



Is Potash Corporation of Saskatchewan Inc. Heading Back to its 52-Week Low?

Description

In my [previous article](#), I mentioned that the current rally **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) was enjoying could be short-lived as there were no true long-term fundamental catalysts to sustain such a rally. The stock rallied by as much as 26.2% from trough to peak, but it has since pulled back by 7.3%. There was a bullish bowl pattern forming, but I cautioned investors from buying into the stock based simply on technical analysis.

Based on the fundamentals, I still believe Potash Corp. will stay lower for longer, especially considering there are no real catalysts that will drive the stock higher this year.

The USDA forecasts that crop prices will remain low this year, and, as a result, farm income is expected to continue to decline. Lower farm income means that the demand for potash is expected to be lower for the medium term, and the potential glut of potash may be around for at least the next two years.

The company recently released a very underwhelming Q4 earnings report which saw earnings missing analyst expectations by \$0.02. I believe the results could be the start of a pullback to the \$22-23 range. Similar results can be expected for the remainder of the quarters for the rest of the year.

Could the Agrium Inc. merger trigger a rally?

The merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) is expected to close at the midpoint of this year, and there's an estimated \$500 million worth of synergies that could be unlocked. This is promising news, but it's already been baked into the stock price, and I don't think the merger could trigger a sustained rally for 2017.

Is it a buy for extremely long-term investors?

The stock will most likely trade around the \$23 level for a majority of the year. Potash prices are expected to remain low for the year, but the commodity is near a historic low. I believe potash prices will inevitably rebound many years down the road, but for most investors, an investment in Potash Corp. wouldn't make sense right now considering the lack of medium-term catalysts to drive the stock

higher.

If you're a really long-term investor with a time horizon of a decade or more, then Potash Corp. could actually be a terrific pick. The stock is undervalued based on almost every metric, and there could be a huge rally many years down the road. But if you've got a time horizon less than a decade, you're better off looking elsewhere for value, because you'll be waiting a very long time for shares to rebound.

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Date

2025/08/02

Date Created

2017/01/31

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