



## Potash Corporation of Saskatchewan Inc. or Agrium Inc. for the Win?

### Description

Fertilizer companies' business performance is dependent on the supply and demand for their fertilizers. As the world population grows, farmers need to use more fertilizers to grow their crops. And as demand for fertilizers increases, the companies' prices should also increase.

Most attention revolving around fertilizer companies goes to **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) because it is bigger than **Agrium Inc.** (TSX:AGU)(NYSE:AGU) by market cap. Additionally, Potash Corp.'s 9+% yield is also the talk of the party. Which should you invest in for the long term?

### Business overview

The fertilizer companies have different focuses. By capacity, Potash Corp. is the biggest fertilizer company on earth, and it primarily focuses in potash production. Potash Corp. is also a big player in nitrogen and phosphate.

On the other hand, Agrium has 58% of its business in retail. It is the largest retail supplier of agricultural products and services in North America and has over 1,250 outlets in North and South America and Australia. On top of that, Agrium also produces nitrogen, phosphate, and potash.

### Performance

Agrium's retail business has made it a better performer than Potash Corp. Since 2009, Agrium's share price has risen almost 200%, while Potash Corp.'s share price has declined by 30%.

From the fiscal years 2009 to 2015, Potash Corp. is estimated to increase earnings per share (EPS) at a compound annual growth rate (CAGR) of 6.8%. In the same period, Agrium's EPS is estimated to grow at a CAGR of 19.1%.

### Valuation and yield

It's no surprise that Agrium is trading at a premium compared with Potash Corp. Agrium is trading at a

price to earnings ratio (P/E) of 12.5, while Potash Corp. is trading at a P/E of 10.7.

At \$23.60 per share, Potash Corp.'s 9.1% yield is enticing. Its share-price decline from \$46 in February is a partial explanation for its high yield. At the same time, Potash Corp. hiked its dividend by 8.6%, and the U.S. dollar has also strengthened against the Canadian dollar. Since Potash Corp. pays out dividends in U.S. dollars, Canadian investors enjoy a yield bump from the strong U.S. dollar.

Similarly, Agrium also has a U.S. dollar-denominated payout. At \$125.40 per share, it yields 4% based on a foreign exchange rate of US\$1 to CAD\$1.42.

### **Dividend growth**

Both Potash Corp. and Agrium have increased dividends for five consecutive years. In that period, Potash Corp. increased its dividend at a CAGR of 66.2%, while Agrium increased its dividend at a CAGR of 77.3%.

However, investors shouldn't expect their dividends to grow at those monstrously high rates because Potash Corp.'s payout ratio has grown from about 6% to 95%, and Agrium's payout ratio has grown from about 5% to 50%. In fact, Potash Corp.'s high payout ratio could set it up for a dividend cut.

### **Conclusion**

From a valuation standpoint, Agrium is trading at a premium to Potash Corp. and only yields 4% compared with Potash Corp.'s 9.1%. However, Agrium's retail business adds stability to its overall business performance. Agrium's conservative payout ratio also makes its dividend safer than Potash Corp.'s. If Potash Corp.'s earnings decline, it may be forced to cut its dividend.

### **CATEGORY**

1. Dividend Stocks
2. Investing

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