



Potash Corp./Saskatchewan vs. Agrium Inc.: Which Should You Buy?

Description

Potash Corp./Saskatchewan (TSX: POT)(NYSE: POT) and **Agrium Inc.** (TSX: AGU)(NYSE: AGU) are the two major TSX-listed fertilizer companies. But while both operate in the same sector, they have different exposures to the subsectors of the business, which makes each better suited to profit under different circumstances.

Here, we will look at three categories — stability, dividend payout, and recent performance — to see which company makes a better investment in the current climate.

Stability

In the battle of which is the more stable investment, Agrium is the clear winner. While Potash Corp. has some diversity, its main focus is on its namesake crop nutrient. On the other hand, Agrium's strategy over the past few years has been to diversify, particularly by increasing its presence in the retail sector.

Agrium's retail business offers seeds and fertilizers to farmers, rather than the "conventional" fertilizer business, in which producers sell fertilizers in mass to large customers.

Compared to the conventional business, the retail business has been very stable. The recent volatility in the potash sector gives Agrium's diversity an advantage in this category.

Dividend

Potash Corp. pays a higher dividend, with the current annual dividend yield at 4.07% while Agrium's is at 3.20%.

Potash Corp. has paid a quarterly dividend since 1990, and has either maintained or increased its dividend since 1999. It has only decreased its dividend once in its history. Agrium, on the other hand, has been paying its investors a dividend since 2002 and has never decreased its dividend.

Both companies have been growing their dividend payouts at similar proportions for the last few years. As to which company is likely to increase its dividend payout in the near future, there are two schools

of thought. Many are calling for better times ahead for the potash sector. In fact, just this week Uralkali said that it sees North American demand for potash rising to approximately 10 million tonnes in 2014, matching the record level of 2010. Increased potash demand would be a plus for prices, and could provide Potash Corp. with more cash on hand that could be returned to investors. But for Agrium, a stable and improving retail exposure could also give it the funds to increase its dividend payouts.

The play-it-safe approach would be to consider Agrium as the more likely of the two to increase its dividend, but a rebound in the potash sector would make Potash Corp. the more likely candidate for a dividend hike. For this round of the debate, it seems to be a draw.

Recent performance

Over the past 52 weeks, Potash Corp.'s stock has traded in the range of \$31.21- \$41.55. From Sept. 5, 2013, to Sept. 5, 2014, the stock added about 16%. Agrium's stock, on the other hand, has traded in the range of \$84.83-\$108.28, with its current price sitting at \$102.10. The stock 52 weeks ago was at \$88.55, thereby gaining 13.3%. This gives Potash Corp. a leg up in this round of the battle.

The top-line results in both companies' recent earnings reports topped analysts' expectations.

Crowning the winner

It is not completely clear whether Agrium or Potash Corp. is the winner in this battle, with the major obstacle in crowning a victor being the potential for a major upswing in potash prices.

With the recent metrics already supporting increased farmer demand for potash, it is likely that we will soon see a major change in the potash sector. While both companies would benefit from this fundamental change, Potash Corp.'s higher exposure to potash positions it for steeper gains.

CATEGORY

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