



Potash Corporation of Saskatchewan Inc.: What to Expect in 2016

Description

Just like most other commodity producers, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) had a rough 2015. As a result, its Canadian-listed shares declined by more than 40%. The stock now trades at prices not seen since 2007.

So will 2016 be any better? What should shareholders expect in the new year?

The rough market will continue

It's no secret why Potash Corp.'s share price fell so far: potash prices have plummeted to US\$250 per tonne. There are a couple of reasons why this has happened.

First of all, crop prices have fallen mainly due to a bumper crop year in 2014. This disincentivizes farmers from using greater amounts of potash.

Secondly, currency has worked against Potash Corp. This may seem counterintuitive, since the company sells its product in U.S. dollars but incurs its costs in weakened Canadian dollars. But the company's biggest competitors come from Russia and Belarus, two countries whose currencies have depreciated even faster.

The news doesn't look any better going in to 2016. Supply should remain plentiful, and demand is not growing fast enough to keep up. You should expect prices below US\$300 per tonne for the foreseeable future.

Possible royalty changes

Earlier this year, the province of Saskatchewan made a significant change in its tax policy, a move that Potash Corp. said would reduce its pre-tax earnings by \$75-100 million this year. Saskatchewan also promised to review its potash royalty regime.

A change in royalties would not necessarily be a bad thing for Potash Corp. The current regime is overly complex and badly in need of reform. In any case, we are likely to see some changes in 2016.

We'll have to wait and see what effect they have.

A new bid for K+S?

A major event for Potash Corp. in 2015 was its failed takeover attempt of German potash producer K+S. Even after the bid failed, rumours persisted that Potash Corp. would make another attempt.

But I wouldn't expect this to happen, at least not in 2016. Falling potash prices have hampered the company's financials too much, and with a weakened stock price, executing such a large transaction would be too expensive.

Potash Corp. shareholders were never enthusiastic about the K+S bid anyways. So, assuming there are no more bids, these shareholders can breathe a sigh of relief.

Will the dividend survive?

Potash Corp.'s falling stock price has caused its dividend yield to surge—the shares now yield more than 8%. But the dividend probably won't be cut. Potash prices would have to fall to US\$200 per tonne before the dividend comes under extreme pressure, and we are still a long way from those levels.

Yet this is still a very risky stock to hold because it is facing some major challenges. Even if you're looking for big dividends, your best bet is to look elsewhere.

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Date

2025/07/20

Date Created

2016/01/04

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