



Potash Corporation of Saskatchewan Inc.: Is the Worst Over for This Stock?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) continues to linger near multi-year lows, and long-term investors are wondering if any relief is in sight.

Let's take a look at the market conditions to see if a recovery could be in the works.

Tough times

The global potash market is controlled by a handful of large suppliers. Normally, that kind of situation leads to a cozy world where everyone keeps production at a reasonable level to ensure prices support decent margins.

Back in 2008, things got pretty tight and prices soared to nearly US\$900 per tonne. This spurred a wave of new expansion projects, and everyone in the space thought the good times would continue to roll on forecasts for steady demand growth.

That's not what happened.

By June 2010 the price was back down to nearly US\$300 per tonne. The situation improved over the next two years with prices moving comfortably above US\$400 in 2012, but the market started to soften again through 2013.

Then something unexpected happened that ended any hope of a medium-term recovery.

Two of the major suppliers, Belaruskali (Belarus) and Uralkali (Russia) decided to end their marketing arrangement and launched a global battle for market share. The split caused an almost immediate 25% haircut for potash spot prices from US\$400 to US\$300 per tonne and has resulted in an oversupplied market ever since.

To make things worse, Potash Corp. and other producers have since wrapped up multi-year capital programs at new facilities, adding to the supply glut.

How bad is it?

Potash Corp. reported a Q2 2016 average realized sale price of US\$244 per tonne, down from US\$334 per tonne last year. The difficult times forced management to cut the dividend earlier this year and then again when the second-quarter results came out.

Guidance has also been slashed. The new 2016 earnings target is set at US\$0.40-0.55 per share, much lower than the already reduced US\$60-0.80 the company told investors to expect when the Q1 numbers were released.

Green shoots of a recovery?

Potash Corp. says the worst should be over.

India and China finally signed new supply agreements, and that should bring international buyers off the sidelines.

U.S. purchases are also expected to rise in the back half of 2016 as farmers take advantage of better market prices.

In South America, Brazilian buyers have watched their currency improve 20% against the American dollar in recent months. Potash is priced in U.S. dollars, so the Brazilians are seeing improved affordability compared to the start of the year.

Is Potash Corp. out of the woods?

Supply concerns remain a big question mark and Potash Corp.'s management team hasn't fostered much confidence in their ability to read the market this year.

The long-term outlook for fertilizer demand remains attractive, but more pain could be in store in the near term.

As such, contrarian investors should keep Potash Corp. on their radars, but I wouldn't back up the truck just yet.

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