



Potash Corporation of Saskatchewan Inc. Remains a Strong Buy on Long-Term Market Strength

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) continues to feel the impact of sustained reductions in the price of global fertilizer prices.

Potash Corp., the largest global producer of potash and related fertilizer products, has seen gross margins drop significantly in the third quarter with weak potash prices expected to continue in the fourth quarter.

I will be taking a deeper look at industry fundamentals in an attempt to gauge a long-term market outlook for Potash Corp. Should commodity prices improve, the company's current stock price may prove to be an attractive entry point for investors looking for exposure to commodities.

Market prices declining for potash and fertilizer

Potash Corp. noted in its most recent financials release that its Q3 realized price for potash dropped to a low of \$150 per tonne—down from \$250 per tonne the same time last year. Gross margins for the company's nitrogen production were also down between 46% and 57% over this past year, and Potash Corp.'s average realized price for phosphate products decreased from \$538 per tonne to \$385 per tonne year over year.

In response to this low-price environment, the company has made significant reductions in operating costs. Potash Corp. is currently the lowest-cost producer of potash globally and has cut its cost of production for potash from \$113 per tonne to \$106 per tonne in an attempt to maintain margins at a reasonable level.

This commitment to cost leadership in the potash segment has been viewed positively by the market, as the company's stock price has appreciated by approximately 17% over the past three months.

Market outlook moving forward

Potash Corp. remains bullish on the long-term fundamentals of the potash market, noting global

demand for potash is robust and expected to remain robust into 2017. The company has revised its year-end 2016 outlook upward for Latin America to 11-11.5 million tonnes, slightly above 2015 levels.

In China, North America, and Asian markets, the company has maintained its production outlook for 2016 with the exception of India, which had a slight downward revision in expected shipments due to experienced shortages in the first half of 2016 resulting from contract delays.

The long-term growth potential of the global potash and fertilizer market is stable at the 3% level, driven by strong agricultural growth in Asian and emerging markets. The existence of Canpotex, the company's off-shore marketing company (a global cartel composed of large global potash producers), remains one of the company's largest assets.

Canpotex is currently at sales capacity, sold out for the remainder of 2016 with contracts extending into 2017 and beyond that are expected to fill Potash Corp.'s sales channels moving forward.

Potash Corp. is well positioned to take advantage of any uptick in global potash prices. Potash prices, driven by global growth expectations, the strength of the U.S. dollar, and global supply conditions created a relatively weak market over the past two years.

Should global demand remain robust for potash in the long term as expected, assuming a normalization of potash supply and global expectations toward growth and the strength of the U.S. dollar, Potash Corp. is in a very strong position to capitalize on its position as market leader.

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