



## 3 Positive Takeaways From PotashCorp's Dismal Earnings Report

### Description

**PotashCorp's** (TSX:POT, NYSE:POT) weak third-quarter numbers and lower full-year earnings guidance may have surprised investors, but those who are aware of the recent turmoil in the potash industry should [have seen it coming](#).

The sudden fallout between two major potash players, Russia's Uralkali and Belarus' Belaruskali, has left the industry in the lurch, hurting potash prices and volumes. PotashCorp's third quarter reflected the weakness, with net sales and earnings per share dropping 29% and 45% year over year, respectively. Worse yet, PotashCorp expects its full-year EPS to drop between 7% and 16% on market uncertainty.

Nevertheless, there were some positive points in PotashCorp's earnings release that analysts didn't tell you about, but are important for you to know. Here are three of them.

#### **Solid volumes reveal PotashCorp's leadership**

Despite an influx of cheaper nitrogen products from China and weak phosphate demand from India, PotashCorp reported strong sales volumes for both nutrients during the third quarter. While volumes for phosphate were flat, nitrogen volumes jumped 27% year over year. In fact, the company's nitrogen sales volumes even hit a record of 4.3 million tonnes for the nine months ended September 30, partly because of the restarting of an ammonia plant that was lying idle since 2003.

Strong volumes reflect robust demand, so investors should be happy. Once prices recover, PotashCorp's revenue should follow suit, which would have been difficult if sales volumes were falling. In fact, PotashCorp seems to be doing a good job here when compared to peers. In contrast to PotashCorp's flat phosphate volumes, **Agrium** (TSX:AGU, NYSE:AGU) and **Mosaic** ([NYSE:MOS](#)) foresee their Q3 phosphate volumes to drop a sharp 30% and 21% year over year, respectively. Likewise, Agrium expects its Q3 nitrogen sales volumes to decline 20% against PotashCorp's solid growth. Clearly, the third quarter proved that PotashCorp enjoys a much bigger and stronger market than both these companies.

#### **India remains uncertain, but China is improving**

China and India are among the biggest potash consumers, so any sluggishness in these markets can hit potash producers hard. Canpotex, which controls all potash exports out of Saskatchewan and has PotashCorp, Agrium and Mosaic as its members, particularly relies on these two markets for revenue.

Canpotex has a contract running with India through March 2014. But only 50% of the contracted volume was shipped until September. PotashCorp isn't ruling out a price re-negotiation for the remaining contract in the wake of a recent fall in potash prices. Needless to say, any negotiation will be in India's favor, and bode ill for Canpotex's revenue.

But things look better with China. Canpotex hasn't signed any contract with China since the completion of the last one in June. Thankfully, PotashCorp [says](#) negotiations are underway, and it expects spot sales to China to increase during the fourth quarter. PotashCorp also expects China to sign a new contract by early 2014, which is good news for Canpotex members.

### **Strong financials and return**

Despite a disastrous third quarter, PotashCorp generated solid free cash flow of \$1.3 billion for the nine months ended September 30. Its annualized dividend yield of 4.4% at the current share price is [among the best](#) in the industry, with Agrium and Mosaic yielding 3.5% and 2.1%, respectively. Moreover, PotashCorp has been paying a dividend every quarter since 1990. Even in these challenging times, PotashCorp expects to maintain its dividends while running a share buyback program worth USD\$2 billion. So PotashCorp continues to reward investors irrespective of business conditions.

### **Foolish takeaway**

The uncertainty in the potash market will likely persist for some time, but once the dust settles down, PotashCorp looks poised to emerge stronger. Investors shouldn't panic on one weak quarter, and should continue to watch PotashCorp closely.

Want to know how one of Canadian energy is powering China? The Motley Fool's special FREE report, "[Fuel Your Portfolio With This Energetic Commodity](#)," details two companies that are taking advantage of this trend. [Click here](#) to download your copy of this report right now!

*Fool contributor Neha Chamaria does not own shares in any of the companies mentioned at this time. The Motley Fool owns shares of PotashCorp.*

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:MOS (The Mosaic Company)

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