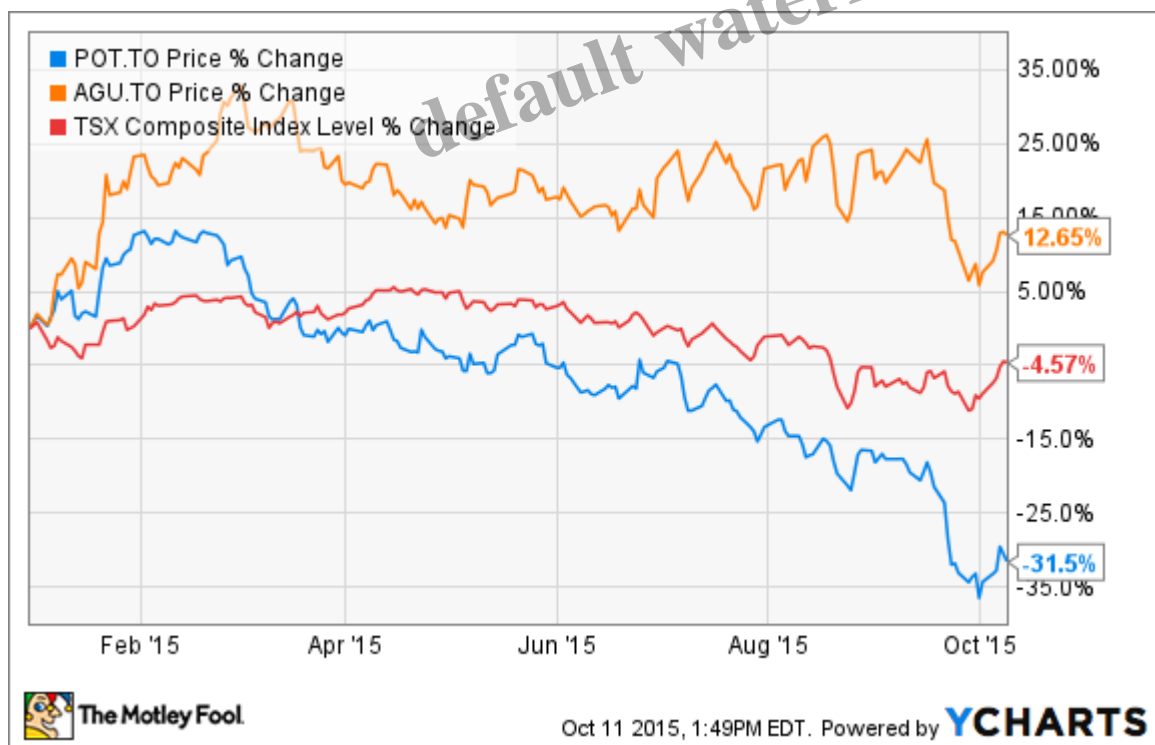




Why Has Potash Corporation of Saskatchewan Inc. Slumped 32% This Year While Agrium Inc. Is up 13%?

Description

One interesting aspect of investing is how stocks within the same industry behave differently. Take a look at this fascinating chart.



[POT](#) data by [YCharts](#)

Lower crop prices and slowdown in China have hit the fertilizer industry hard. However, while **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is down a whopping 32% year-to-date, peer **Agrium Inc.** (TSX:AGU)(NYSE:AGU) is up 13%, even outperforming the broader market by a gaping margin!

A situation like this presents investors with an excellent opportunity to make informed investment decisions by diving deeper in the two companies to find out why one outperforms the other despite similar business conditions.

Within the nutrient space, both Agrium and Potash are equally diversified as each company deals in all three key nutrients—potash, nitrogen, and phosphate. However, the scale of diversification and exposure changes the story.

The bear case for Potash

Potash earns more than half its gross profits from its namesake nutrient, and that's where the problem lies. Potash prices went downhill after Russia-based producer Uralkali pulled out of its distribution agreement with Belaruskali in 2013 to pursue volume over price. Until then, the two companies, with U.S. potash producers, stuck to a price-based strategy—a policy that worked in favour of all potash producers involved.

Prices of potash have plunged more than 20% since. To make matters worse, demand for the nutrient has softened this year as market conditions have weakened in North America, Brazil, and China. Investors were spooked when Potash downgraded its full-year earnings outlook last quarter.

Meanwhile, Potash's bid to buy German-based potash company **K+S** in June didn't go down well with the market, as it feared that Potash could end up overpaying for a high-cost, low-cash flow company. Potash withdrew its bid last week, much to the relief of investors.

While Potash's next move remains to be seen, the imbalance in demand and supply in the potash market will likely last years. That could limit Potash's profits and growth going forward—something investors are wary of.

The bull case for Agrium

While Potash is a pure-play fertilizer company, Agrium operates two business segments: wholesale (fertilizers) and retail (seeds and crop protection products). Even within its wholesale division, Agrium derives a major portion of profits from nitrogen and has minimal exposure to potash nutrients. That partly explains why Agrium's shares haven't taken a beating, unlike Potash.

Also, Agrium's retail side—which contributes a major portion to its revenue—deals in products that are characterized by relatively inelastic demand. That helps offset the volatility in the fertilizers business, which is subject to the vagaries of crop prices. So, the market cheered when Agrium reported 11% higher net income for the first half of the year, while Potash's net earnings fell during the period.

Which stock should you consider now?

Agrium looks like the stronger bet now, but the selling in Potash may have been overdone. Agrium's

stock shed some weight after the company downgraded its full-year outlook last quarter, but it still trades at 16 times earnings, while Potash is hovering at a historically low P/E of about 12. Moreover, Potash's dividend yield of 7% is nearly twice that of Agrium's.

So, while Agrium may continue to run higher, Potash may offer better upside to both value and income investors.

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