



3 Charts Reveal the Massive Challenges Facing Potash Corporation of Saskatchewan Inc.

Description

If you're an investor in **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and are hoping for a recovery in the fertilizer giant's prospects in near months, you might've turned hopeful a little too soon. China and India—the world's two largest potash-consuming nations—finally signed contracts for the year. This might have put out optimistic signals, but scratch the surface and you'll find a lot to worry about as the following three charts reveal.

Why current demand levels aren't enough

The recent potash contracts from China and India are, undoubtedly, important as exports form a substantial chunk of potash sales and revenues for Potash Corp., **Mosaic Company** ([NYSE:MOS](#)), and **Agrium Inc.** (TSX:AGU)(NYSE:AGU). However, the level of exports today is still significantly below previous years.

Source: Potash Corp. monthly market data update
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Exports for North American potash producers were up 22% sequentially in Q2, but that was largely a seasonal factor. Q2 exports were still down 37% year over year and substantially below the five-year average as the green bars in the above graph reveal.

In other words, demand for potash still has a lot of catching up to do to push Potash Corp. and other potash producers back on the growth track. The problem is that supply continues to exceed demand, which only makes it even more difficult for Potash Corp. to grow its revenues at a decent clip.

Why Potash Corp. may never hit a peak again

Major potash producers, including Potash Corp., Mosaic, and Agrium, have resorted to drastic measures in the past year or two as demand for potash slumped in the wake of lower crop prices, lower farm income, and weakness in key international markets. Each of these companies cut down potash production. For instance, Potash Corp. suspended production and laid off about 400 workers at

its Piccadilly mine earlier this year. In July, Mosaic suspended a potash mine and cut 330 jobs.

Unfortunately, North American potash producers continue to hold alarmingly high levels of inventory, despite the production rollbacks, as the green bars in the graph below show.

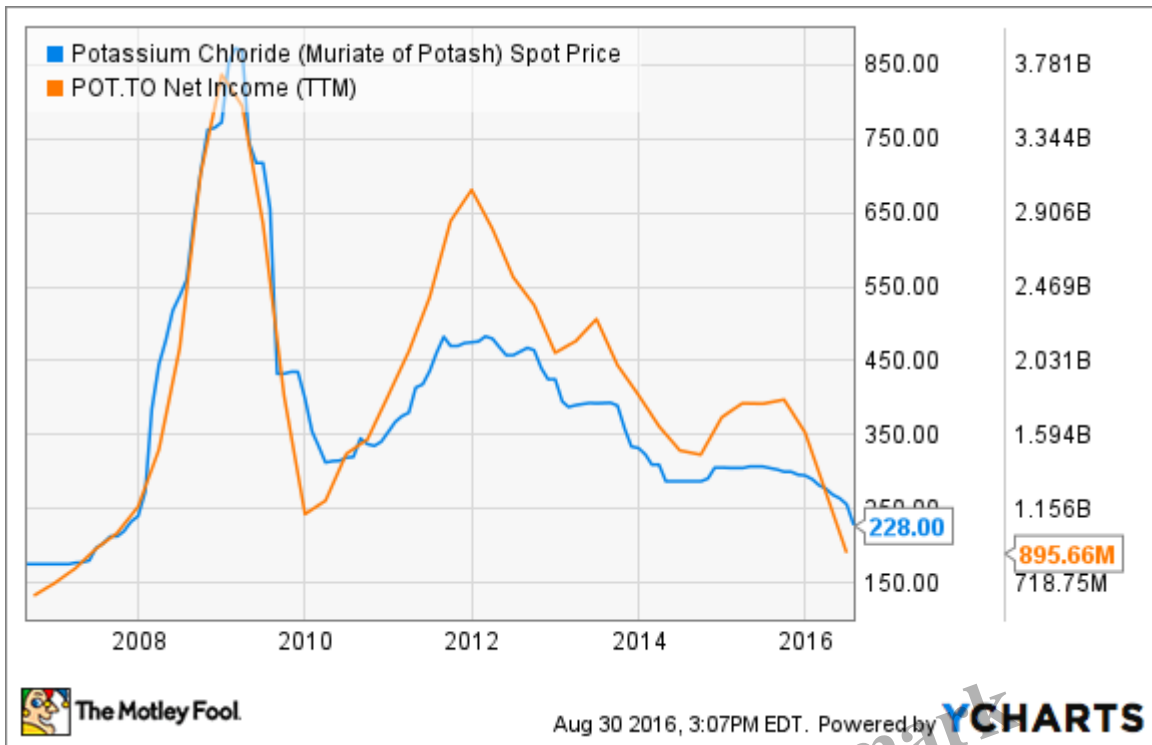
Source: Potash Corp. monthly market data update

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Source: Potash Corp. monthly market data update

When demand picks up, producers will need to work through the inventory before selling fresh produce. Given the dismal state of the fertilizer markets, I don't see demand hitting a point where producers have to ramp up production anytime in the near future. The supply glut has already put tremendous pressure on potash prices. In fact, potash prices may never see the peak of 2009, nor may Potash Corp.'s profits.



Potassium Chloride (Muriate of Potash) Spot Price data by YCharts

The graph above reveals how potash prices, and Potash Corp.'s profits, are languishing at multi-year lows. Potash Corp. has been hit so badly that it recently announced a second dividend cut for the year.

Clearly, it's an uphill task ahead for Potash Corp. Yet the market seems to be turning increasingly bullish about the stock. At today's price, the stock is trading at a steep 22 times trailing earnings, despite having negligible growth expectations over the next five years.

Of course, things could improve drastically if Potash Corp. merges with Agrium, as rumours suggest. However, a proposed deal this big is bound to run into regulatory hurdles, and it could be a long-drawn process even if the deal goes through. As of now, Potash Corp. is anything but attractive given the conditions in the potash industry.

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1. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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