



## Is a Dividend Hike in Store for Potash Corp./Saskatchewan?

### Description

**Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT) pays a healthy dividend, with the annual yield above 4%. The company maintained its quarterly dividend of \$0.35 per share in 2014 even though it saw declining income, and Potash Corp./Saskatchewan's dividend comes at a high cost, in fact in 2014 dividend payments cost an estimated \$1.15 billion.

With the high cost of the company's dividend payments, and with income falling in 2014, will the company be able to maintain or increase its dividend in 2015? I think it will, here is why.

### Dividend history

Potash Corp. has been able to increase its dividend over the past years on robust fertilizer prices; however, potash prices saw a dramatic fall in 2013 when **Uralkali OAO** announced that it would end its marketing co-operative, and instead pursue a volume over pricing strategy in selling potash. This caused panic in the potash markets and potash prices plunged over fear that potash companies, primarily the North American ones including Potash Corp. would have have difficulty selling an acceptable amount of potash.

In 2014 we saw this was not the case. In fact, according to results reported to date the Potash Corp. sold large amounts of potash, in some cases record-setting, thanks to robust demand. The problem was, due to the way potash contracts are settled, the company's sales price for potash was still low, still reflecting 2013's price plunge.

### Potash prices key to dividend future

Potash prices have been a challenge for the company, but Looking forward to 2015, expectations are that the pricing environment will improve. In fact, due to the nature of the way Potash Corp. conducts its business, we already know that some improvement is a guarantee. According to the company's last earnings report, the impacts of the lower 2013 prices will be almost gone as 2014 comes to a close. Now, next year the company will start to see the benefits of the price increases for potash experienced in 2014.

## Challenges and opportunities

Increased cash flow means more money to fund dividends, of course considering that expenses remain the same or decrease. While there is the chance that fertilizer prices will decrease in 2015, forecasts are for a stronger pricing environment, with the outlook right now for the increasing price environment of 2014 to continue. The major caveat here is that the fertilizer market is notoriously volatile.

The other way for Potash Corp. to see increased cash flow is through a decrease in expenses, and expenses should decline this year with the company wrapping up a major, multi-year \$8 billion capital expenditure program.

If potash pricing remains robust, while at the same time expenses decline, there is a very good case for Potash Corp. to hike its dividend in 2015.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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