



## 1 Big Reason to Buy Potash Corp./Saskatchewan Inc. Right Away

### Description

The top line figures in **Potash Corp./Saskatchewan Inc.**'s (TSX: POT)(NYSE: POT) latest quarterly results may have been disappointing, but the company is clearly at a turning point.

In the latest quarter, Potash Corp. earnings declined 11% year over year and missed analyst expectations as lower potash prices overshadowed higher sales. Potash Corp. sold 2 million tonnes of potash in Q3, a 29% increase year over year, but the average realized price was US\$281 per tonne of potash, down from US\$307 in the comparable quarter.

### Strong volumes mean good times ahead

The disappointing potash selling impacted the company's earnings, but investors should not focus on this metric alone while ignoring the increase in sales volumes. In fact, the increase in sales volumes is a huge positive for the company while the weak pricing is just a temporary factor.

Potash Corp. and other potash producers have been very concerned about their sales volumes since last year when Russian potash producer **OA OJSC Uralkali** ended its fertilizer marketing cooperative and vowed to pursue a volume over pricing strategy. In the past, potash producers worked together to sell potash at a somewhat fixed price, but Uralkali's change of strategy sparked concern that the company would take a larger share of future business from the other potash producers.

Fortunately, as the recent earnings have shown, this was not the case for Potash Corp. Even better, the company, which already had excellent sales volumes for 2014, expects even more robust sales going forward. Potash Corp. is forecasting potash sales volumes will be in the range of 58 million-60 million tonnes for the year, higher than its prior guidance.

The major headwind for Potash Corp.'s profits, and therefore its stock value, is pricing, and while weak pricing has hit the stock in prior quarters, things are about to turn around. Offshore contract markets, many of which were settled in the second half of 2013 when potash prices took a dive, impacted the company's realized potash price in Q3 2014, and there will be some lingering effects in Q4 2014. Once 2015 hits, this impact won't be felt as much while at the same time pricing conditions from 2014 will start to impact Potash Corp.'s realized prices. This year's pricing conditions are an improvement from

the prior year. Not only have potash prices improved so far in 2014, but that trend is expected to continue due to the current discrepancy in prices between Brazil and China. That should impact settlement prices for future contracts.

### Final thoughts

Even though analysts may have been disappointed in the latest results, they were in line with Potash Corp.'s expectations. However, some tough conditions will persist through this year and, as a result, the company lowered its full-year EPS expectations while hiking its sales volumes. These factors are putting negative pressure on the stock right now, but with the turnaround in potash pricing underway and expected to continue, it won't be long until Potash Corp.'s realized prices appreciate, taking the company's stock value higher. For investors looking at purchasing a company with solid long-term fundamentals at a depressed share price, right now may be the time to execute a position in Potash Corp.

### CATEGORY

1. Investing

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