



Potash Corporation of Saskatchewan Inc.: Should You Buy This Stock Today?

Description

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

Let's take a look at the current situation to see if Canada's top crop-nutrients company might be worth a shot right now.

Rough ride

Two years ago, Potash Corp. traded for more than \$40 per share. Today, investors can pick it up for about \$22.50.

That's a nasty slide, and long-term investors are wondering when, or if, the stock will return to its previous levels.

What's the story?

Fertilizer prices remain under pressure, but there are signs that the sector might be finding a bottom.

Potash Corp. says potash spot prices improved in Q4, and investors will be looking for evidence that the momentum continued into Q1 this year when the first-quarter numbers come out next week.

The company says global shipments for 2017 should be robust with expectations set at 61-64 million tonnes this year. Strong demand is forecast in North and South America as well as Asia.

While demand is healthy, management isn't expecting a large move in prices, as guidance calls for 2017 earnings of US\$0.35-0.55 per share. Potash Corp. earned US\$0.40 per share last year.

To put the numbers in perspective, full-year 2015 generated earnings of US\$1.52 per share.

A big stock surge based on improving commodity prices probably isn't in the cards in the coming months, but 2017 might prove to be the low point in the cycle, and there are other developments afoot that could drive Potash Corp. higher.

Opportunity

Potash Corp. is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) in a deal that will create a global fertilizer powerhouse with strong operations in both the retail and wholesale segments.

The addition of Agrium's large retail business should provide Potash Corp. with a more balanced revenue stream, and management expects to see at least US\$500 million in synergies once the integration is complete.

Large capital programs are pretty much wrapped up at both companies, so the combined entity should be well positioned to benefit when fertilizer prices finally begin to recover, and patient investors could see a return to strong free cash flow.

Is it time to buy?

Population growth combined with the loss of farm land to urbanization means farmers will have to squeeze more production out of less property in the coming decades. That bodes well for fertilizer demand, and most pundits say long-term outlook for the industry is attractive.

There probably isn't a need to rush out and buy the stock today, but contrarian investors with a buy-and-hold strategy might want to start nibbling on any further weakness.

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