



A Rebound for Potash Corporation of Saskatchewan Inc. May Be Years Away

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has been on the radar of contrarian investors for quite some time. The stock has been beaten up badly over the last few years, but could a bottom finally be on the horizon? Potash is a much-needed commodity, and it's not going to suddenly disappear off the face of the earth. We all need food, especially since the global population is rising at a ridiculous rate.

The price of potash may be near its bottom, but that doesn't mean the stock will start rebounding over a short period of time. Potash demand is still expected to be weak over the medium term, and it doesn't look like there will be any catalysts that will propel the stock of Potash Corp. higher.

Sure, the **Agrium Inc.** (TSX:AGU)(NYSE:AGU) merger will allow for approximately US\$500 million worth of synergies to be unlocked. Agrium's retail segment will stabilize revenues, and volatility is likely to be lowered over the long term. But this news is already baked in to the stock price at current levels, so don't expect the deal to drive Potash Corp. on a sustained rally to higher levels.

When is the rebound likely to happen?

This is the big question that many contrarian investors have been asking themselves for many years. The United States Department of Agriculture (USDA) believes that farmer incomes and crop prices will continue to be weak going forward. This means that the demand for potash is likely to remain lower, at least over the medium term, so a sharp rebound from rising potash prices is out of the question, at least for now.

Potash Corp. has been doing everything it can to eliminate costs, including laying off employees. The dividend has been cut several times, but I believe it is stable at current levels, and contrarian investors who are willing to wait it out can collect a modest 2.42% yield.

Takeaway

The stock of Potash is cheap, and the bottom may be near, but that doesn't mean it is ripe for a rebound. It could take many years before the stock starts rallying, and investors looking for quick gains

would be better off looking elsewhere.

If you're a long-term contrarian investor that's willing to hold the stock for over five years, then Potash Corp. is a great contrarian play. The commodity is near historic lows, and if you're willing to buy and forget about the stock for the next decade, there's a really good chance that your investment will pay off.

Personally, I'm on the sidelines because I think there are better medium-term opportunities out there, and Potash Corp. is likely to remain flat for the rest of the year.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/02

Date Created

2017/04/18

Author

joefrenette

default watermark

default watermark