Contrarian Investors: Potash Corporation of Saskatchewan Inc. vs. Cameco Corp.

Description

Two of Saskatchewan's top companies are trading near multi-year lows.

Let's take a look at **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) to see if one is an attractive contrarian pick.

Potash

Weak fertilizer prices have taken a toll on Potash Corp.'s bottom line as well as the company's stock price and dividend.

How bad has it been?

Potash Corp. traded above $40 per share in early 2015 and paid a quarterly dividend of US$0.38 per share. Today, the stock is close to $22 and the dividend is US$0.10.

Dividend investors have pretty much given up on the stock, but contrarian types are starting to kick the tires.

Why?

Spot prices for potash have improved, and global shipments in 2017 are expected to be 61-64 million tonnes compared to 60 million tonnes in 2016.

Earnings for Q1 2017 came in at US$0.18 per share compared to US$0.09 last year. Lower costs of goods sold and higher volumes helped offset a drop in realized prices.

Investors are also looking for synergy gains from the impending merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU).

The new company will be a powerhouse in the global fertilizer market with a balanced revenue stream coming from both wholesale and retail operations.

Cameco

Cameco has been on the slide for a decade, but the real pain came after the Fukushima disaster forced Japan to shut down its entire fleet of nuclear power plants in 2011.

Uranium sold for US$70 per pound, and Cameco traded for $40 per share before the tsunami hit. Today, uranium spot prices are below US$25 per pound, and investors can pick up Cameco for $13.

Japan is trying to get its fleet back online, but legal challenges and operational delays are holding up the process, and fewer than five of the 43 operable reactors are currently running.

In addition, Cameco is fighting a nasty battle with the Canada Revenue Agency that could end up costing Cameco more than $2 billion in fees and back taxes if it loses the case.

Uranium demand is expected to improve in the coming years, but there is little relief in sight in the short term as secondary supplies continue to offset production cuts.

Is one a better bet?

Both companies are low-cost producers in their industries and should perform well once the market recovers.

At this point, however, Potash Corp. is probably more attractive based on the Agrium merger and indications the potash market might have bottomed.

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