



Buy Potash Corp./Saskatchewan, Agrium Inc., and Franco-Nevada Corporation to Profit From Russian Sanctions

Description

The European Union recently announced another round of sanctions against Russia in an attempt to crack down on Moscow for its expected involvement in the pro-Russian insurgence in eastern Ukraine.

On Thursday, Russian shares slumped following the report of the latest round of sanctions. While Russian companies will likely suffer as the international community makes it more difficult for Russian companies to go about their business, companies in North America will not be immune. The difference is, in North America some companies could actually see more business at the expense of the Russian companies. **Franco-Nevada Corporation** ([TSX: FNV](#))([NYSE: FNV](#)), **Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT), and **Agrium Inc.** (TSX: AGU)(NYSE: AGU) are three companies that could take business away from Russian companies impacted by the sanctions.

1. Franco-Nevada Corporation

Franco-Nevada Corporation is a gold-focused royalty and streaming company that also has access to platinum group elements and oil and gas. The company's PGE exposure is of particular interest in terms of the Russian sanctions. Out of the commodities, palladium is the most well positioned to profit from the Russian sanctions as Russia produces a large amount of the metal. Earlier this year, palladium soared to a 13-year high as sanctions against Russia coincided with the South African miner's strike.

The world is in desperate need of palladium production outside of Russia and South Africa, and in Canada Franco-Nevada is our best bet. Franco-Nevada's business structure is unique in that it is a royalty-streaming company that can benefit from rising commodity prices but has limited exposure to the operating costs associated with true mining companies.

While palladium prices will most definitely ascend if the Russian-Ukraine tensions continue, gold is a bit of a wild card. In theory, gold should gain when geopolitical tensions occur as more investors purchase the metal as a safe-haven investment. So far this year, however, gold has not seen much

upside momentum on geopolitical tensions as investors remain focused on the Fed's impending rate hike. While this has been the pattern so far, we don't want to discount the potential for a rally. We have learned from the past that often gold responds in sentiment ahead of the actual news, particularly when it comes to the Fed. We saw gold prices plunge back in 2013 on the "expectation" that the Fed would curb its bond-buying program; when the Fed did curb its bond-buying program, gold actually rebounded.

There is always the potential that if geopolitical tensions heighten, gold will finally see the safe-haven demand increase that we would expect. All gold producers would really benefit from an increase in prices, but if the price increase is due to the sanctions against Russia, Franco-Nevada will be very well positioned to profit.

2. Potash Corp./Saskatchewan and Agrium Inc.

Uralkali is a Russian fertilizer company that competes directly with the North American producers including Potash Corp. and Agrium. The competition between Uralkali and its North American counterparts heated up last year when Uralkali abandoned its marketing cooperative and said it would take on the other fertilizer producers head-on, pursuing a volume over pricing strategy.

Any crackdown on Uralkali's ability to do business would be a positive for Potash Corp and Agrium, with one caveat: China is a major consumer of fertilizer and is highly unlikely to participate in any sanctions against Russia. While other sanctions could impact Uralkali's ability to do business, it will most likely always have a customer in China. Sanctions that indirectly target the company's ability to do business, such as those that target the financial system and the sentiment surrounding the sanctions could provide some upside momentum for both Agrium and Potash Corp. Still, because China will likely continue to purchase fertilizer from Russia even if the international community deepens its sanctions is why the fertilizer companies are my second pick to benefit from the sanctions.

CATEGORY

1. Investing

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1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)

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Date

2025/08/29

Date Created

2014/09/12

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