



Buying Potash Corporation of Saskatchewan Inc. on the Upside

Description

Shareholders of **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) have had a rough few years. Currently, shares are down in excess of 50% from their 2015 high, and long-term shareholders have seen their dividends reduced a number of times in line with the company cutting production time and time again. Although the challenges faced may be viewed as very complicated by many, it may be much more simple than anything.

As a commodity, potash from one supplier is essentially the same as potash from another. It's very similar to oil in this respect. The challenges faced by Potash Corp. have been a lack of demand, an abundance of supply, or potentially both. It may have become too efficient for its own good.

As some investors will remember, there was previously a cartel which kept the price of potash relatively high prior to 2013. Since the cartel disbanded in 2013, Potash Corp.'s share-price decline has gone in the same direction as potash prices: down, followed by down again, and then down even more.

In the past several years, Potash Corp. has announced a number of dividend and production cuts. The most recent production cut was just this month, surprising no one. Since it seems investors have had such a bumpy ride, the prospect of less revenues doesn't seem to bother them anymore. Shares did not take a tumble or nosedive. Shares did not increase in value, but instead were virtually unchanged for the day.

As Potash Corp. moves through the process of getting the necessary approvals for its merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU), hoping to form a potash behemoth, investors clearly expect the better days ahead. After two years of watching the shares decline in value, there has finally been a breakout to the upside. The current moving averages are 10-day: 23.92; 50-day: 22.45; 200-day: 21.77. It seems the share prices are on a clear uptrend, finally breaking out of their two-year hibernation.

What's the potential?

Looking forward, investors may finally be back on the winning side of the supply and demand equation.

The past cartel, which was in place was able to limit the production and maintain high prices, kept investors very happy. The reality is, we are moving back to this oligopoly type of market. This is a huge win for investors.

With the combination of these two companies, clients will have a one-stop shop for their fertilizer needs. Essentially, the new company will be the only major player in town. Again, this is fantastic news for investors!

The dividend

Looking back at the dividend cuts, the current yield is now approximately 2.25%, while shareholders of Agrium are receiving just over 3.5%. It is much more likely for existing shareholders of Potash Corp. to receive a raise, while shareholders of Agrium may not. The long-term gains, however, will not be coming from dividend growth, but from the capital appreciation found in the shares. This will be an interesting stock to watch.

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