



## Can Investors Depend on Potash Corporation of Saskatchewan Inc.'s Yield of 8.03%?

### Description

It has been a very tough year for **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT), having dropped over 40%. If you're an investor in this stock, seeing that much of your value disappear in a year might have really hurt. And for some of you, Potash Corp. likely turned in to a tax-loss opportunity to keep your capital gains down.

However, for those investors who have held out, or for those who have been considering adding it, the 8% yield is certainly attractive. I spent time over the holidays talking with my cousin, who is a stockbroker, and we both settled on Potash Corp. as an appealing option because of that yield.

But is it safe?

That depends entirely on the global demand for potash in comparison to the supply.

In 2014 demand for potash hit an all-time high of 62.7 million tonnes. However, that demand dropped significantly in 2015 with an expectation of 58-59 million tonnes. Even though this is the second-highest demand ever, there is such an oversupply that it pushed the price of potash down. In Q3 2015, the price per tonne was \$250. Had it dropped to \$200, the dividend would have been in danger.

The good news is that it doesn't appear that the price is going to drop that low. Many analysts are expecting that the price of potash should strengthen in 2016 due to what could be a new all-time-record year, with demand anywhere from 61 to 65 million tonnes.

On the other side of the coin, supply is becoming more restricted. Potash Corp. has cut production by 500,000 tonnes, and many of the other big suppliers around the world are also trying to get their supply in line with demand. None of the big potash miners want to see the price continue to drop.

Fortunately, if demand can continue to increase, I expect that 2016 might be reminiscent of 2014. And the good news for investors is that its free cash flow is expected to grow significantly. This is primarily due to a giant investment strategy. In 2003 the company initiated a plan to increase production to 18 million tonnes. This has cost the company \$8.4 billion. Now that this is coming to a close, the free cash

flow for the company should be greater, ensuring that the dividend will be safe.

Finally, Potash Corp. has invested heavily in reducing its operating expenses. As with all mines, the more money it costs to get the resources out of the ground, the smaller the margin. In Q3 2015, Potash Corp. had to spend US\$81 to get a tonne out of the ground. With its new Rocanville mine coming in to operation in 2016, Potash Corp. will be able to get resources out of the ground for US\$45-50 per tonne.

All in all, I believe that a lot of good things are coming for the company. Demand is increasing, supply should get under control, the company's big capital-works program has come to an end, and its margins are increasing. If you ask me, those all sound like the kinds of moves that result in a secure dividend. Investors might want to consider buying this stock over the next few weeks.

## **CATEGORY**

1. Dividend Stocks
2. Investing

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