



## Potash Corporation of Saskatchewan Inc.: Is This Stock a Takeover Target?

### Description

Rumours of a possible takeover bid drove **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) up 8% on June 30.

The rally quickly fizzled out, but investors are wondering if there could be some truth to the story.

### Fertilizer mergers

Potash Corp. isn't new to the merger-and-acquisition game.

**BHP Billiton Ltd.** previously targeted Potash Corp. in 2010 with a \$40 billion bid. The Canadian government eventually blocked the deal on the grounds that it would not provide a "net benefit" to the country, but analysts have since speculated that BHP could come back and take a second run at the fertilizer giant.

Another name that comes up is Russian producer **Uralkali**, but that would likely require a partner in a joint bid.

Is a deal possible?

I would be surprised to see a deal involving a foreign buyer, but a home-grown merger could make sense, and **Agrium Inc.** would be the most likely candidate.

Agrium and Potash Corp. are already partners in Canpotex, the marketing arm the two companies use to sell potash to the global wholesale market. An Agrium deal would keep control of Potash Corp. in the hands of a Canadian company and create a wholesale and retail giant.

### Could Potash Corp. be a buyer?

Last year Potash Corp. was on the bidding end of a large takeover attempt with its offer to acquire German producer **K+S AG** for US\$8.8 billion. The move had some analysts scratching their heads given the fact that Potash Corp. produces at a lower cost than its German rival.

Potash Corp.'s management team felt the two companies could benefit from lower freight costs and efficiency gains, and some pundits believed the move was simply a ploy to take control of the Legacy potash project owned by K+S in Saskatchewan.

The merger with K+S would also have given Potash Corp. better control over global supplies. Together, the two companies control as much as 30% of the global market.

In the end, Potash Corp. decided to abandon the attempt, citing strong pushback from K+S management and the continued decline in the potash market.

Consolidation will likely occur in the fertilizer space, but it is far from clear which side of the process Potash Corp. is destined to occupy.

### **Should you buy Potash Corp?**

The long-term outlook for the fertilizer market is positive, and there are signs the current down-cycle could be finding a bottom.

I wouldn't buy the stock in the hopes of pocketing a quick profit on a takeover premium, but Potash Corp. could be an attractive contrarian play right now for investors with a buy-and-hold strategy.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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