



## 3 Big Reasons to Avoid Potash Corporation of Saskatchewan Inc. Stock

### Description

A lot has been written in recent months about **Potash Corporation of Saskatchewan Inc.'s** (TSX:POT)(NYSE:POT) attractiveness at current prices with the stock having shed nearly half of its value in the past one year. A valuation of under 12 times trailing earnings and a dividend yield topping 6% only adds to the optimism.

However, there's more than meets the eye, and there are several reasons why it isn't the right time to bet on Potash Corp. yet. Here are the three major reasons why you should avoid the stock right now.

### China and India playing spoilsport

China is the world's largest potash-importing nation and a key customer for Potash Corp. While China usually settles a purchase contract early in the year, there have been no discussions for 2016 yet. The delay is a double whammy for exporters like Potash Corp. as it hurts both demand and prices of the nutrient. Worse yet, China will likely negotiate much lower prices of potash for the year, which will be a huge blow as nutrient prices are already down nearly 50% since 2012.

Meanwhile, India—which imports 100% of its potash requirements—has again reduced its potash subsidies to farmers. That makes the nutrient even less attractive at a time when a weak rupee has already made potash unaffordable for farmers. The fact that some of the key crop-growing regions in the nation are battling drought conditions doesn't help either.

Long story short, Potash Corp.'s sales and profits may not pick up for at least another couple of years, leaving little room for the stock to rise.

### Credit rating at risk

Thanks to deteriorating business conditions, S&P downgraded its credit rating on Potash Corp. to BBB+ from A- earlier this month. While it still is an investment grade rating, the downgrade indicates a weakening of Potash Corp.'s abilities to service its debt, especially amid challenging business conditions.

Here, it may be worth noting that Potash Corp. held only about US\$91 million in cash and equivalents as of December 31, 2015, and generated free cash flow worth only US\$200 million last year while shouldering long-term debt worth US\$3.7 billion.

### **Dividend in doubt**

A high dividend yield does not make a stock a great buy if the company's profits are declining. For Potash Corp., there are hardly any growth catalysts right now. Supply is booming, demand is muted, and prices of potash may never reach their peak again.

With earnings under tremendous pressure, I'm apprehensive about how Potash Corp. will maintain its dividend, especially since it's already paying out nearly 100% of its profits. The slashing of its quarterly dividend by 34% earlier this year may not suffice, and the company may have to resort to further cuts in the near future.

Unfortunately, the upside in Potash Corp stock appears to be as limited as the downside at this point in time, and investors can find much better stocks to park their money in right now.

### **CATEGORY**

1. Investing

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### **Date**

2025/09/12

### **Date Created**

2016/04/25

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