



A Mega Merger: Potash Corporation of Saskatchewan Inc. Talks With Agrium Inc.

Description

In August, *CNBC*'s Marc Faber reported that a mega merger between **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) could be just "weeks" away. The rumours were confirmed by the companies the following day; Potash Corporation said that it is in preliminary discussions with Agrium regarding a "potential merger of equals."

With each firm having a market cap of nearly \$20 billion, it's not often that the market sees a merger of this size. Magnitude hasn't stopped Wall Street analysts from fawning over the deal. Edward Jones analyst Dan Sherman is bullish on both the merger and the long-term price potential of potash. Combining their purchasing power could provide sizable synergies in a commoditized market.

"If you believe potash prices are stabilizing," writes Sherman, "they're sitting at the bargaining table in about equal positions."

Optimism has pushed the stocks of both Potash Corporation and Agrium up by about 10% each. Now that shares have become more expensive, should you still be interesting in buying?

Fighting for survival

Previous to the merger talks, shares of Potash Corporation were pressured heavily due to weak potash prices.

In 2013 one of the two cartels controlling the potash market (Belarusian Potash Company) was disbanded. Following the breakup, potash prices collapsed due to increased competition and a lack of price fixing. Every potash producer was forced to become a price taker rather than a price maker. Since then, Potash Corporation has seen three straight years of declining sales and income, which forced the company to slash its dividend twice this year.

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A merger with a rival would make a ton of sense given the economies of scale. That's probably why

Potash Corporation has already tried to do it. Last year it announced a hostile bid for **K&S AG**—a bid that was ultimately rejected.

A merger between Potash Corporation and Agrium would certainly make sense for both companies. Agrium's retail store network commands 17% of the U.S. market. The rest of the market is fairly fragmented, meaning Agrium should be able to leverage its scale to grow market share for years to come. Most of Agrium's nutrient exposure comes from nitrogen, however. By combining forces, each company would diversify its revenue streams and play to each other's strengths.

Get ready for the backlash

Before you get excited about the potential of a combined company, recognize that it may be a difficult to persuade regulators to approve a deal. A merger would consolidate 60% of North America's potash production into one company. Indeed, many industry organizations have already come out strongly against the deal.

Last week, Agricultural Producers Association of Saskatchewan president Norm Hall said, "It's like the movie *Mad Max* ... one company owns everything. There's less and less competition out there. We're being painted into a box because of corporate greed." His group plans to protest any potential deal and other North American trade groups are planning on doing the same.

Last week the U.S. Department of Justice sued to stop **Deere & Company** from buying **Monsanto Company's** Precision Planting farm equipment business. If you're looking to buy either Potash Corporation or Agrium, you should wait for the deal premium to come down a bit—the risk of a failed deal is just too high.

CATEGORY

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