



## Is Potash Corporation of Saskatchewan Inc. the Right Pick for Investors?

### Description

Times have been rough for **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) over the past year. During the holidays, I can remember my cousin, who is a stock broker, talking about how great it was to do covered calls because Potash Corp. paid such an amazing dividend, and you could add the premium of the call on top of it, making it an incredible income stock.

Then the company cut the dividend by \$0.13 a quarter, and the stock has been in a much tighter trading pattern, hovering between \$20 and \$25 a share since January. Unfortunately, that's not likely to change for quite some time.

There's the fact that its earnings were down significantly. Year over year, its revenue dropped 27.1% in the first quarter to \$1.5 billion with EPS of \$0.09, which missed analyst expectations by a penny.

Unfortunately, Potash Corp. is in the business of mining for potash, and there is far more supply than demand, which makes it harder to earn significant profits. Consider that in 2015 around this time, a tonne of potash was selling for US\$284. Fast forward a year and it's selling for US\$178.

Because of this significant drop, management has had to readjust its full-year guidance because it's not sure there will be enough demand for potash. Originally, the company had expected to sell 9.1 million metric tonnes, but that has since dropped to a range of 8.3-8.8 million metric tonnes.

The problem for me is the dividend. While the 5.88% yield is certainly exciting, the company is paying out nearly 100% of its earnings to its investors in dividends. That's not a problem if the company can sell enough potash; however, if sales drop, the company will have no choice but to cut the dividend again. It could certainly buy back some of its shares, which would reduce the dividend hit, but that's still only a short-term fix.

Ultimately, buying a company like Potash Corp. is predicated on a thesis that farmers are always going to need fertilizer. It's been a bad year for farmers with weak crops, which have hurt their income and prevented them from buying more fertilizer. However, farmers can't stop buying entirely because they still have their operations to run.

Further, China and India are going to finally sign their import contracts in the next few weeks. While they are likely going to have a lot of negotiating power, it'll still provide a sense of how low the price of potash is going to go.

Here's the thing ... I think Potash Corp. is a great company. It's a low-cost provider of minerals that are necessary for creating fertilizers. And I expect that as population continues to grow, there will be increased demand for high quality fertilizers.

All of that aside, I am not a buyer of Potash Corp. today. I expect the stock to go a little lower before going higher because of the potential for a future dividend cut. However, if you can stomach the volatility and uncertainty, I truly do believe Potash Corp. will be in a great place in the next couple of years. So the choice is yours when it comes to this company.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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