



Potash Corporation of Saskatchewan Inc.: Time for Contrarian Investors to Buy?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is down more than 40% in the past five years and is pretty much flat for 2016.

Let's take a look at the current situation to see if this might finally be the moment to start a contrarian position in the fertilizer giant.

Big merger

Potash Corp. is in the process of merging with Canadian peer **Agrium Inc.** (TSX:AGU)(NYSE:AGU) in a deal that will create the world's largest crop-nutrient company.

Weak fertilizer prices and market-share battles with global competitors are likely responsible for the hook-up, which will put an end to speculation on whether or not Potash Corp. would merge with a foreign competitor.

BHP Billiton took a run at Potash Corp. back in 2010, but Potash Corp.'s management team refused the overtures, and the Canadian government eventually killed any hope of a deal when it ruled that the buyout would not be a net benefit to Canadians.

In 2015, Potash Corp. became the aggressor, bidding U.S.\$8.7 billion for **K+S AG**. The approach was not well received by the German company, and Potash Corp. took the offer off the table as it became clear the market rout was going to continue longer than expected.

Agrium might turn out to be a perfect fit. The two companies are based in Canada, which should mean the deal will get the nod from the federal government, and Agrium's strong retail business will provide a nice hedge against the volatility in the wholesale segment.

Both companies have completed major capital projects, so there is potential for investors to benefit from strong cash flow when the market finally recovers.

Market outlook

The global fertilizer market remains under pressure.

In its Q3 2016 report, Potash Corp. said potash demand is holding up well, and spot prices rose compared to the previous three months, but the situation is not expected to improve materially in the near term.

As a result, the company recently announced staff and production cuts at its Cory location and will reduce output at two other facilities this winter. The Lanigan site will reduce output for six weeks beginning in January and the Allan plant will cut production for 12 weeks, beginning in February.

These efforts will hit revenue, and investors shouldn't expect to see much good news in the Q4 2016 or Q1 2017 reports.

Is it time to buy?

The long-term outlook for the global fertilizer sector is positive, and the Agrium merger will put Potash Corp. in a strong position to benefit from the eventual market recovery. As such, the stock looks attractive for buy-and-hold investors, despite the risk of further near-term weakness.

Contrarian investors might want to start nibbling while the name is still out of favour, but I would keep the position small and look to add on pullbacks that might occur in the coming months.

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