



3 Reasons to Buy Potash Corporation of Saskatchewan Inc.

Description

This year has not been a good one for commodity producers in Canada. Slowing growth in China has hurt base metal miners. A sluggish gold price has hurt precious metal producers. And the oil market has been a disaster since June.

But one commodity producer in particular has skated through 2014 quite nicely: **Potash Corporation of Saskatchewan Inc.** (TSX: POT)(NYSE: POT), whose shares are up by 13% in 2014.

So even though PotashCorp may now appear expensive, there are reasons to buy the shares. Below we discuss three in particular.

1. Not subject to the same fluctuations

It's important to remember one important fact about crop nutrients, which is what PotashCorp produces: they are much more stable than energy and metals. This should make sense, since demand for food not going to swing wildly, no matter how volatile the business cycle is.

And over the long term, the demand picture looks solid. The world's population is expected to grow to 9 billion by 2050, and these people will need to be fed. Better yet, the middle class is growing even faster, which should result in increased meat consumption. This requires even more fertilizer than vegetables do.

2. Supply concerns in Russia

Last year, there were concerns that supply would grow a lot faster than demand. But the picture is very different today.

Most recently, Russian producer Uralkali shut down its Solikamsk-2 mine after detecting an increased brine flow. This is no small event, especially since the mine has 2.3 million tonnes of annual capacity, about 4% of the estimated market in 2015. According to early reports, the mine will not be restarted any time soon.

Meanwhile, other supply is under threat too. Anglo-Australian mining giant **BHP Billiton** has been sending mixed messages about its planned Jansen project. The mine would have roughly 8 million tonnes of per year of capacity. But the company is tightening its belt, and may not pull the trigger before the end of this decade. Wood Mackenzie also reported that BHP's partners on the Jansen project are getting jittery.

To be clear, the market is still oversupplied. But basic economics may be starting to take hold.

3. The weaker Canadian dollar

Finally, it is worth noting that all of PotashCorp should benefit immensely from the decline in oil prices. For one, lower fuel prices should make mining operations more efficient. The company may also have an easier time competing for workers.

But most significantly, the weaker Canadian dollar helps an exporter like PotashCorp compete in world markets. To be fair, Uralkali could also benefit from a weaker Rouble. But Russian companies have plenty of other problems, none of which PotashCorp has to deal with.

So the future looks quite bright for PotashCorp, a welcome relief after a few years of bad news. At \$40, the company's shares are certainly compelling.

CATEGORY

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