



Is This the Time to Buy Potash Corp./Saskatchewan Inc.?

Description

Potash Corp./Saskatchewan Inc. (TSX:POT)(NYSE:POT) is down 12% in the past month and investors are wondering if now is the time to start a position in the stock.

Let's take a look at the situation to see if you should consider adding Potash Corp. to your portfolio.

Tax changes

While Alberta gets most of the oil crisis media attention, Saskatchewan is also feeling the pain, and the province appears to be looking for additional funds to make up for falling revenues from energy companies.

The Government of Saskatchewan's new provincial budget includes changes to potash taxation that will have a negative impact on Potash Corp.'s 2015 pre-tax earnings. Potash Corp. reports earnings in U.S. dollars, but said it expects the impact to be CAD\$75 million-100 million.

The changes affect the company's annual allowable deductions for expansion and maintenance capital expenditures. Potash expects the new tax structure to have a larger impact this year than in 2016.

Potash is nearing the completion of \$6 billion in expansion projects in Saskatchewan, and the company says it based the investment decisions on an expectation that the province's tax structure would remain consistent.

Price wars

The tax change announcement comes at a time when markets are also concerned about global potash prices. Two years ago, producers from Russia and Belarus Potash Co. decided to end their marketing arrangement and set off a 25% plunge in wholesale potash prices. Rates had been steady at US\$400 per tonne, but the spot price dropped to about US\$300 and China signed its 2014 supply agreement for US\$305 per tonne.

Expectations coming into 2015 were for an increase of about 10%, but Belarus just inked a deal with

China for US\$315 per tonne, which will set the 2015 benchmark for all other suppliers.

Belarus has been a thorn in the backside of Potash Corp. and the other large producers recently, as it aggressively targets market share in South America, the U.S., and Asia. Prices could remain under pressure throughout most of this year.

Earnings growth and dividend hikes

Potash Corp. earned US\$1.82 per share in 2014 and initially expected the number to be US\$1.90-2.20 in 2015. The tax decision by Saskatchewan and the lower-than-expected global prices could cause the company to revise the range downward, depending on how demand shapes up. Last year, global sales hit a record of 61 million tonnes. The 2015 forecast is slightly lower, but the new deal reached between Belarus and China could drive demand higher, given the lower-than-expected price.

Should you buy?

Potash recently increased its dividend by 9%. With the shift of the expansion projects from development to production, Potash should see strong gains in free cash flow. Earnings expectations could get rolled back, given the recent developments, but the long-term outlook for the company remains solid.

Potash pays a dividend of US\$1.52 per share that yields about 4.7%. The recent pullback is probably a good opportunity to start a position in the stock.

CATEGORY

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2. Metals and Mining Stocks

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Author

aswalker

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