



Potash Corporation of Saskatchewan Inc. Will Benefit From Rising Interest Rates

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is a fertilizer company producing potash, phosphate, and nitrogen. Potash Corp. is the world's third-largest potash producer.

The rise in interest rates is good news for this producer. Indeed, studies have shown that materials stocks perform better following interest rates hikes. The materials stocks that perform the best tend to be those that benefit from a stronger economy, which causes interest rates hikes.

Like the economy, the potash market is slowly recovering since collapsing a few years ago. This recovery is showing in Potash Corp.'s 2017 second-quarter results, which were released on July 27.

The company, which keeps its books in U.S. dollars, reported a 66% rise in quarterly profit as it sold higher volumes of potash at higher prices compared with last year.

Earnings came in at \$201 million, or \$0.24 per share, including \$0.08 per share due to a one-time tax provision recovery. In the same quarter last year, Potash Corp. reported a profit of \$121 million, or \$0.14 per share.

Adjusted EPS was \$0.16, whereas analysts expected \$0.18 per share. Weaker prices for nitrogen and phosphate fertilizers weighed on results.

Revenue for the quarter ended June 30 totaled \$1.11 billion — up 6.4% from \$1.05 billion a year ago. This beat analysts' estimates of \$1.09 billion. Behind this revenue increase was a \$20 per tonne increase in the average realized price for potash to \$174 per tonne from \$154 a tonne a year ago, reflecting a continued recovery in global spot prices.

Sales increased by 11.2% to 2.4 million tonnes from 2.1 million tonnes in the same quarter in 2016.

The potash market has rebounded since last year as agronomic need and affordability supported demand, especially in offshore markets, and contributed to modestly higher prices.

Potash Corp. signed a deal last year to merge with **Agrium Inc.**, which is supposed to bring significant

synergies. The company expects to complete that deal late in the third quarter this year.

In its outlook, Potash Corp. maintained its full-year 2017 earnings guidance of \$0.45 to \$0.65 per share, including a merger-related cost of \$0.06 per share as the company combines with Agrium.

Potash Corp. increased its global demand forecast for 2017 to 62-65 million tonnes, up from an earlier forecast of 61-64 million tonnes. The fertilizer producer expects to have potash sales volumes of 9-9.4 million tonnes.

While Potash Corp.'s earnings reflect stronger potash market conditions, another sign came last month when major potash producer Uralkali signed its major supply deal with China, agreeing to sell potash for \$230 per tonne, which is about \$11 per tonne higher than in 2016.

On July 28, we learned that India agreed to buy potash for \$240 per tonne to Uralkali for importing 650,000 tonnes of potash in the year beginning this month. This represents a price 6% higher than the previous year. Other sellers, including Potash Corp., are likely to offer similar prices for potash.

Potash contracts signed by India, one of the world's top buyers of the crop nutrient, help set the global benchmark, along with buying by China, the world's biggest consumer.

What should you do with Potash Corp.'s stock?

With a P/E of 31, Potash Corp.'s stock is currently expensive. I think it's a moderate buy right now. I expect the share price to go up slowly during the next months. If interest rates are hiked again later this year as expected, it will surely improve the stock's performance. The increasing demand for potash will also boost Potash Corp.'s share price.

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