



RRSP Investors: Why You Need to Buy Potash Corporation of Saskatchewan Inc. Stock

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is the world's largest producer of potash and other agricultural products. Recent reports of a pending merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) (the world's largest agricultural retail company) would turn the merged company into a commodity behemoth, controlling approximately two-thirds of potash capacity in North America and one-third of the North American capacity for phosphate and nitrogen.

Will this deal go through?

Reports from Thursday suggest that approximately 99% of Potash Corp. shareholders are in favour of the proposed merger, and approximately half of the ratification votes are in. Overwhelming shareholder support for this merger as well as the positive market response to the proposed merger have the market suggesting the merger may indeed be more likely to go through than previous deals.

If this deal is approved by shareholders, the big hurdle to overcome will be antitrust scrutiny primarily in Canada and the U.S.

In Canada, the government recently blocked a **BHP Billiton Limited** bid for Potash Corp. in 2010, noting that it was not in the country's best interest for the proposed merger to go through. The German antitrust authorities also recently blocked a deal for Potash Corp. to take over German K+S Group for similar reasons.

It appears that since both companies are based in Canada, the Canadian government might not oppose the deal based on "national interests." In the U.S., however, it remains to be seen if regulators will allow a single Canadian-owned corporation to take over two-thirds of the North American potash market.

What does the potash market look like long term?

Currently, the market price for potash is severely depressed, due in part to a downward commodity cycle driven by reduced short-term global agricultural demand and robust stock markets globally.

Commodities are generally viewed as a hedge to the stock market, and, in recent years, funds have been flowing out of commodities and into stocks.

The most recent surge in potash prices (and Potash Corp.'s stock price) occurred during the most recent recession, when Potash Corp. stock traded at the US\$77 level. The stock has since retreated to the US\$16 level and remains a great long-term value pick and stock market hedge.

Potash is an agricultural staple, necessary for the fertilization of key crops such as corn and wheat. Demand for meat, and thereby agricultural feed from corn, has been growing world wide, particularly in Asia where demand is currently outpacing production. A strong long-term outlook for commodities such as potash point toward a long-term upward growth trend of approximately 3% annually.

Potash Corp. also happens to be the world's lowest-cost producer, and this cost advantage will be enhanced with this proposed merger. Vertical integration within Potash Corp. is generally viewed positively by the market, and the benefits appear to flow both ways. Agrium will be able to take advantage of transfer pricing from Potash Corp. in its "direct-to-farmer" retail business model.

The question is, how patient can investors be with potash prices and corporate profits dropping steadily over the past few years?

CATEGORY

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