



Potash Corporation of Saskatchewan Inc.: Is the Dividend Safe?

Description

The oversupply and weak demand of potash has **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) in trouble again. The company announced that its revenue was \$1.5 billion, down 27.1% year over year. Its Q1 EPS was \$0.09, which missed analyst expectations by a penny.

But more than that, the company had to update its full-year 2016 earnings guidance, lowering it to \$0.60-0.80 per share.

The primary driver of this has to do with the fact that the price of potash and nitrogen, two minerals the company mines and sells, have continued their free fall in price. The reality is that there is too much of it on the market and the demand can't keep up. For context, a year ago potash was selling for US\$284/tonne. In this quarter, it was selling for US\$178/tonne, more than US\$100 less.

On top of that, management predicts that its full-year guidance for potash sales will fall somewhere between 8.3-8.8 million metric tonnes. It had originally predicted that it would sell up to 9.1 million metric tonnes, which is, again, a disappointment.

The company had been expecting to receive new contracts from China, but didn't. Further, because of its buying power, when China does start negotiating for potash, it is expected that it will push the price down. And the markets can't depend on India because some of the top farmland in India is experiencing drought, so there's no need for fertilizer.

All in all, things are rough for Potash Corporation. While it is certainly a low-cost producer of potash, nitrogen, and phosphates, it's struggling. The only good news for investors is that many other miners are likely struggling also, which could create opportunities when businesses have to shut down. Unfortunately, there's no sign of that happening.

What investors need to be concerned with is the dividend. Based on its current earnings, it is paying out nearly 100% of its earnings to investors. If the company can't keep its earnings at a stable place, the company won't have many choices but to cut the dividend.

However, in a perplexing move, the company didn't cut it this quarter. That could be a good or bad

sign. On the negative, if the company is unable to keep earnings up, Potash Corporation may have to borrow money to pay the dividend, which, with its credit rating being cut to BBB+ earlier this month, could get expensive. However, a positive sign could be that management firmly believes that the bottom is here.

On its earnings call, CEO Jochen Tilk expressed his belief that customer sentiment had been improving over the past few weeks and that the spot fertilizer market had stabilized. If this is true and there is stability in the market, we at least know that potash prices shouldn't drop any further. However, Potash Corporation has been calling the bottom for a few quarters now, and it keeps going lower.

In many respects, this is a turnaround company that could make investors a lot of money. However, I like to sleep well at night when I make investments. And the reality is, there are plenty of greater investments that you can deploy your money into. Here are a few...

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