



## Why Potash Corporation of Saskatchewan Inc. Can Double its 52-Week Low in 2017

### Description

The current 52-week low for **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) stands at just below \$20. For this stock to trade at or around the \$40 level, I will describe a few of the things that will need to happen.

First of all, let's take a look at the last time the stock traded at the \$40 level (which wasn't too long ago). For all of 2014 and the first quarter of 2015, the company's stock traded at or around the \$40 level.

Here are a few of the main differences between now and then, and why things may start to revert to the way they were in 2014 sooner rather than later.

### Earnings and operating margins were much higher

Potash Corp.'s earnings per share during the 2013 and 2014 fiscal years were \$2.06 and \$1.83, respectively. The company has since had problems meeting earnings targets with misses in the first three quarters of 2016, and meager earnings in 2016 of \$0.75 per share.

That said, Potash Corp. is expected to beat the upcoming earnings estimate; a number of analysts upgraded their guidance for the most recent quarter. Should Potash Corp. be able to deliver a big earnings surprise, the potential stands for growing earnings throughout 2017.

Margins have also remain depressed considering previous levels. Potash Corp.'s operating margin currently sits around 17% with a profit margin of around 11%. In 2014, the company posted a profit margin of 22%, which is double today's level. Potash Corp. has listed higher royalties and taxes in addition to lower sales prices as the primary reasons for the decline. The commodity price of potash will need to increase substantially... I'll get to that shortly.

### Dividends were much higher

Potash Corp. paid out an impressive string of dividends to investors and continued to increase

dividends even though earnings began to sink starting in 2011. The company's dividend payments eventually exceeded earnings in 2016 when the dividend was cut, crippling this stock. Should margins and earnings pick up, growth in the dividend payout or dividend yield would further support a stock price move toward the \$40 level.

### **The commodity price for potash traded much higher**

Today's spot price for potash sits around \$247 per tonne — a far cry from 2014-2015 levels. During the era in which Potash Corp.'s stock traded at the \$40 level, the spot market price for potash hovered between \$350 and \$415 per tonne. The good news is that the price of potash has bottomed out and has been steadily inching upward since last August when the commodity was trading around \$215 per tonne.

The fact that the price of potash has increased 15% over the past six months is good news for investors. A continued appreciation of 40% in the spot price of potash to get the price to the \$350 per tonne level depends largely on supply and demand considerations, which I will tackle next.

### **Global supply and demand expectations have taken a hit**

With the election of President Trump, global growth expectations have begun to pick up. Delays in the production of new mines in Alberta and Saskatchewan have, at the same time, hampered supply expectations for 2017. If the winds are right, the mix of macroeconomic variables moving in the right direction may be the push this stock needs to hit the \$40 mark.

Stay Foolish, my friends.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **PARTNER-FEEDS**

1. Msn
2. Yahoo CA

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/08/06

### **Date Created**

2017/01/26

### **Author**

chrismacdonald

default watermark