



## 3 Things You Must Know About Agrium Inc./Potash Corporation of Saskatchewan Inc. Merger

### Description

Just days after announcing a potential deal, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) officially confirmed a merger Monday morning, subject to regulatory clearances. Interestingly, both stocks headed lower on the confirmation, despite rallying the first time the news broke.

That, however, isn't important for investors in either (or both) company right now. What's important to know is the basic premise behind the merger, what the two companies expect to get, and what shareholders can expect.

Here are three things you need to know.

### Merger of equals? Not quite

While Potash Corp. and Agrium are calling the merger a "merger of equals," Potash Corp. will hold 52% of the new company (let's call it NewCo for convenience). As per the exchange ratio, Potash Corp. shareholders will get 0.4 shares for every share held in Potash Corp., while Agrium shareholders will receive 2.23 common shares of the NewCo for every share in Agrium.

In a simple example, if you hold 100 shares in Potash Corp., you'll get 40 shares of NewCo. If you hold 100 shares of Agrium, you'll get 223 shares in NewCo.

That exchange ratio implies it's a no-premium deal, which is surprising given how Agrium has outperformed Potash Corp. over the years. It's puzzling why Agrium would want to merge with a larger company without getting any premium for its superior business portfolio and operational performance.

### Potential synergies: too stretched?

NewCo expects to save up to US\$500 in annual synergies. Further, the "value" to be created from synergies is expected to be US\$5 billion, or a 20% increase from the combined market capitalization of Potash Corp. and Agrium as of August 29, 2016—the date the merger talks were first announced, and

which also formed the basis for the exchange ratio.

Leaving the technicalities aside, it remains to be seen how the combined entity aims to save US\$500 million. Chances are it could come on the back of production or expansion curtailments, in which case it wouldn't really be a synergy.

### **Where could dividends head?**

NewCo expects to keep its dividend equal to Agrium's level, but adjusted for the new share count. That's good news for Potash Corp. investors for two reasons. First, Agrium's dividend is growing at a time when Potash Corp. is slashing dividends. Second, Agrium has a dividend yield of 3.8% compared to Potash Corp.'s 2.4% yield.

However, Agrium investors may not see their dividends grow much as the combined entity will have substantial exposure to the volatile fertilizer markets, which could pressure earnings, similar to what we've seen happen to Potash Corp. in recent years.

### **Conclusion**

There's no denying that the Agrium/Potash Corp. merger will create the world's largest publicly traded fertilizer company. By capacity, it'll be the largest potash and the third-largest nitrogen and phosphate company in the world. However, I believe the deal will be net positive for Potash Corp., but this is not so for Agrium shareholders.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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