



Income Investors: Is Potash Corporation of Saskatchewan Inc. a Buy?

Description

Income investors who got burned after **Potash Corporation of Saskatchewan Inc.**

(TSX:POT)(NYSE:POT) slashed its dividend twice last year, have been patiently waiting for signs of recovery. In the company's second-quarter earnings, they may find some hope.

Potash Corp., the world's third-largest potash producer, reported a better-than-expected revenue number as its sales rose 11%. The company benefited from the improving prices of potash that jumped to US\$174 per tonne from US\$154 per tonne a year ago, showing a continued recovery in global spot prices.

Net earnings rose to US\$0.24 per share from US\$0.14 per share in the same period a year ago. Potash Corp. said its revenue rose 6.4% to US\$1.11 billion, beating analysts' estimate of US\$1.09 billion.

Potash prices have been weak for almost a decade due to a combination of excess mining capacity coming online and weak demand as lower crop prices cut farmers' spending power. While crop prices are still weak, companies have been cutting supplies to balance the market.

Potash Corp. forecast global demand of 62-65 million tonnes this year, up from an earlier forecast of 61-64 million tonnes.

For income investors, the main concern is if the time is right to get excited about this fertilizer company, which saw its share price tumble 60% in the past five years and its dividend slashed by the same margin in the past one year.

Let's see what's changed in the past six months for Potash Corp. The company's latest financial numbers show that Potash Corp. is fast improving its cash position since announcing two dividend cuts last year.

At the same time last year, Potash Corp. was paying out more than 2.5 times in dividends than it made in net income. That payout ratio is now much more manageable at 47% in the first six months of 2017.

Potash Corp. paid US\$164 million in dividends, while it earned \$350 in net income during the first six months. During the same period, the company's operating income also improved by 18% to US\$421 million.

After reducing its payout ratio drastically over the past year, the company corrected a huge anomaly in its dividend structure, which was unsustainable.

Is the time right to buy Potash Corp.?

Potash Corp.'s improving business conditions have created some excitement about this stock, despite a couple of very tumultuous years.

The biggest upside potential is expected to come from the company's all-share merger with **Agrium Inc.** which will create the world's largest crop-nutrient supplier. The Canadian companies expect to generate cost savings of \$500 million a year following the completion of the deal later this year.

For income investors who have a long-term investment horizon, I think this is the right time to take a position in this commodity stock. Its dividend yield at 2.26% doesn't look too attractive, but I see some upside potential as prices of fertilizers recover from the bottom and as the impending merger with Agrium unlocks some value for shareholders.

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hanwar

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