



The Bull and Bear Case for Potash Corporation of Saskatchewan Inc.

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has been an interesting company over the past year. The potash producer has not fallen in line with the broader market and has not participated in the widespread rebound analysts and shareholders expected.

I'll look at both the bull and bear cases for why Potash Corp. may be just starting to take off, and why it may continue to stagnate for the immediate future.

The bull case

Potash Corp. is the largest producer of potash in the world. It's currently underway with a merger that will bolster the company's dominant market position for North American potash. The proposed merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) would allow the company to benefit from Agrium's distribution channels and customer pipeline, providing significant synergies to make Potash Corp. potentially more profitable.

As a commodity, potash has a relatively stable demand growth rate; it's estimated to be approximately 3% per year in perpetuity with the supply of potash restricted to only a few jurisdictions in the world. Of these jurisdictions, Canada has some of the most accessible and profitable potash to mine, making this company a potential profit machine in the medium to long term should demand expectations outpace new supply that's brought to the market.

With the proposed merger, Potash Corp. stands to bolster its margins, further control the supply of potash in the markets (thereby potentially pushing prices up), and increase its sales base.

The bear case

Potash prices continue to stagnate and have been hovering near a 10-year low, constraining top- and bottom-line numbers significantly. Potash Corp.'s earnings per share have dropped substantially; the company earned just \$0.07 per share the past quarter (half of the company's quarterly dividend distribution) and \$0.40 per share for the past year.

New supply continues to be brought to the market, and new mines currently under development threaten the price of potash. Potash Corp. has undergone significant layoffs of late, and further production cuts may be necessary to maintain profitability in the short term, providing long-term challenges.

Uncertainty as to when supply and demand expectations will propel potash prices higher remains, and investors are beginning to become impatient with the prospective rebound in potash prices, which has yet to materialize.

Conclusion

Any time a stock is considered a long-term holding for an investment portfolio, ups and downs are to be expected. Considering the probabilities with respect to how the company is expected to perform over a longer period of time can prove to be one of the most difficult things to do. The further out forecasts go, typically, the more incorrect they become.

That said, picking up on broader trends in the pricing mechanisms of the underlying commodity (supply, demand, market size, concentration, etc.) can provide a much-needed perspective for a large market leader such as Potash Corp. in a currently depressed market.

Potash Corp. is a company I continue to believe in based on its fundamentals, and I tend to side with the bull case for the long term. In the short term, who knows? But long term is how investors looking to put away money and forget about it can really rake in the necessary profits should expectations pan out.

Stay Foolish, my friends.

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