

PENNY STOCK

Detectives

How This Stock Benefits from High Agricultural Prices

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By [Sasha Cekerevac](#) for [Penny Stock Detectives](#)



Agricultural commodities have continued to be strong performers over the past few years. This is due to the increased worldwide demand for food and adverse weather conditions affecting the price of agricultural commodities. While the U.S. has been lucky to have one of the mildest winters in decades, the summer drought has damaged the crops tremendously. This has meant that the prices for many agricultural commodities are at very high levels.

With agricultural commodities at high prices, U.S. farmers are going to take advantage of next year's growing season by planting as many crops as possible, trying to attain the highest yield possible. This means that fertilizer use will be high, driving corporate earnings for companies supplying this essential farming input.

One of the few penny stocks in the fertilizer sector is IC Potash Corp. (TSX/ICP). This fertilizer producer is at the very early stages of development in mining sulphate of potash and sulphate of potash magnesia on its property in New Mexico. There are different types of potash, including the inferior muriate of potash, which has chloride in it and, therefore, can't be used for some crops. IC Potash is going to extract mainly sulphate of potash, which is higher quality potash that doesn't contain chloride and is sold at a premium price. With agricultural commodities remaining at high levels, farmers are more than willing to use this input to increase crop yields.

IC Potash is expecting to be the lowest-cost producer of sulphate of potash worldwide. IC Potash has prospecting permits for over 100,000 acres of land on its property in New Mexico. The company announced that it has recently secured a water supply, following their completion of a construction project for two deep groundwater production wells.

Recently, several large potash producers have stopped their expansion plans in Saskatchewan. This is good news for the overall potash market, as it prevents oversupply. In the meantime, with the high price of agricultural commodities, this allows further development of IC Potash's property, getting it ready for production. The company states that it is on target to complete both its feasibility study and environmental impact study, which are crucial, before production is to begin.

This project, if we are to believe the pre-feasibility study by the company, might prove to be a great property, and timing is solid with the high price of agricultural commodities. The company estimates annual production, once at full capacity, of 568,000 tons of sulphate of potash and 275,000 tons of sulphate of potash Magnesia.

Cost for both is estimated at \$147.00 per ton. An investor would need to be patient, as this project is still several years away. An environmental assessment is still in order, with construction beginning in late 2013,

production starting in late 2015, and full capacity not occurring until the middle of 2017. Along the way, many hiccups can occur, but the fundamentals are present for a potential success story.



Chart courtesy of www.StockCharts.com

The stock has traded in a range-bound fashion for some time. As there are still several hurdles left, investors in this potash company are still waiting for further news. I think that once the company initiates production, we should see a substantial move up, but there are always risks when it comes to penny stocks and agricultural commodities in general.

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