



Why PotashCorp Investors Must Remain Alert This Week

Description

By Neha Chamaria

PotashCorp (TSX:POT, NYSE:POT) investors need to fasten their seat belts. It could turn out to be a roller-coaster week as the fertilizer bellwether reports its third-quarter numbers Thursday.

As the first big name in the industry to report numbers amid the uncertainty that has shrouded the potash industry, PotashCorp's earnings report and conference call will likely give much-needed insight into where the nutrient market's headed. That, of course, will be critical information, not just for PotashCorp investors, but for **Agrium** (TSX:AGU, NYSE:AGU) and **Mosaic** ([NYSE:MOS](#)) investors as well. More important, anything positive in the report could be a breather for PotashCorp stock which has lost nearly 15% since July. Here's what investors should watch for in PotashCorp's upcoming earnings report.

What to expect

Those who follow the fertilizer industry closely must already have low expectations from PotashCorp. Analysts expect the company's third-quarter earnings per share to drop a massive 39% year over year on 27% lower revenue. That shouldn't be a surprise, considering that PotashCorp itself lowered its guidance for the quarter some days back.

In fact, the entire potash industry is feeling the heat of weak demand and low prices resulting from the [breakup of](#) Russia's Uralkali and Belarus' Belaruskali. Days before PotashCorp lowered its Q3 guidance, both Agrium and Mosaic slashed their respective third-quarter outlooks. While Agrium expects its fertilizer division's operating profit to slump 64% year over year, Mosaic lowered its potash volume guidance by 21% at the upper end from its earlier projected range.

Clearly, it's going to be a soft quarter for PotashCorp and its peers. But prudent investors should be concerned about what lies ahead, instead of focusing on one quarter.

The biggest challenge

The Uralkali-Belaruskali fiasco may not end so soon. Though Uralkali has already dropped hints that it may rejoin Belaruskali, the new partnership, if any, will likely be structured in a way that allows Uralkali

to pursue the volume-over-price strategy. In that case, PotashCorp, Agrium, and Mosaic — all of which are members of the only other major potash marketing and distribution group, Canpotex — may still have to put up with lower demand. That's not great news for shareholders.

In any case, demand from key markets like China and India continue to remain weak. Worse yet, things have slowed down in the North American fertilizer market after the Uralkali-Belaruskali breakup. While shipments of potash climbed 26% year over year in PotashCorp's third quarter last year ahead of the fall planting season, things may look different this year as farmers deferred purchases in anticipation of lower prices for the nutrient. That may have hit PotashCorp's third-quarter top line.

Other big concerns

PotashCorp's concerns do not end at its namesake nutrient. Nearly 60% of the company's total sales come from phosphate and nitrogen, combined. Unfortunately, the markets for both these nutrients are under pressure as well.

With orders from India drying up and feedstock costs still high, PotashCorp's phosphate division continues to struggle. Mosaic recently lowered its third-quarter phosphate sales volume guidance by 15% at the higher end of the previously provided range, citing lower demand and prices as the reasons. Likewise, Agrium expects its Q3 phosphate volumes to drop 30% year over year. On similar lines, prices of nitrogenous products have fallen considerably in recent months in the wake of lower corn prices and cheaper products from China. Agrium expects a 20% fall each in its nitrogen volumes and prices for the third quarter. Naturally, investors can't expect anything great from PotashCorp in the third quarter.

The Foolish bottom line

PotashCorp's fortune is closely tied to all three nutrient markets, so sluggishness in any can dent its margins and growth. That said, one weak quarter [shouldn't deter investors](#). Instead, they should focus on PotashCorp's strategies to tackle challenges, growth plans, and shareholder returns to decide where the company's headed to. Stay tuned as I tell you more about PotashCorp's numbers and its future next week.

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Disclosure: Fool contributor Neha Chamaria does not own shares in any of the companies mentioned at this time.

The Motley Fool owns shares of PotashCorp.

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1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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