



Short Interest in Potash Corp./Saskatchewan Inc. Plummets: Is it Time to Grab the Stock?

Description

Amid the daily noise on *The Street*, chances are investors in **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) may have missed a crucial headline: the latest short-interest figures for the stock show a whopping 30% decline between May 15 and May 29, indicating that an increasing number of people believe the stock is going to go up from here. Does that mean Potash Corp.'s stock is on the verge of a breakout, and is the time is ripe for you to get hold of some shares? Let's find out.

Why is short interest relevant?

Before we dig into Potash Corp., let me quickly explain what short interest is. It refers to the total number of shares of a company that investors have sold short, but haven't purchased yet, or haven't covered yet. Here, selling short is simply selling a stock without owning it in the hope that the price will fall, thus allowing the seller to buy the stock later at a cheaper price and make quick profits.

Naturally, declining short interest for a stock means fewer short-sellers, or people who are bearish on the stock. It's not every day that you see short interest in a stock fall as much as 30%, as is the case with Potash Corp. Clearly, the market is getting excited about the fertilizer giant.

In fact, considering short interest alone gives only half the picture. The short percentage of Potash Corp.'s float, or the percentage of total outstanding shares minus restricted stock currently sold short, stands at only 1.4% currently. In other words, only a tiny fraction of investors with an open position in Potash Corp.'s stock believe its price will fall.

Why is the market so optimistic about Potash Corp.?

At the outset, Potash Corp. has lost nearly 13% over the past six months, hugely underperforming the broader market and closest rival, **Agrium Inc.** As a result, Potash Corp.'s stock is now just about 11% off from its 52-week low. The downfall also means that the stock is now trading cheaper than Agrium at 17 times earnings. Perhaps the market considers this as a kind of bottoming for the stock, which is why Potash Corp. short-sellers are running for cover.

Meanwhile, fertilizer market fundamentals are also improving. Prices of potash—the company's key product—are inching higher. Sales volumes are also expected to pick up as the year progresses, what with key potash-consuming markets, India and China, recently signing annual potash import contracts.

In fact, potash turned out to be Potash Corp.'s [top-performing division](#) last quarter, with gross profit surging to US\$428 million from US\$300 million a year ago thanks to higher selling prices and lower costs. Even better, the company projects its gross profit from potash to grow between 10-30% for the full year, which should help offset any weakness in other nutrient markets like phosphate and nitrogen.

Should you buy Potash Corp.'s stock now?

Given the improving business conditions and reasonable valuation, Potash Corp. does look like a bargain right now. Interestingly, while short interest in the stock has declined rapidly in recent months, the stock price hasn't moved up. So, the downside in the stock appears limited as it gets ready to ride the wave of optimism in the market.

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