Potash Corporation of Saskatchewan Inc.: What You Need to Know About the New Dividend

Description

The year is not even a month old, and we've already seen two high-yielding stocks on the **S&P/TSX 60** slash their dividends. The first was **TransAlta Corporation**, which cut its payout by 78% in mid-January. Then on Thursday **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) reduced its dividend by 34%.

It's no coincidence that these two companies were the first to cut their dividends. They entered the year as the two highest-yielding names on the **TSX 60**. This should serve as a dire warning to dividend investors.

That being said, why did Potash Corp. cut its dividend? And is this the last dividend cut we'll see?

A necessary step

Potash Corp. also released fourth-quarter results on Thursday, and the numbers were far worse than expected. Earnings per share came in at just $0.24 for the quarter, down 51% year over year and 20% below analyst estimates.

It's no secret why Potash Corp. had to cut its payout. Potash prices have nosedived, falling to US$238 per tonne in the quarter from US$284 a year ago. The company has reacted by cutting production, but this caused unit costs to increase by 26% compared with the same quarter a year ago (despite the lower Canadian dollar).

Will there be further cuts?

Despite the cut, Potash Corp.'s dividend still yields 6.7%. So that brings up a very obvious question: Is this the first of multiple dividend cuts?

Well, let's look at the numbers: Potash Corp.'s dividend is now US$0.25 per share per quarter, which is very close to its fourth-quarter earnings per share. So it looks like the company is devoting 100% of its earnings to dividend payments, and this point was confirmed by CEO Jochen Tilk.

Potash Corp. doesn't have a lot of wiggle room with this dividend. And many analysts expect the price of potash to continue decreasing, which will put the new dividend under severe pressure.

A company to avoid

It looks like Potash Corp. is trying to keep its dividend as high as possible. And that's a very bad sign.

After all, in such a troubled market you would expect to see a company trying to pay down debt. Or if the balance sheet is already in good shape (as it is with Potash Corp.), you may expect to see some share buybacks.

And if the past year has taught us anything, it's that when a struggling commodity producer cuts its dividend, you can't rule out more cuts. This is a stock to avoid.

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Date
2025/07/20
Date Created
2016/01/29
Author
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