



Is Potash Corporation of Saskatchewan Inc. Worth a Shot at the Current Price?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has not participated in the stock market rally over the past year.

Let's take at the current situation to see if this might be a good time to pick up the fertilizer producer.

Fertilizer woes

The broader fertilizer industry is in an extended slump with potash, nitrogen, and phosphate prices struggling to get any meaningful boost.

The difficulties are evident in Potash Corp.'s Q4 2016 earnings report. The company generated just US\$0.07 per share in the three months ended December 31, and \$0.40 for all of 2016.

Full-year 2015 earnings came in at US\$1.52 per share, so you can see how bad things have been for the company.

Looking at 2017, there isn't much hope for a large improvement, as management is providing guidance of US\$0.35-0.55 per share for the year.

On the positive side, the bottom appears to be forming as global potash shipments are expected to be near record levels at 61-64 million tonnes with strong demand coming out of Asia, South America, and the United States.

A contrarian view

Contrarian investors are always searching for beaten-up names that have potential for a solid recovery.

Potash Corp. might just be one of those stocks.

The company has completed a multi-year capital plan that positions the business well to take advantage of an eventual recovery in the fertilizer market. Production costs are among the lowest in the world, and Potash Corp. doesn't have to worry about spending billions in the future on new

developments.

Another positive is the impending merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) that will create a global fertilizer giant.

The deal is expected to close this year and should deliver annual synergies of at least US\$500 million.

Agrium's strong retail business will provide a strong hedge against the more volatile wholesale operations, and investors should see more stability in the company's cash flow as a result.

Should you buy?

World fertilizer demand is expected to grow significantly in the coming decades, as farmers struggle to feed more people and animals using less arable land. As a result, the long-term outlook for Potash Corp. should be positive.

If you have some patience and tend to hold stocks for several years, it might be worthwhile to start adding a bit of Potash Corp. to your portfolio on further weakness.

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