



Why Are Potash Corporation of Saskatchewan Inc. Shares Tumbling?

Description

It's been a good year for shareholders of **Potash Corporation of Saskatchewan Inc.** (TSX: POT)(NYSE: POT). After falling below \$33 last December, PotashCorp shares surged past \$41 late last week.

But yesterday, that party ended, or at the very least was interrupted. As of this writing, the shares are down by more than 5% on Monday.

So why have prices been so volatile? And more importantly, what should you do?

First, the good news

Back in July 2013, the world's largest producer, **Uralkali** (based in Russia), abandoned its marketing agreement with the Belarusians and pursued a volume-over-price strategy. The move sent potash prices tumbling, and PotashCorp shares fell by more than 23% in two days.

Since then, the news has been much better. Depressed potash prices led to production cuts, and as a result North American potash supplies are down 35% relative to the previous five year average. According to producer **K+S**, potash prices increased by 4% in the third quarter of 2014.

Most recently, Uralkali experienced some operational issues at one of its mines. The mine, Solikamsk-2, accounts for about 3% of the world's potash production. So this could provide further support to prices.

The bad news

Spurred on by the Solikamsk-2 incident, **BHP Billiton** CEO Andrew Mackenzie said on Monday that these kinds of events show just how much new potash mines are required. And BHP is mulling over what would be the largest in the world.

This mine, which is called Jansen, would add 8 million tonnes of production at full capacity. In recent years, BHP has sent mixed signals about whether or not it would be built at all – **Citigroup** estimates

the mine would cost US\$16 billion. More importantly, this mine would add significant capacity to a market that is clearly in oversupply right now.

So whenever Mr. Mackenzie makes the case that Jansen should be built, potash investors are understandably scared. Monday's remarks are a perfect example: "These sorts of factors, combined with continued economic growth and demand for potash all conspire, if you like, to bring toward us the time when a new mine is required."

So should you bet on PotashCorp?

Despite Monday's decline, PotashCorp shares are still trading at a healthy level. In fact, at \$39 per share, the company is trading about where it was before Uralkali's fateful decision last year.

So at this point, it's likely best to wait and see. Granted, PotashCorp is far less risky than other companies in the materials sector, and pays a dividend yielding 3.6%. But there's still too much downside, especially if BHP delivers on the Jansen project.

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