



2 Reasons the Good Times Are Just Beginning for Potash Corp./Saskatchewan

Description

Potash Corp./Saskatchewan (TSX:POT)(NYSE:POT) started 2015 on a high note, releasing Q4 results that showed both revenue and profit that topped analyst expectations. This was a welcome change from the recent quarters where Potash Corp. had solid sales while profits lagged in part due to lower potash prices. Finally, for Q4 the company said it realized higher prices for its namesake nutrient.

The recent results were solid, but Potash Corp. was somewhat apprehensive on the year ahead, saying: "We enter 2015 with a positive — albeit moderated — view for our business." The company forecasts that industrywide, potash shipments will come in slightly below 2014's reading of 61 million tonnes, and will fall in the range of 58 million to 60 million tonnes. The company is forecasting that individually, its potash sales will be 9.2 million to 9.7 million tonnes, up from 9.3 million in 2014.

Beyond the latest earnings result, there are two major developments that could positively impact Potash Corp.'s margins in 2015. They are natural gas prices and the weakness of the Canadian dollar.

1. Natural gas prices

Even though right now is the peak natural gas demand period of the year, the price of the commodity is lagging and with healthy storage levels, weakness is expected to continue. This is good news for Potash Corp. because natural gas is used in producing ammonia, which in turn is required to produce nitrogen. Lower costs for nitrogen production will mean more cash flow for Potash Corp., a fact that often translates into higher share values.

2. The Canadian dollar

The Canadian dollar has depreciated significantly compared to the U.S. dollar, and this is also good news for Potash Corp. Potash Corp. has a large amount of potash manufacturing facilities in Canada, which makes the company's earnings sensitive to the strength of the Canadian dollar. Historically, we have seen multiple times how a strong Canadian dollar can reduce Potash Corp.'s EPS, while a weak Canadian dollar can boost EPS.

In the latest, Q4 results, Potash Corp attributed a lower Canadian dollar compared to the U.S. dollar in reducing the company's costs to sell per ton of potash by 30%. Most currency experts agree that the

Canadian dollar will remain weak for some time, and Potash Corp. will continue to benefit from this development.

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1. Investing
2. Metals and Mining Stocks

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