Has Potash Corporation of Saskatchewan Inc. Bottomed?

Description

After a nasty rout that took the stock down more than 30% this year, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is catching a tailwind, and new investors are wondering if they should buy the stock.

Let's take a look at the company to see if it deserves to be in your portfolio.

K+S deal

Potash recently backed off its attempt to buy German potash producer **K+S AG** for US$8.7 billion. Had the deal gone through, Potash would have held nearly 30% of the global market, but pundits had mixed feelings about the takeover.

Supporters of the deal say the move would make sense over the long term because Potash could control prices better, especially as new sources of production come online in the next few years. The company would also acquire K+S's Legacy project in Saskatchewan, which Potash would add to its Canpotex marketing group, and effectively take out a competitor.

On the other side, analysts said the deal was too expensive, especially in a market that is currently oversupplied and feeling pricing pressures that could last for a few years.

Shareholders should probably be relieved, at least in the short term, that the deal was dropped. The company won't be adding more debt or diluting stockholders through a share issue to pay for the acquisition.

Market conditions

Potash and nitrogen prices have fallen in recent quarters, and that situation could continue into 2016. Potash demand is actually near record levels, but a battle for market share by the largest global producers is putting pressure on prices.

Potash expects full year earnings to be US$1.75-1.95 per share. The company will report its Q3 numbers later this week with guidance set at US$0.35-0.45 for the quarter.

The long-term outlook is positive as demand for crop nutrients is expected to expand significantly in the coming years. Farmers will be hard pressed to meet the growing food needs, and the use of fertilizers is one way to boost productivity.

Expansion projects

Potash embarked on an aggressive expansion plan back in 2003, and most of the projects are nearing completion.

That is good news for investors because most of the investment needed to meet demand growth is already finished, and the impact on free cash flow moving forward should be very positive.

Dividend safety

Potash pays a quarterly dividend of US$0.38 per share that yields about 6.9%. The sell-off in the shares has driven the yield so high that some analysts are concerned that the distribution could be at risk.

The company is bringing in enough cash flow to cover the dividend and lower capital expenditures in the coming years; the cash flow should also help support the company's ability to meet the payout. Potash stills earns decent money. If commodity prices continue to weaken, there could be a short-term concern, but it is unlikely the company will trim the payout unless the market really falls out of bed.

With the K+S deal now off the table, the dividend should be safe.

Should you buy Potash?

As a long-term holding, the stock looks attractive at the current level, but there could be more volatility in the coming quarters.

I would wait for the Q3 numbers to come out before buying the stock. You might miss a bit of upside if earnings beat expectations, but it is probably best to see what the guidance looks like for the rest of the year and 2016 before stepping in.

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