Will Potash Corp./Saskatchewan Hit $60?

Description

Long-term investors with a bit of extra cash sitting on the sidelines might want to dig in and plant some **Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT) in their portfolios before the market figures out what I'm about to explain.

Shareholders watched the global wholesale price of potash drop 25% last year when two big players in the industry decided to end their marketing arrangement and flood the market with low-priced product.

The result was an instant 23% haircut for Potash Corp. investors. The smart money realized this was a fantastic buying opportunity and picked up the shares that week. The stock price has slowly battled back and now sits just below the pre-crash level.

If you didn't buy Potash Corp. shares then, don't worry, there is still massive upside potential in the stock. Here are four reasons why Potash Corp. shares could see a 50% pop in the short term.

1. Potash prices have bottomed

The ego battle is over in the wholesale potash market and prices are beginning to make a move back toward more reasonable levels. **Uralkali**, the Russian producer and global potash leader that caused the withering of potash prices last year, has decided it is time to end the silliness and will start raising prices.

Last January, Uralkali agreed to sell potash to China for $305 per tonne, much lower than the $400-per-tonne mark the industry was getting six months earlier.

Recently, Uralkali's head of sales, Oleg Petrov, said he expects the new deal with China to be 10% higher in 2015.

India signed deals in April with both Uralkali and Canpotex for $322 per tonne. Canpotex is the marketing company owned by North American potash producers Potash Corp., **Agrium Inc.**, and **The Mosaic Company**.

Investors should expect to see global prices back at the $400 level or higher in the next three years.

2. Demand for potash is increasing

Canpotex recently reported that it is completely sold out of potash for Q3 2014. Three weeks ago, Uralkali said North American demand for potash was 30% higher in the first half of 2014 compared to the same period a year earlier.

The company also expects demand on the continent to finish 2014 at 10 million tonnes, almost 8% higher than previous estimates.

The story gets even better. Uralkali also stated that demand is growing in Brazil and China, and by the time the year is over, global demand for potash could hit record levels.

3. Potash Corp. is increasing production

Potash Corp. is near the completion of a multiyear capital expenditure program to increase production just at the time when global demand is hitting new highs and prices are beginning to recover.

4. A flood of free cash flow

This is the part that investors should pay close attention to. The combination of lower capital expenditures and higher cash flow from increased sales at higher prices means Potash Corp. is about to find itself flush with cash.

Management knew this was coming. That is why the company has been increasing its dividend so much in the past three years, from $0.28 per share in 2012 to the current payout of $1.40 per share.

Investors should expect more dividend hikes and aggressive share buybacks as the company transitions out of the capital expansion phase and focuses on production growth.

The bottom line

The combination of higher prices, higher production, and lower cash requirements for capital projects should translate into greater profits and record levels of cash available to distribute to shareholders. Once the numbers start rolling in, the stock should head a lot higher. Until that happens, Potash Corp. shareholders are comfortable collecting a 4% dividend while they wait.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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Author

aswalker