



Why Are Potash Corporation of Saskatchewan Inc. Shares Surging?

Description

In natural resource-based industries, sometimes one player's loss can be another's gain.

And that was the exactly the case Tuesday, when **OAQ Uralkali** halted one of its potash mines because of rising brine inflows. The shares fell by nearly 10% in response.

Meanwhile, the prospect of declining supply helped boost **Potash Corporation of Saskatchewan Inc.** (TSX: POT)(NYSE: POT), whose shares are up by 4.8% on Tuesday (as of this writing). Just what does all this mean?

A major disaster?

At this point, it's hard to say whether the brine will cause significant damage. But if it does, then the potash market could be affected significantly.

The mine affected, Solikamsk-2, accounts for 23% of Uralkali's production and 6% of all production worldwide. So this is already a major event. But it could get even worse. The Solikamsk-1 mine is attached to Solikamsk-2, and at least one analyst thinks both mines could be flooded.

Thus far, Uralkali has declined to say how long the mine will be out of commission. But it did say that all other facilities are operating normally.

Supply fundamentals finally looking strong

Former Potash Corp CEO Bill Doyle often said that potash investing is "a marathon, not a sprint." And it seems like this market is finally catching a second wind, after hitting the wall last year. North American supplies are down 35% relative to the previous five-year average, caused mainly by production cuts. According to rival **K+S**, potash prices increased by 4% from Q2 to Q3 this year. And Uralkali's misfortune could only add to the issues.

So should you buy Potash Corp?

To answer this question, it is critical to make a couple of points clear.

For one, Potash Corp is not like other materials stocks. This is because potash is reliant on world food consumption. As a result, you're not going to see the same ups and downs with Potashcorp that you would with other mining stocks.

Secondly, it is generally very expensive to build potash mines. This is another point that Mr. Doyle drove home in conversations with analysts and investors. This is especially important, because so many rival companies are making grand promises about production growth. Many of these promises will likely fall short.

I don't think Potash Corp is as risky as it first appears. And it offers a healthy 3.5% dividend yield. So there is nothing wrong with holding the company in a well-diversified portfolio. If Uralkali's problems get worse, which certainly is possible, you could get some nice capital gains to go along with your dividend.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/07/23

Date Created

2014/11/19

Author

bensinclair

default watermark

default watermark