**, created a group called Canpotex to help export their products worldwide. This joint venture is selling record volumes of fertilizers and recent numbers indicate that Canpotex might be sold out for the third quarter of 2014.

This reinforces the thesis that potash, phosphate, and nitrogen prices should trend higher for the balance of the year given the substantial demand by farmers worldwide and a record crop yield estimate. This should keep prices for commodities like corn, wheat, and soybean low and give farmers further incentives to increase yields per acre.

One of the best and most inexpensive means to increase output per acre is to have the optimal mixture of fertilizer going into the soil during planting season. More and more emerging market farmers are learning about the benefits of using fertilizers and are adopting it. Such massive numbers of farmers coming into the market will help alleviate the increased production volumes that were built in past years and bring back some balance between supply and demand.

Given the high portion of worldwide supply that Potash owns, it will gain the most from any growth in gross revenue at Canpotex.

New management at the top

This year marked a big change for Potash Corp. as 15-year veteran CEO Bill Doyle passed the torch to Jochen Tilk. Anyone who's followed Potash Corp. in recent years knows all about Mr. Doyle's flamboyant personality and optimism towards the future of fertilizers. That being said, I like the fact that the Board of Directors went and got a pure mine operator as a successor. Mr. Tilk is an operator with a great track record at managing costs throughout the production chain following more than two decades at Inmet Mining.

Given that the balance between supply and demand in the industry is starting to stabilize, there will be much work needed to balance growth and cost management when ramping up production at the company's various mines. I think Mr. Tilk is the right man for the job and investors might grow to like the new face of Potash Corp.

The bottom line

During the last year, institutional investors have loathed fertilizer companies primarily because of the cartel breakup by Uralkali in the summertime of 2013. So far 2014 seems to be a year of record volume in sales while prices are still at lows, but the current stock volumes indicate that upward price pressure might be on the horizon this coming planting season. Being one of the lowest-cost producers in the world, Potash Corp. will benefit immensely from any price uptick.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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