



Is the Bottom in for Potash Corporation of Saskatchewan Inc.?

Description

Canadian investors have been waiting a long time for **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) to bottom for the last few years. The stock has flat-lined for about 10 months, and we could see a huge rally as headwinds turn into tailwinds for the much-needed commodity.

What is going on with potash prices?

The price of potash is at a historical low, and, if you're a long-term investor, it may finally be time to jump back into the stock. There's no question that investors were disappointed when the dividend was cut multiple times to a meagre 2.4%, but I believe the days of dividend cuts are behind it and we may finally see some positive moves in the stock.

Fertilizer inventories are decreasing, and the big question mark regarding Chinese and Indian contract renewals are slowly starting to subside. If there is a rebound in Potash Corp.'s stock price, it will be driven by new contracts signed by China and India.

A stock pick not fit for the short-term trader

If you're an investor with an extremely long-term horizon of five years or more, then you could do no wrong by investing in Potash Corp. at these levels. Fertilizer prices are at historical lows, and the demand for potash is not going to disappear for a long time.

I'm not saying that there is a bottom; you would have been hurt if you tried catching a bottom a few years ago. But if you've got a long-term horizon, you could easily see more upside than downside a few years from now, assuming that you don't sell if the stock continues to fall.

There are major headwinds and there's a huge glut of potash right now, but if crop yields recover next year, this potash glut will eventually vanish and turn into a shortage if there's a better yield for farmers next year.

Valuation

Potash Corp. continues to see long-term weakness as sales have been declining by an average of -0.8% annually in the last five years. During this span, revenue growth is actually negative at -3.7%. All of these metrics are attributed to the fact that the potash commodity has fallen so far into the abyss, and it's not the fault of the company's management initiatives.

The business actually has a very impressive return on equity of 8% with a respectable return on invested capital of 6%. This shows that the company is good at getting the most out of its investments, but potash prices are out of its control, and this is why now may be the time to pick up shares of Potash Corp. if you believe that potash has bottomed and could rally in the next few years.

Potash Corp.'s operating margin is an outstanding 21.2%, so the business is firing on all cylinders. If potash rallies, we could see out-of-this-world returns in a short period of time.

The P/B of the company is at 1.7, which is much lower than the fertilizer industry average value of 3.3 and the five-year company historical average value of 4.1. This is a huge discount on some great assets that will pay off if you're an investor who is willing to buy the stock and completely forget about for the next five to 10 years.

CATEGORY

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Date

2025/08/03

Date Created

2016/10/27

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