Potash Corporation of Saskatchewan Inc.: Patient Investors Will Be Rewarded

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has been a tough stock to own for contrarian investors over the past few years. The stock appears to have finally found a bottom, but it has struggled to stay above the $25 level of resistance. The stock is dirt cheap, and although a rebound may be years away, long-term investors with a time horizon beyond five years might find it a good idea to pick up shares today with the intention of forgetting about them for years.

Potash Corp. has been aggressively cutting costs across the board. Dividend slashes and employee layoffs were unfortunate occurrences, but they needed to happen, as there was a better use for the cash during times of turmoil.

The United States Department of Agriculture forecasted that farmer incomes and crop prices will continue to be weak in the foreseeable future. This isn't great news for the fertilizer giant, but there are signs that market conditions may slowly be improving, as Potash Corp. upped its earnings guidance by a considerable amount for this year from US$0.35-0.55 per share to US$0.45-0.65 per share.

Potash Corp. recently reported a surprising increase in quarterly profit in its last earnings release. This increase was thanks to the management team's cost-cutting initiatives as well as increased potash sales volumes. The stock responded by rallying, but the rally eventually ran out of steam, and the stock fell back to its support level. I urged investors to avoid buying Potash Corp. following the rally and to wait for a pullback, which eventually happened.

Although potash prices have started to show signs of a rebound, there's still a lot of glut out there, and poor farmer incomes are expected to be a headwind for the company over the medium term. Given this headwind, I believe it's unlikely that Potash Corp. will break out anytime soon, but that doesn't mean you should scratch the stock off your radar.

Potash Corp. is cheap right now with a 1.7 price-to-book multiple, which is substantially lower than the company's five-year historical average price-to-book of three. Although the expectation of quick gainsis unrealistic, I believe long-term value investors have a lot to gain by picking up shares today and patiently waiting for a rebound over the next few years.

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Date
2025/08/01
Date Created
2017/05/23
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