



Why Potash Corp./Saskatchewan and Agrium Inc. Are Dividend Growth Giants

Description

Exciting things are on the horizon for investors who own shares of fertilizer producers **Potash Corp. of Saskatchewan** (NYSE:POT) (TSX:POT) and **Agrium Inc.** (NYSE:AGU) (TSX:AGU).

Tough times

The global fertilizer market has been difficult over the past year as potash prices dropped by nearly 25% from \$400 per tonne to the \$300 range.

The break-up of the potash marketing venture between Russian producer **OA O Uralkali** and Belarusian producer **Belaruskali** is to blame for the price drop and global potash wholesalers have scrambled to adjust output and manage costs to accommodate the lower margins.

Potash Corp. and Agrium Inc. have battled back and the stars are now aligning for some serious free cash flow growth at both companies.

Here are three reasons why I think Potash Corp. and Agrium Inc. are going to reward shareholders with big dividend increases.

1. Record demand

Uralkali said in an August 28 statement that it expects North American potash demand to equal the record levels set in 2010.

The report estimates that North America may use as much as 10 million tonnes of potash in 2014. This is a significant increase from the previous estimate of 9.2 million tonnes.

Crop yields in North America this year are hitting all-time highs and farmers will be comfortable spending more money on crop nutrients to assure the fields are ready for next year's production.

Uralkali said potash demand in North America in the first half of the year was up 30% compared to 2013. Demand growth is also strong in China and Brazil and Uralkali confirmed its belief that 2014

global demand for potash could hit record levels by year-end.

2. Increasing potash prices

The bottom appears to be in for the potash market. China signed an agreement with Uralkali last January for \$305 per tonne and Uralkali recently said it expects the renewal price in 2015 to be about 10% higher.

In the spring, India signed contracts with both Uralkali and North American trading group Canpotex for \$322 per tonne. Potash Corp., Agrium, and **The Mosaic Company** ([NYSE:MOS](#)) own Canpotex.

3. Increases in production

Both companies are completing an era of multi-year capital expenditures on expansion projects.

Potash Corp. has the capability to increase production as prices move higher and Agrium is wrapping up an expansion at its flagship Vanscoy mine that will add up to 40% capacity in its potash production over the next few years.

Price strength should continue in 2015 and 2016.

The bottom line

The increased production combined with improving market demand and higher prices for potash should produce significantly higher cash flow moving forward.

As the capital-intensive projects move into the production stage, the amount of free cash flow available for dividend increases should grow.

Potash Corp. currently pays a dividend of US\$1.40 that yields about 4%. The company has increased its dividend by 500% in the past three years.

Agrium Inc. pays a dividend of US\$3.00 that yields about 3%. The company has increased its dividend by more than 1360% in the past three years.

I think both Potash Corp and Agrium will continue their recent trend of giving back increasing amounts of money to their shareholders. The dividend hikes could continue to be extremely high.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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