



Potash Corporation of Saskatchewan Inc.: Will This Stock Surge in 2017?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is within spitting distance of its 12-month high.

Let's take a look at the current situation to see if the beleaguered fertilizer producer can extend its recovery in the coming year.

Agrium merger

Potash Corp. and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) are in the process of tying the knot.

The deal comes after Potash Corp.'s two other potential trips to the alter failed in recent years.

In 2010, Potash resisted overtures from **BHP Billiton** and received support from Ottawa when the government ended the courtship by declaring the takeover would not be in the best interests of the Canadian family.

The potash market has tumbled significantly since then, and while the deal might not have been beneficial to Canada, Potash Corp.'s shareholders are probably wishing things had gone the other way.

Last year Potash Corp. became the suitor in its attempt to win the hand of German producer **K+S AG**. The US\$8.7 bid was quite rich given the weakening state of the global market.

K+S rejected the offer and Potash Corp. eventually bowed out, as it became evident the deal would likely put the balance sheet under pressure.

Now, it appears Potash Corp. has found the perfect partner. A merger of equals with Agrium, as it is proposed, will create a \$36 billion wholesale and retail global powerhouse.

If all goes according to plan, the two companies will become one sometime in the middle of next year.

Fertilizer market

The market for crop nutrients remains weak, although there are green shoots of a potential recovery.

Potash demand is holding up well, and prices rose in Q3 from the lows hit in the second quarter. However, things are still tough, and we saw evidence of this last month when Potash Corp. announced staff and production cuts at its Cory facility.

Potash Corp. is also planning to reduce production at its Lanigan facility for six weeks beginning in January. The Allan facility will curtail production for a 12-week period beginning in February.

Should you buy?

Market difficulties are expected to continue in the near term, so I wouldn't expect huge gains in 2017.

However, investors with a buy-and-hold strategy might want to take a contrarian position in the stock while it is still out of favour.

The combination with Agrium will strengthen the company's position in the global market, and the outlook for the fertilizer sector over the long run remains positive.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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