



3 Reasons to Buy Potash Corp./Saskatchewan Right Now

Description

Potash Corp./Saskatchewan (TSX:POT)(NYSE:POT), the world's largest manufacturer of fertilizer and the company responsible for one-fifth of the global capacity of potash, has underperformed the overall market in 2015, falling over 2% as the TSX Composite Index has risen over 2.5%, but I think it will be one of the top performing stocks from this point forward. Let's take a look at three of the primary reasons why I think this could happen and why you should strongly consider initiating a position today.

1. Double-digit earnings-per-share growth to support a higher stock price

On the morning of April 30 Potash reported first-quarter earnings results, and its stock has responded by rising about 1% in the trading sessions since. Here's a breakdown of 12 of the most notable statistics from the report compared with the year-ago period (all figures are in U.S. dollars):

1. Net income increased 8.8% to \$370 million
2. Diluted earnings per share increased 10% to \$0.44
3. Revenue decreased 0.9% to \$1.67 billion
4. Revenue decreased 17% to \$482 million in its Nitrogen segment
5. Revenue increased 10% to \$738 million in its Potash segment
6. Revenue increased 4% to \$445 million in its Phosphate segment
7. Production of potash increased 9.1% to 2.61 million tonnes
8. Gross profit increased 18.1% to \$667 million
9. Gross margin expanded 650 basis points to 40.1%
10. Operating income increased 5.3% to \$559 million
11. Operating margin expanded 200 basis points to 33.6%
12. Ended the quarter with \$217 million in cash and cash equivalents, an increase of 0.9% from the beginning of the quarter

2. The stock trades at inexpensive forward valuations

At current levels Potash's stock trades at just 22.3 times its median earnings-per-share outlook of \$1.80 for fiscal 2015 and only 18.6 times analysts' estimated earnings per share of \$2.16 for fiscal

2016, both of which are inexpensive compared with its long-term growth potential.

I think Potash's stock could consistently command a fair multiple of at least 25, which would place its shares around \$45 by the conclusion of fiscal 2015 and around \$54 by the conclusion of fiscal 2016, representing upside of more than 11% and 34%, respectively, from today's levels.

3. A high dividend that has been increased consistently

Potash pays a quarterly dividend of \$0.38 per share, or \$1.52 per share annually, giving its stock a 3.8% yield at today's levels. The company has also increased its dividend six times in the last four years, making it one of the top dividend-growth plays in the industry today, and its consistent free cash flow generation could allow for another increase in the near future.

Should you buy shares of Potash today?

I think Potash Corp./Saskatchewan represents one of the best long-term opportunities in the market today. It has the support of double-digit first-quarter earnings-per-share growth, its stock trades at inexpensive forward valuations, and it has a 3.8% dividend yield with a track record of increasing its payout. With all of this information in mind, I think long-term investors should strongly consider beginning to scale in to long-term positions in Potash today.

CATEGORY

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2. Energy Stocks
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4. Stocks for Beginners

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