



Why Did Agrium Inc. and Potash Corporation of Saskatchewan Inc. Spike?

Description

Whenever competing stocks both experience a significant spike in share price, you have to pay attention. And when those shares are halted in early trading in both Toronto and New York, curiosity gets the best of us.

According to *Bloomberg News*, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) are in advanced stages of merger discussions. While the specifics of said merger are currently unknown, *Bloomberg* said, citing people close to the situation, that the merger could occur by sometime next week, though it could take longer.

The news sent Potash Corp. up 11.48% and Agrium up 7.11% yesterday before being halted. Competitors such as **The Mosaic Company** and **CF Industries Holdings, Inc.** saw similar jumps of 8.44% and 5.12%, respectively, a sign that investors of those companies see this sort of merger as a positive for the entire sector.

And it quite possibly is a positive. Both Potash Corp. and Agrium are big parts of the fertilizer business. However, fertilizer ingredients, such as nitrogen, potash, and phosphates, have all been depressed for quite some time, sending stocks that were once cherished lower.

While a merger of this size is no guarantee from a regulatory perspective, and historically, Canada has not given the green light for deals. Back in 2010, **BHP Billiton Limited** tried to buy Potash Corp.; however, Canada wouldn't let the deal go through. One argument as to why the deal couldn't go through was because BHP is a non-Canadian firm. But with this merger, it would be two Canadian firms merging, so it might be easier for a deal to formalize.

Let's assume that the deal does happen for a second and talk about why this is a positive.

Potash Corp. is entirely in the business of providing nutrients for farmers. However, Agrium is in a prime position, as I've written on numerous occasions, because it provides nutrients, but also manages a network of retail stores. And with the nutrient business suffering, there are numerous places where synergies could be found between the two companies.

The primary one has to do with an increase in supply and, more importantly, the ability to tightly control how much potash enters the market. Part of the problem with the space is that demand dropped while supply stayed strong, pushing the price down. By merging, the new entity could focus its energy on each of the company's top assets. That would allow the cost per tonne to drop, increasing margins.

The other benefit is that the merger would happen before expected demand increases. According to Jochen Tilk, CEO of Potash Corp., "We see the potential for record demand in 2017 with annual shipments in the range of 61-64 million tonnes." A combined powerhouse with high-margin nutrient mining and a network of retail stores could mean that the coming years could be quite profitable for a combined entity.

Should you buy?

No. Absolutely not. I never recommend buying stock in companies when there are only rumours. With the stocks locked up, I expect mass selling when they unlock, which will send the price back down. Therefore, wait until there is actual news to make a determination. A combined Agrium/Potash Corp. would be strong, but until there's more information, trading on this rumour is an easy way to lose money.

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