



Will 2015 Be Potash Corp./Saskatchewan Inc.'s Year?

Description

Many stocks enjoyed a rally over the past five years, but not **Potash Corp./Saskatchewan Inc.** (NYSE:POT)(TSX:POT). During this time period the company's stock has appreciated a measly 1%, a disappointing performance for a stock that in the five-year time period before that appreciated by about 280%.

Even though the prior five-year performance was disappointing, last year was not. In 2014 Potash Corp.'s stock gained 7%. After years of relative underperformance, will Potash Corp.'s stock surge into a bull market in 2015?

Limitations on Potash Corp.

Potash Corp's stock has recently been impacted by a variety of factors. In the prior five-year period, a major issue was that potash demand failed to meet expectations. Concerns over potash demand peaked in 2013 when **Uralkali OAO** announced a change of strategy that sent shockwaves through the potash market.

Historically, all potash producers sold the majority of their potash in large lots, settling contracts through marketing arms. The marketing arms effectively set the price of potash, knowing that buyers had limited ability to shop around for the lowest price. But in 2013 Uralkali abandoned this strategy and decided to exit its marketing co-operative and pursuing a volume over pricing strategy. This caused panic to ripple through the potash market. Fears were that potash producers selling their potash through the marketing co-operatives would lose out on a great deal of business.

2014 performance

2014 was Potash Corp.'s best year of the 2010-2014 period. Just one year after fears peaked that the company would have problems selling adequate volumes of potash, Potash Corp. stunned investors with record-setting sales. The amounts were enough to push the company's stock higher despite a major limitation: disappointing revenues. The disappointing revenues were a result of weak potash prices.

2015 outlook

In order for Potash Corp. to have a solid performance this year, two things need to happen. The company needs to sell a healthy volume of potash, and prices need to appreciate.

I am fairly confident that volumes will remain healthy. Last year sales volumes were robust despite relatively weak grain prices. Without any major fundamental changes to note for 2015 compared to 2014, sales volumes should remain strong. The concern that I have for 2015 is prices, which right now look like they will remain weak.

While it looks like prices will remain weak, it is impossible to say with certainty what prices will do this year so early in the season. Developments to watch include Russian production of potash, which could decline following a mine flood just last month. A fall in Russian production would be a positive for North American producers like Potash Corp.

Major headwinds for potash this season include the price of oil and current expectations of strong yields for North American crops in the upcoming season. Investors will have to keep an eye on crop health, in particular, and soon investors may get the biggest clue of the season into what potash prices will do this year.

The momentum for potash pricing will start soon, when China negotiates its next major potash contract. A minimum 10% appreciation from the prior contract is expected, and if this target is not met it could be a negative for potash pricing. If it is exceeded, it will be a positive. Either way, this contract generally sets the baseline for potash prices in the upcoming season.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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