



Is Now the Prime Time to Buy Potash Corp./Saskatchewan?

Description

Potash Corp./Saskatchewan (TSX:POT)(NYSE:POT) is the world's largest manufacturer of fertilizer and it is responsible for one-fifth of the global capacity of potash. The company's stock has underperformed in the overall market in 2015, but it has the potential to be one of the top performers over the next three to five years, so let's take a look at three of the top reasons why you should consider initiating a position today.

1. Double-digit earnings growth supports a higher stock price

Potash announced better-than-expected fourth-quarter earnings results on the morning of January 29, but its stock has responded by falling over 10% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared to the year-ago period (all figures are in U.S. dollars):

1. Net income increased 77% to \$407 million
2. Earnings per share increased 88.5% to \$0.49
3. Revenue increased 23.4% to \$1.90 billion
4. Sales volume of potash reached a fourth-quarter record of 2.5 million tonnes
5. Gross profit increased 62.2% to \$746 million
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 31.3% to \$793 million
7. Operating profit increased 66.5% to \$611 million
8. Cash flow provided by operating activities increased 8.7% to \$713 million
9. Free cash flow increased 107.5% to \$332 million
10. Average shares outstanding decreased 3.7% to 835.98 million

2. The stock trades at inexpensive current and forward valuations

At current levels, Potash's stock trades at 22.4 times fiscal 2014's adjusted earnings per share of \$1.82, just 19.9 times fiscal 2015's estimated earnings per share of \$2.05, and only 18.7 times fiscal 2016's estimated earnings per share of \$2.18, all of which are inexpensive compared to its long-term growth rate.

I think Potash's stock could consistently command a fair multiple of about 24, which would place its shares upwards of \$49 by the conclusion of fiscal 2015 and upwards of \$52 by the conclusion of fiscal 2016, representing upside of more than 20% and 27% respectively from today's levels.

3. A generous dividend that is on the rise

Potash pays a quarterly dividend of \$0.38 per share, or \$1.52 per share annually, which gives its stock a very high 3.7% yield at today's levels. Also, the company has increased its dividend six times since 2011, showing that it is dedicated to maximizing shareholder value, and its financial stability could allow for another increase in the very near future.

Should you buy shares of Potash today?

Potash Corp./Saskatchewan represents one of the best long-term opportunities in the market today, because it has the support of double-digit earnings and revenue growth, because its stock trades at inexpensive current and forward valuations, and because it pays a very high dividend. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Dividend Stocks
2. Investing

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