



Potash Corporation of Saskatchewan Inc.: Time to Buy?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is lingering near its multi-year lows.

Let's take a look at the current situation to see if it might be time to start a contrarian position in the stock.

Tough times

The global fertilizer market is stuck in a rut, and the near-term outlook doesn't offer much hope for investors.

Potash Corp. produces potash, nitrogen, and phosphate for the global wholesale market. Prices have been on the decline for some time, and the extent of the weakness showed up in the Q4 2016 results.

Potash Corp. reported US\$0.07 per share for the quarter and US\$0.40 for the full year. This compares to US\$1.52 per share for all of 2015, and US\$1.82 per share in 2014.

For 2017, Potash Corp. says earnings should come in at US\$0.35-0.55 per share, which suggests the market might be bottoming out, but investors shouldn't expect any big surprises to the upside.

Positive developments

Demand for potash is expected to remain strong this year with total global shipments forecast to be in the range of 61-64 million tonnes. Potash Corp. said demand momentum built through the fourth quarter was expected to continue into 2017, and spot prices had improved compared to the third quarter.

Nitrogen prices also rebounded from multi-year lows in the quarter supported by reduced supplies and stable demand.

Agrium deal

Potash is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU). The new company will be a global fertilizer powerhouse with both wholesale and retail operations.

The addition of Agrium's retail business should provide more stable revenue, as that area of the market tends to be less volatile than the wholesale side.

Potash Corp. expects the deal to close in the coming months; the deal should result in annual synergies of at least US\$500 million.

Time to buy?

Commodity stocks go through cycles, and the best time to buy is often when things look pretty bad.

Potash Corp. is a low-cost producer and has invested heavily in upgrading its production capacity and facilities. This means investors could see strong free cash flow once better days arrive in the fertilizer markets.

If you have a contrarian investment style and are willing to ride out some lean times, it might be worthwhile to start adding some Potash Corp. to your portfolio.

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