



Is Potash Corporation of Saskatchewan Inc. About to Turn a Corner?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has a rough past few years, and the stock has tanked on the weakness in potash prices. It appears that the stock has found a bottom and is slowly rebounding. If you're big into technical analysis, then you'd see that a bowl pattern is forming, which is a very bullish indicator that the stock will soar in an exponential fashion.

Although technical analysis works some of the time, I don't believe it is a method that should be relied on without looking at the fundamentals.

Potash Corp. cut its dividend twice over the last year, and this was for the better of the company in the long run. The yield got way too big, and the company was struggling to keep up with its payout since free cash flow generation slowed at a ridiculous rate thanks to the weakness in potash prices. I believe the dividend is sustainable at current levels, but the current yield of just 2.16% has turned off a majority of income investors that were long-term holders of the stock.

Where does Potash Corp. go from here?

The crop price outlook still looks very weak. Both corn and wheat prices are trading at five-year lows and are expected to remain low for a longer period. Crop producers have reduced production, and the demand for potash is also expected to be low for the next few years.

The huge potash glut will probably still be around for another year or two, and, as of right now, there are no catalysts that could support a sustained rally back to higher levels in the short term. It will be another tough year for fertilizer producers like Potash Corp.

What about valuation?

The stock is dirt cheap right now. The price-to-book and price-to-sales multiples are at two and 3.3, respectively, both of which are much cheaper than the company's five-year historical average multiples of three and 3.8, respectively.

Dividend hikes may be years away since the dividend payout is still ridiculously high at 238.6%. I

believe the dividend will be safe for now, but I do not see free cash flow rising much higher than the dividend payout unless the huge glut of potash is eliminated. It could take many years to see a rebound in the stock, but if you're an investor with an investment horizon of 10 years, it makes a lot of sense to pick up the stock right now while it's near historical lows.

Potash is a much-needed fertilizer which will inevitably see its demand increase back to historical norms, but this won't happen overnight. The stock is really cheap right now, but you won't get quick capital gains overnight. I would only recommend investing in Potash Corp. if you're an extremely long-term-oriented investor that doesn't care about the short- or medium-term fluctuations.

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