



3 Reasons Potash Corporation of Saskatchewan Inc.'s Withdrawal of the K+S Bid Is Great News for Investors

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has called it quits after chasing the world's fourth-largest potash company for more than three months in a bid to corner nearly 30% of the global potash market. This past weekend, Potash Corporation announced the withdrawal of its offer for German potash player K+S.

While CEO Jochen Tilk blamed "a lack of engagement by K+S management" as one of the reasons, he also highlighted how the pursuit of K+S may not be in the best interest of shareholders anymore, given the prolonged weakness in the potash markets. That makes sense, given how potash prices have fallen another 11% since Potash Corporation first bid for K+S.

That said, irrespective of why Potash Corporation abandoned its bid, I believe this is great news for investors for three reasons.

The risk of a failed rationale

The rationale behind Potash Corporation's bid for K+S has been a talking point ever since the news first hit headlines. K+S is among the high-cost potash producers in the industry. Ironically, Potash Corporation is aggressively cutting its production costs in the wake of challenging business conditions. To top that, K+S is a low cash flow-generating company.

Potash Corporation was perhaps eyeing K+S's greenfield potash project, Legacy, which is expected to go online next year. Legacy will start producing at a time when the global potash market is already oversupplied. That could further pressure already weak potash prices—something Potash Corporation is clearly apprehensive about.

But even if Potash Corporation had acquired K+S and gained control over Legacy's production, it's difficult to say to what extent it would've impacted supply and prices in the long run, given the number of other global potash projects in the pipeline.

So, chances are that Potash Corporation could've ended overpaying for K+S—it offered a 59%

premium to K+S's volume-weighted average share price for the last 12 months—had the deal gone through. That's not the best move in a weak industry.

Plenty of alternatives

Potash Corporation will probably look at alternative investment opportunities now. One could be consolidating the North American potash markets by targeting a company like **Intrepid Potash Inc.** ([NYSE:IPI](#)), which has roughly 9% of the U.S. potash market under its belt.

Considering that Intrepid shares have lost half their value over the past year, Potash Corporation could pay a modest premium for the company to gain substantial market share in the U.S.—a win-win, especially considering that Intrepid is a financially strong company with little debt on books. A stronger foothold in the U.S. markets could also better position Potash Corporation to negotiate international deals later.

Or if Potash Corporation doesn't find a good takeover target now, investors can expect to get more money.

Double rewards for you

Potash Corporation generated US\$1.4 billion in free cash flow in the trailing 12 months. With a major multi-year expansion program nearing completion, its free cash flow is expected to grow substantially in the near future. In the absence of an alternative avenue, the company could return a portion of that money to shareholders via buybacks.

The timing appears ripe, with Potash Corporation stock trading near 52-week lows, having lost more than a third of its value so far this year. Also, the company hasn't bought back shares for more than a year now—it last initiated a buyback program worth US\$2 billion in July 2013, which was completed within a year.

Potash Corporation already raised its quarterly dividend by 9% in January, so a share buyback is highly possible, especially after the unsuccessful K+S attempt. That should double investors' joy as they're already enjoying solid a 7% dividend yield in the stock now.

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1. Investing

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1. Editor's Choice

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1. NYSE:IPI (Intrepid Potash, Inc.)

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