



The Better Pot: Potash Corporation of Saskatchewan Inc.

Description

It seems every investor is concerned with pot. One of the most discussed stocks is **Canopy Growth Corp.**, which grows marijuana. More profitable than that sort of pot however, is the other pot, the better pot: potash.

Over the past two years, shares of **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) have had a terrible time, and long-term investors have seen their investments decline in value up to 50% and quarterly dividends being cut along the way from \$0.38 to \$0.10 per share. This investment has been abysmal.

The fundamentals of the industry explain a big part of the story. Potash used to be controlled by a cartel of producers, but it was disbanded several years ago, and the pricing of the potash transactions began to function as a pure supply/demand marketplace. Total profitability declined, and the managers of these companies knew trouble was ahead.

After a failed takeover attempt to reduce to the amount of suppliers in the market, Potash Corporation of Saskatchewan Inc. and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) agreed to merge in what could be a company worth up to \$40 billion. The new entity will be a potash behemoth, controlling a significant amount of the retail and wholesale distribution in Canada and the United States.

In the hopes of seeing a higher return on investment, the market has finally stopped hating this sector. Shares of both companies have (during 2016) finally bottomed out and bounced back off their lows. Looking at the technical analysis of both companies, the share prices have moved above their 10-day, 50-day, and 200-day simple moving averages (SMA) to finally trade in bullish territory. To make the investment thesis even more compelling, both companies have seen their 10-day and 50-day SMAs move above and stay above the 200-day moving average. This is recognized by industry participants as a bullish signal.

In most cases, a merger will move forward only when there is a clear increase in value of the new entity for both sides. In this case, it is clear the potash-producer landscape will be permanently changed, and the pricing power due to the availability of the commodity will clearly rest with the

suppliers and not the buyers.

Looking back to the days of the cartel, this industry was loved by investors. In a way, it was the new OPEC (Organization of the Petroleum Exporting Countries) without its history or disdain from consumers. Like many industries or companies, there was love, then a rush towards the exits, and a long period of looking the other way.

Looking forward to 2017, once the expectations for future profitability become more clear, the market may price in a higher expected amount of profit, and long-term shareholders will be in a better position to recoup some of their losses. In addition, many new investors may return to the industry and benefit from the decrease in the total number of potash sellers.

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