



Potash Corp./Saskatchewan Inc. Is a Core Portfolio Stock Investors Should Hold

Description

For investors looking for a stock that will act as a core holding into the 20s, 30s, and even 40s of this century, they should be looking to acquire and hold shares of **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT). As the name implies, it is a potash miner. At 20% of global capacity, it is the single largest provider of the mineral necessary for the creation of fertilizer.

Due to its size and trends in the world, Potash Corp. is able to generate significant returns on the resource it mines. It earns over 60% gross margins and has profit margins close to 40%. All told, the company is a juggernaut in this somewhat unknown field.

The greatest catalyst for the company is the fact that the world is becoming more urban. As populations grow, governments have to create bigger cities to try and handle those people. By 2024 the population will be eight billion. About 26 years later, that population will grow an additional 1.5 billion. If the cities weren't growing, this wouldn't be a terrible thing because the earth has plenty of land to provide food.

However, the trend over the past 50 years has been to move away from open space and move into cities, causing them all to grow rather quickly. This cuts down on available land to grow food. What this means is that farmers have to try and find ways to increase yield for every acre of land just to keep up with the population growth. Potash-based fertilizer is considered one of the best ways to increase the yield.

Short-term concern

While the company has a really bright future, the short term is going to be bumpy for investors. The company has half of the world's new supply coming online over the next few years, which is a great thing. However, because of other companies pushing to gain market share, the price of potash has dropped from a high of US\$800 per ton in 2009 to just about US\$300 now. And since it is a commodity company, when the commodity does bad, so does the company.

The way around this is actually China and India. At some point, these countries are going to realize that they need to get more yield per acre than they currently are. This will result in Chinese and Indian

farms using potash. Should this occur, it would greatly offset the oversupply of potash in the market. Africa is also a market that is expected to grow over the next decade, which will further push up the price.

Strong yield

If investors have the stomach for short-term problems and long-term gains, they'll be rewarded with a very handsome yield. At the present price, it pays a 5.53% yield, which comes out to \$0.48 per quarter. If you were to reinvest those dividends back into the company, especially at this valuation, you would have a nice portfolio by the time potash prices rebounded. Because of this, I believe Potash Corp. is a must for long-term investors.

CATEGORY

1. Investing
2. Metals and Mining Stocks

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/04

Date Created

2015/08/10

Author

jaycodon

default watermark

default watermark