



Contrarian Investors: Is Potash Corporation of Saskatchewan Inc. Attractive Today?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) continues to trade close to its multi-year lows.

Let's take a look at Canada's top fertilizer stock to see if this is a good time to buy.

Crop nutrients slump

Potash, nitrogen, and phosphate prices remain at unfavourable levels for wholesale producers, and while there are some hints of a bottom, the conditions remain challenging.

Potash Corp. generated Q4 2016 earnings of US\$0.07 per share and reported full-year 2016 earnings of US\$0.40 per share. Considering full-year 2015 earnings came in at US\$1.52 per share, it's safe to say 2016 was pretty ugly.

Management says 2017 earnings should be US\$0.35-0.55 per share, so there isn't much hope for a recovery this year, but things at least look like they are starting to bottom out.

Global potash demand remains strong with 2017 shipments projected to be 61-64 million tonnes, as higher volumes head to India, China, South America, and the United States.

Operational strength

Potash Corp. has finally wrapped up its multi-year capital-investment program that saw the company modernize its operations in anticipation of strong future demand. As a low-cost producer, Potash Corp. is positioned well to compete on the global stage.

Now that the major investments are complete, more cash flow is available for distributions, and the existing dividend should be safe, even in the current environment.

When fertilizer prices recover, Potash Corp. could quickly become a free cash flow machine, and that

would likely trigger a return to dividend growth.

Agrium merger

Potash Corp. is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) in a deal that will create an industry giant with powerful wholesale and retail operations.

Potash Corp. anticipates US\$500 million in annual synergies once the deal closes, which should be sometime this year.

Should you buy?

Potash Corp. currently trades for about \$23 per share, which is only 15% above the 12-month low. Investors probably don't have to rush to start a position, but contrarian types with a buy-and-hold strategy might want to start nibbling on any further weakness.

It will require patience, but this stock has the potential to deliver some significant upside gains when the cycle turns.

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