



## 3 Reasons to Avoid Potash Corp./Saskatchewan Inc. and 1 Stock to Buy Instead

### Description

It's easy to be a long-term fan of the business of farming.

It comes down to one undeniable fact: The world's population is going to grow, and we need to find a way to make sure everyone gets fed. When the number of potential customers for your product goes up from 6 billion to a projected total of about 9 billion by 2050, that's generally a good thing.

With that in mind, I am a long-term bull on the future of farming. There's little doubt that, overall, Canadian farmers are going to have a good next century. There will be ups and downs along the way, but overall it'll be a good business.

But that doesn't mean I can't be bearish on the sector in the short to medium term. Here are three reasons why, and how they'll affect **Potash Corp./Saskatchewan Inc.** (TSX: POT)(NYSE: POT).

### Wheat prices

I'm amazed this doesn't get more attention, but the price of wheat has gotten absolutely hammered over the last six months.

After reaching a high of more than \$750 per bushel back in May, prices have been steadily heading down, reaching a low of below \$500 per bushel in September. Prices have improved somewhat, but the commodity is still just barely above \$500.

This is because crops in most parts of North America have been pretty good. The latest numbers out of the U.S. say this year's wheat harvest should be approximately 2 billion bushels, a new record. Canada's harvest is down from last year, but 2013 was the best in our history. Harvests in other parts of the world are looking pretty good as well.

At this point last year, farmers were getting \$700 per bushel for wheat. The number is down to a little more than \$500 now. That's bound to cut into their bottom line, and, consequently, the amount of money available to buy fertilizer next year.

## Wheat delays

Last year, both **Canadian National Railway** and **Canadian Pacific Railway** let down Canadian farmers, focusing their attention on the more lucrative oil-by-rail business. This resulted in last year's crop waiting months to be shipped to the coasts to be exported. It got so bad that the federal government had to get involved, essentially forcing the railways to comply.

This led to delays in farmers getting paid. When you're sitting on a record crop, these sorts of delays aren't so bad. But when your crop is 30%-50% worse than last year and prices are down, suddenly these delays start to matter. If farmers are forced to wait, again, it could lead to less money being available for Potash Corp.'s products at the beginning of the year.

## High land prices

It's been a good few years to be a farmer, which has attracted new farmers to the business. These newbies, the established farmers who keep buying, and low interest rates keep pushing up the value of land. Consequently, many farmers are sitting on a lot of debt.

Most of these new farmers haven't experienced a year of mediocre crops. Depending on their location and how the rest of harvest goes, many could find themselves in a situation where they're got too many payments and not enough cash flow to make them all.

What happens if Canada's economy slows down at the same time? Suddenly, access to credit will start to go away, since that's usually the first thing that banks do when times get tough. In that situation, cost-cutting will be the first thing on a lot of farmers' minds, and Potash Corp. will likely be forced to join in on the pain.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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