



Potash Corp./Saskatchewan Inc. Takes a Dip: Is This a Buying Opportunity?

Description

Potash Corp./Saskatchewan Inc.'s (TSX:POT)(NYSE:POT) shares have been on a recent downturn, falling about 12% over the last 30 days, back tracking from their positive performance in 2014, and turning into one of the most shorted stocks on the TSX.

Is it time to sell?

The primary concern many investors have over Potash Corp., particularly after last year's run-up, is the company's valuation. The metrics do suggest that Potash Corp. is more valuable than some of its competitors, because in my opinion, it is.

Last year's run-up

It is not fair to look at 2014 and 2015 as isolated events and then determine that after a run-up, the stock is overvalued. You need to be aware of what happened back in 2013.

Potash Corp.'s stock was dealt a big blow in 2013 when competitor **Uralkali OAO** announced that it was abandoning its potash marketing cooperative and instead pursuing a volume-over-price strategy in selling its potash. This caused panic across the potash sector. Potash Corp.'s stock value was hit particularly hard, as investors grew concerned that the company would see its sales volumes drop off. This ended up not being the case. In fact, Potash Corp.'s sales volumes were extremely healthy in 2014.

Taking this into consideration, 2014 is more of a recovery rally and the stock has not necessarily advanced into overbought territory.

What is ahead?

Potash Corp. is seeing improving margins, partially due to the conclusion of some major capital expenditure programs. Improving margins combined with an improving potash market are reasons for the company to trend slightly higher over the near term. The major catalyst we need to justify another significant run-up in Potash Corp.'s stock in the immediate future is a significant increase in potash

prices.

A robust long-term forecast

The long-range outlook for Potash Corp. is excellent. The company should see its bottom line improve as free cash flow increases, thanks to the conclusion of some major capital projects. The fertilizer sector, overall, has a very positive long-range forecast. Potash in particular has an excellent forecast, and Potash Corp.'s higher exposure to its namesake nutrient relative to its competitors is a huge positive for the company.

Demand for fertilizers will increase as the world's population continues to grow, while at the same time, the amount of arable land we have is decreasing. The increase in wealth of emerging economies will put even more pressure on the arable land we have. One of the best ways to get more out of the land that is available is to fertilize it.

Buying opportunity?

The short-term picture for Potash Corp. may be flat to positive, but it is hard to have a negative outlook for the long-term picture for the company, and for that reason I think the recent dip in share price could have opened up a great buying opportunity.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/02

Date Created

2015/03/16

Author

lklingel

default watermark