



## Potash Corporation of Saskatchewan Inc.: Why Did the Stock Just Tank Again?

### Description

**Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) dropped more than 6% on June 27, and investors are wondering what triggered the volatile reversal.

### India deal

Last week the stock picked up a tailwind as reports came out that the world's number two potash producer, Belaruskali, or Belarusian Potash Co., had signed a new contract with India.

The event is significant because India and China often set the floor for the potash market when they sign their annual supply deals. The two countries normally have their agreements in place much earlier in the year but have extended negotiations in 2016 amid weak conditions in the fertilizer sector.

The market has been on pins and needles through the first half of the year with many global buyers on the sidelines, waiting for an agreement to be reached. When news came out a few days ago that India was ready to sign, the market let out a sigh of relief.

### Why did Potash Corp. fall?

India confirmed it is paying just US\$227 per tonne under the new contract. The market knew the deal would be below last year's price of US\$332, but the discount is even larger than some pundits expected.

Now all eyes will be on the Chinese to see what price they can negotiate.

### Effect on Potash Corp.

Analysts are trying to decide if Potash Corp.'s reduced expectations for earnings in 2016 will have to be adjusted even lower.

The company already slashed its dividend once this year, and the current annualized payout of US\$1.00 per share is a bit on the high side based on the reduced earnings guidance of US\$0.60-0.80

per share for the year.

In its latest report management said the back half of 2016 should be better as global buyers return to the market. In fact, worldwide shipments are expected to come in at 59-61 million tonnes, about in line with the past two years.

Going forward, about seven million tonnes of capacity will be shut down in the next four years, and that should offset new capacity that is scheduled to come online.

### **What should investors do?**

The India deal could have a silver lining.

Belarus and Russia dissolved their cartel in 2013, and the resulting battle for market share has put huge pressure on prices. At US\$227 per tonne, the India contract is at a 10-year low, so there is a chance the two giants could finally renew their marketing agreement.

Volatility should be expected to continue, but the long-term outlook for the fertilizer space is positive and Potash Corp. remains one of the low-cost producers in the industry.

There is no rush to buy the stock today, and new investors should consider the dividend as a bonus, but contrarian types with a buy-and-hold strategy might want to start adding the stock to their portfolios on further weakness.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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