3 Reasons to Buy Potash Corp./Saskatchewan Right Now

Description

Potash Corp./Saskatchewan (TSX: POT)(NYSE: POT) has been treading water for a while after recovering from the big drop last year. Analysts are sending mixed signals about the company's prospects and new investors are wondering whether they should buy now or wait to see what happens in the Q3 earnings report.

Here are three reasons why I think investors should consider buying Potash Corp. right now.

1. Potash demand is increasing

Global potash demand could hit record levels this year according to the world's largest producer, Uralkali. The Russia-based potash giant said demand in North America jumped 30% in the first half of 2014 and should finish the year at 10 million tonnes, 8% higher than estimates released earlier in the year.

At the same time, the company also indicated that China and Brazil are placing larger orders than expected.

The end result for producers such as Potash Corp. should be higher prices. In the global wholesale market, big deals with countries tend to set the rate. In January, 2014, Uralkali agreed to sell potash to China for $305 per tonne. In the spring, both Uralkali and Canpotex signed deals with India for $322 per tonne. Canpotex is the marketing company owned by North American producers Potash Corp., **Agrium Inc.**, and **The Mosaic Company**.

In a September statement, Uralkali's head of sales, Oleg Petrov, said the recovery in the potash market is happening faster than expected and he expects the 2015 deal with China to be priced 10% higher than the one signed in 2014. Uralkali's agreement with India expires in February, and the new deal is also expected to be at a higher price.

Canpotex completely sold out of potash for the third quarter, so Potash Corp. might surprise on the earnings side.

2. Capital projects are ending

Potash is at the end of a multiyear expansion program. The move from development to production is coming at a perfect time in the market and the added revenue from both higher production and increased prices should help earnings in 2015.

3. Dividend growth

Potash might be on the verge of a massive flood of free cash flow. In fact, I believe management has known this for a while. The company has already increased the dividend significantly in the past three years, raising the payout from $0.28 per share in 2012 to the current distribution of $1.40.

As the capital program winds down and production increases, investors should see free cash flow increase substantially in the next few years. The current dividend yields more than 4%.

Risks?

A new development in the global potash market has observers wondering about the rate at which prices will increase in the coming two or three years. On September 23, Uralkali announced it sold a 12.5% stake in the company to China Investment Corp., China's sovereign wealth fund. The market will be sitting on the edge of its seat between now and January to see what price the company finally negotiates with China.

Analysts say the size of the ownership position is too small for China to influence prices, but the deal has added a twist to the potash pricing plot. The agreement also puts in doubt the possibility of Uralkali mending fences with its former trading partner, Belaruskali.

Back in Canada, another hard winter in the prairies could affect Potash Corp.'s deliveries and earnings in the first part of 2015. Last year Potash got hit by a transportation bottleneck as railways were unable to move enough of the company's product to the coast.

The bottom line

It might be worth getting in now. If Potash surprises to the upside, the stock will pop higher and probably keep going. If the Q3 numbers come in a bit low, you still get to collect 4% while you wait for things to improve.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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