



Why I'm Buying More Potash Corp./Saskatchewan Inc. Stock

Description

Last summer I [wrote](#) that I'd finally decided to buy shares of **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT). At that time I noted that I'd had my eye on the stock for a while, but simply didn't have a spot for it in my portfolio. What I did then, as I typically do when buying a stock, was buy only a portion of my total desired allocation. I almost never buy a full helping all at once because, like most other investors, I don't have much luck buying a stock at its bottom. That certainly has been the case with my initial purchase of Potash Corp. stock as it's down about 10% from that initial buy price. However, that 10% decline is my signal that it's time to go back for a second helping, which is why I'm buying more Potash Corp. to get a larger helping of its generous dividend in my portfolio.

Why the stock is down

My investment in Potash Corp. is one made with the long-term view that demand for fertilizers produced by the company will grow due to population growth. However, as it has turned out, demand hasn't been as robust as expected in the short term, which is why the stock price is down in the past year. That said, it's short-term hiccups like this that usually make great long-term buying opportunities.

The company's most recent hiccup came when it reported first-quarter results at the end of April. While the company reported stronger year-over-year earnings, those results still weren't as strong as the company was expecting. As a result of the weaker results and higher Saskatchewan potash taxes, the company adjusted its full-year earnings guidance downward. That downward revision isn't what short-term minded investors wanted to see, which is why the stock has fallen in recent months.

That being said, while Potash Corp. is guiding for a weaker than expected 2015, its CEO noted in its earnings press release that the company was "encouraged by the strength in global potash demand" and that the company sees that "momentum accelerating through the second quarter." Further, the long-term demand expectations remain robust, which suggests that the long-term outlook for the company remains intact. That's why I'm still bullish on the company.

What has improved?

When I initially bought shares of Potash Corp., one thing that really caught my eye was the company's

rapidly growing dividend. At the time of my purchase the company's quarterly dividend was US\$0.35 per share, which at my purchase price worked out to a very generous 4% yield. However, since that time the company has increased its quarterly dividend to US\$0.38 per share, which, when combined with its falling stock price, has the stock yielding an even more compelling 5%.

One of the reasons why the company's dividend has increased is because Potash Corp. spent the past few years investing in expansion projects to grow its potash production. Those projects are now driving increased production, which is coming at a lower cost, both of which are providing a lift to cash flow. Further, now that those investments are largely complete, the company's annual capex is cut in half, freeing up a lot of cash flow that the company can now send back to investors via an even larger dividend.

Investor takeaway

While Potash Corp. has endured a short-term hiccup, the long-term trend remains very much intact. With the company's stock price now off by about 10%, I'm taking advantage of the situation to add to my position. In so doing, I'm picking up a very generous 5% yield, which I expect will only grow larger in the years ahead.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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