



Should You Buy Potash Corporation of Saskatchewan Inc. Stock on Takeover Rumours?

Description

To call June a volatile month for **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) stock would be an understatement. From speculation about two potash giants forming an alliance to one striking export contracts with key consumer India at decade-low prices, there was enough happening in the potash industry to keep Potash Corp. investors on tenterhooks.

But the biggest surprise came on the last trading day of June when Potash Corp. stock surged almost 6% on rumours of a possible takeover bid. What exactly is going on here?

Why Potash Corp. stock surged

On June 30, financial news publisher *The Fly* reported how word was circulating among traders about Potash Corp. appointing an investment banker after “possibly receiving an unsolicited takeover proposal.” While *The Fly* called it trade chatter, the news was enough to send Potash Corp. bulls into a tizzy. There’s no information about who made the offer, and Potash Corp. hasn’t commented yet.

If there’s any truth in the story, there could be two major reasons why a company may want to acquire Potash Corp. now.

A bear potash industry is ripe for consolidation

With potash prices plummeting to multi-year lows and demand failing to catch up, sales and profits at global potash producers have tumbled in the past couple of years. To make matters worse, ongoing greenfield projects are expected to bring significant capacity online into an already oversupplied potash market in coming years. In fact, Potash Corp.’s recent bid for German rival K+S was largely seen to be a move to gain control over K+S’s greenfield Legacy project.

As competition heats up, fertilizer giants may consider swooping in on rivals to consolidate an otherwise fragmented industry and gain better control over supplies and prices. **BHP Billiton Limited (ADR)** ([NYSE:BHP](#)) remains the top potential acquirer, having already taken lessons from its desperate bid to acquire Potash Corp. in 2010; it was stopped in its tracks by the Canadian

government.

More importantly, BHP is pushing back development of its ambitious multi-billion dollar Jansen potash project until markets recover. It could take years for Jansen production to come online. At this point, it may be more lucrative for BHP to buy out rival potash assets than to pump billions into own projects.

Potash Corp. is attractively valued today

There couldn't be a better time to acquire Potash Corp., considering that the stock has lost almost half of its value in just one year. Today, Potash Corp. is trading at a fraction of its 2010 levels when BHP offered US\$39 billion to acquire the company. In other words, acquiring Potash Corp. today will be much cheaper even at a substantial premium to current prices.

And don't forget that Potash Corp. is earning a return of equity of almost 15% despite the downturn. That's an attractive proposition for competitors.

Should you buy Potash Corp. now?

I'll answer that straight: yes, if you're a long-term investor, as Potash Corp. is attractively valued and offers a hefty dividend yield of 6% currently; no, if you're only hoping to make some quick speculative bucks, because the stock may dip just as quickly if Potash Corp. were to quash the rumours.

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