



Potash Corporation of Saskatchewan Inc.: Does This Stock Belong in a Contrarian Portfolio?

Description

Contrarian investors are always searching for unloved stocks that offer strong upside potential over the long term.

Let's take a look at **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) to see if it deserves to be in your portfolio right now.

Tough times

Potash Corp. is down 60% over the past five years as a global battle for market share, drought conditions in India, and volatile currency moves have combined to hammer the price of the company's top product.

What happened?

Two of the industry's top producers located in Belarus and Russia ended a long-standing marketing agreement in 2013. That decision sent an already weak potash market into a tailspin that has nearly cut the wholesale price in half.

In June, Alexander Lukashenko, the president of Belarus, indicated a reunion between Belaruskali and Uralkali could be in the cards. Investors shouldn't buy in the hopes of a re-forming of the cartel, but the news is a sign that the price war is really starting to bite.

India and China recently signed new potash supply deals. The two countries normally have contracts in place much earlier in the year, but India has endured back-to-back drought conditions and the Chinese were holding out for better prices.

India will pay US\$227 per tonne and China will pay US\$219 per tonne under the new agreements. These prices are sharply lower than the 2015 rates but came in somewhat better than the worst-case scenarios envisioned by analysts. Now that the deals are concluded, other global buyers should start to re-enter the market.

Across the pond, market observers are looking for improved buying out of the U.S. and Brazil through the end of the year.

American farmers have been on the sidelines as weak crop prices put a dent in their pocket books. The decline in fertilizer prices over the past six months is expected to boost demand.

Brazil has endured a nasty slide in the value of its currency against the U.S. dollar over the past five years, and that has hurt demand for potash, which is priced in American dollars. The currency situation has improved over the past six months, and pundits see stronger demand out of the South American country on better affordability. The Brazilian real is up 20% against the greenback year-to-date.

Potash Corp.'s situation

Potash Corp. has reduced output and closed mines in an effort to adjust to the difficult situation. The company lowered its earnings outlook earlier in the year, and another reduction could be in the cards when the company reports Q2 results on July 28.

Investors might also see another dividend cut. The current annualized payout of US\$1.00 per share looks a bit robust given the existing earnings guidance of US\$0.60-0.80 per share for 2016.

Should you buy?

Contrarian investors know the best time to pick up a commodity stock is during the darkest days of the cycle. At the moment, it is hard to see how things could get much worse, and many analysts are saying the crop nutrients space might finally be bottoming out.

Potash Corp. is a low-cost producer, and the company is at the tail end of a multi-year capital program. That means it is positioned well to benefit when the market recovers.

I would wait for the Q2 numbers to come out before buying, but contrarian types with a buy-and-hold strategy might want to start nibbling on further weakness.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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