



## Potash Corporation of Saskatchewan Inc. Continues to Recover: Should You Own This Stock?

### Description

**Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) is at a six-month high.

Let's take a look at the current situation to see if Canada's largest fertilizer company deserves to be in your portfolio.

### Consolidation

Potash Corp. is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU). The two companies made the announcement in September and have received the blessings of their respective shareholders to create a global fertilizer giant worth \$36 billion.

The deal is still working its way through the regulatory process but is expected to close in the middle of next year.

This is Potash Corp.'s third potential trip down the consolidation aisle in the past six years.

Back in 2010, Potash Corp. was the target of a hostile takeover bid from **BHP Billiton**. Management rejected the overtures and BHP eventually had to give up when the Canadian government decided the acquisition didn't meet its "net benefit" test.

When you look at the recent bloodbath in the crop nutrients markets, it is easy to understand why some long-term investors are wishing the BHP deal had gone through.

Last year Potash Corp. decided to be the aggressor and took a run at German producer **K+S AG**. The company bid US\$8.7 billion in a move that had many pundits scratching their heads given the troubled market conditions. In the end, Potash Corp. backed off amid resistance from K+S and a further deterioration of potash prices.

Now, it looks like Potash Corp. has found the right partner. Agrium is also based in Canada, so there shouldn't be any federal roadblocks, and Agrium's global retail empire provides a nice complement to

Potash Corp.'s leading wholesale fertilizer business.

### **Market recovery?**

The global market for crop nutrients remains challenged. Potash Corp. reported very weak Q3 2016 numbers with year-over-year declines in gross margins for potash, nitrogen, and phosphate sales.

The company is starting to see some improvements in the international potash market as demand recovers in the wake of key deals being signed with China and India. Buyers in the United States are also starting to open their wallets again, and spot prices have moved up from the lows hit in the second quarter.

That doesn't mean Potash Corp. is out of the woods. The company's average realized potash sale price was just US\$150 per tonne in Q3 compared to US\$250 per tonne in the same period last year.

And what about Agrium?

Agrium isn't exactly knocking the ball out of the park either. The company reported weak year-over-year Q3 results due to the tough market conditions and lowered its full-year guidance.

### **Should you buy?**

World fertilizer demand is expected to grow significantly over the next 30 years as farmers try to feed more mouths using less land. That bodes well for Potash Corp., and the market apparently likes what it sees with the Agrium merger.

As such, Potash Corp. is probably a strong contrarian pick for the long haul, but I wouldn't expect significant stock-price gains until the fertilizer market starts to recover in a meaningful way.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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