2 Reasons to Avoid Potash Corporation of Saskatchewan, and 1 Stock to Buy Instead

Description

The last few years have not been very kind to **Potash Corporation of Saskatchewan** (TSX: POT)(NYSE: POT). The Russians quit a marketing agreement, electing to pursue a volume over price strategy. Potash prices have suffered. And the company's stock price has fallen by nearly 20% over the last 36 months.

More recently, things are looking up. Demand for potash has started to recover, which has started to push up prices, from a low of roughly $300 per tonne to $350 today. PotashCorp CFO Wayne Brownlee said the company may even boost potash operational capacity from 9.2 million tonnes to 11 million next year.

But there are still some serious issues with an investment in PotashCorp. Below we look at two of them, and then highlight a stock you should buy instead.

2 reasons to avoid Potash Corporation of Saskatchewan

1. The end of cartel pricing?

In July of last year, potash prices took a nosedive thanks to actions by Uralkali, Russia's biggest potash producer. Uralkali quit a marketing alliance with the Belarusians, which had helped keep potash prices elevated.

And at this point, that alliance is unlikely to be reunited. The two sides met earlier this year, but more recently there have been no new developments. Even worse, with potential new supply on the horizon, the industry is going to be even more fragmented. This will reduce the bargaining power of Canpotex, which is PotashCorp's marketing alliance.

Luckily for shareholders, PotashCorp's shares have recovered, and are now trading at about the same price it was before Uralkali's actions. But given the mediocre outlook for the market, there is little upside from this point forward.

2. Supply growth

As mentioned, there is the prospect of major supply growth, which could keep potash prices depressed for many years to come. Some of the smaller projects are very efficient, and may be economic even at today's low prices.

The biggest project is **BHP**'s Jansen mine in Saskatchewan, which contains 5.3 billion tonnes of measured resources. This project does not seem to be as economic, likely requiring $500 potash to be worth developing. But BHP is taking a "long term view" of potash prices; in plain English, this means the mine might get built anyway, even with low potash prices.

Such an event would be bad news for PotashCorp and the industry.

1 stock to buy instead: Agrium

Like PotashCorp, **Agrium Inc.** (TSX: AGU)(NYSE: AGU) also makes money from fertilizer. But what makes Agrium different is its retail business, which last year accounted for 43% of adjusted EBITDA. This brings two advantages.

One, the retail business helps Agrium diversify earnings. This benefit has been on full display in recent years; like PotashCorp, Agrium's fertilizer production operations have struggled. Second, the retail business is a very good one, with very stable gross margins and steady earnings. It's the kind of business that investors love.

So instead of taking a risky bet with PotashCorp, you should go with Agrium. You'll still get exposure to the same sector, but with much less risk.

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