



## Potash Corporation of Saskatchewan Inc.: A Contrarian Buy 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 the fertilizer giant is an attractive contrarian pick.

### Market conditions

Potash Corp. recently released its market overview for global fertilizer demand.

The company said potash deliveries were strong through Q1 2017, and the rising demand is reducing the supply glut in the global market as stockpiles continue to fall.

Canpotex, the marketing company that sells the company's potash, is actually fully committed through the end of June.

Potash Corp. estimates global potash shipments will be 61-64 million tonnes in 2017, which would be above the 60 million tonnes shipped in 2016.

Potash demand is expected to grow 2.5-3% per year over the long term. New capacity scheduled to come online over the next five years is forecast to match the demand growth. As a result, Potash Corp. says the market outlook is relatively balanced.

Spot prices have improved slightly from the 2016 lows, but the market remains under pressure.

Potash Corp. reported a Q1 2017 average realized price of US\$166 per tonne compared to US\$178 per tonne in Q1 2016.

### Earnings rebounding

Despite the lower average sale price, Potash Corp. posted better year-over-year Q1 results. The company earned US\$149 million, or US\$0.18 per share, in the quarter compared to US\$75 million, or \$0.09 per share, last year.

Lower costs of goods sold and higher shipments offset the weaker prices.

Average costs of goods sold dropped to US\$90 per tonne from US\$128 per tonne in Q1 2016. Sales volumes rose from 1.8 to 2.2 million tonnes.

### **Agrium merger**

Potash Corp. is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU). The deal is expected to close in the coming months and will create a global fertilizer giant.

Agrium's retail business should provide a nice hedge against occasional volatility in the wholesale market.

### **Should you buy?**

The long-term outlook for the fertilizer industry is positive. Population growth is driving higher food demand, while eating up valuable farmland as urban centres expand into the countryside.

Potash prices appear to have bottomed out, and both Potash Corp. and Agrium have essentially wrapped up multi-year capital programs that have positioned them to meet future fertilizer demand as low-cost producers.

If you have a buy-and-hold investment strategy, it might be worthwhile to start nibbling on Potash Corp. while it remains out of favour.

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