Potash Corporation of Saskatchewan Inc.: How Safe Is This 8% Dividend?

Description

Thanks to a declining share price, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is the second-highest yielding stock on the **S&P/TSX 60**. As of this writing, the company's quarterly payout yields a very juicy 8.0%.

This brings up the obvious question: Can the dividend be sustained?

A number of headwinds

Potash Corp.'s share price has sunk by nearly 40% in 2015, and it's no secret why: declining potash prices. There have been a few reasons for this.

First of all, this has not been a good year for emerging markets. Countries like China, Indonesia, and Brazil have all struggled mightily, and these are all major potash consumers. Making matters worse, the U.S. dollar's strength has severely impacted these countries' buying power. Crops prices have also fallen, which doesn't bode well for future demand.

At the same time, supply remains strong, and Potash Corp. acknowledges that industry capacity is likely to increase.

If that wasn't enough, the province of Saskatchewan is reviewing its royalty regime, and any changes could be a negative for Potash Corp. To top it all off, the company is considering a renewed bid for K+S next year, which has made Potash Corp.'s shareholders understandably nervous.

The numbers

So how safe is the dividend? Well, if you were to believe Potash Corp.'s management team, conditions would have to significantly worsen for the payout to be in danger.

To illustrate, Potash Corp. estimates that with potash prices averaging US$200 per tonne, cash flow from operations would total roughly $1.9 billion. That would be just enough to cover maintenance capital expenditures of $700 million and dividend payments of $1.2 billion. And since Potash Corp.

realized an average price of US$250 per tonne in Q3, there's plenty more cushion for the dividend.

There are better options

Potash Corp.'s dividend is probably safer than many other high-yielding stocks. But that doesn't necessarily mean you should buy the shares.

After all, there is still plenty of downside for potash prices. And even if prices do fall, there's no guarantee that any significant supply will come offline (we've learned this lesson the hard way from other commodity markets). In any case, there's practically no chance of a dividend increase at Potash Corp., which limits the return for long-term investors.

Instead, there are plenty of stocks that yield 4-5% and will not be cutting their dividends anytime soon and have decent growth prospects. These are the types of stocks that you should be looking for. The free report below is a great place to start.

CATEGORY

1. Dividend Stocks
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